



PRODUCT CASE STUDIES: Puma AIM IHT ISA Service

Using an AIM IHT ISA to make ISA wealth IHT-free

ISAs AND IHT

For more than two decades, Individual Savings Accounts (ISAs) have been the most popular way to save and invest tax-efficiently. Yet many people are unaware that an ISA's tax incentives don't include exemption from Inheritance Tax (IHT). In fact, an ISA could be subject to a 40% IHT bill when included as part of a person's taxable estate, significantly reducing the potential inheritance intended for their beneficiaries.

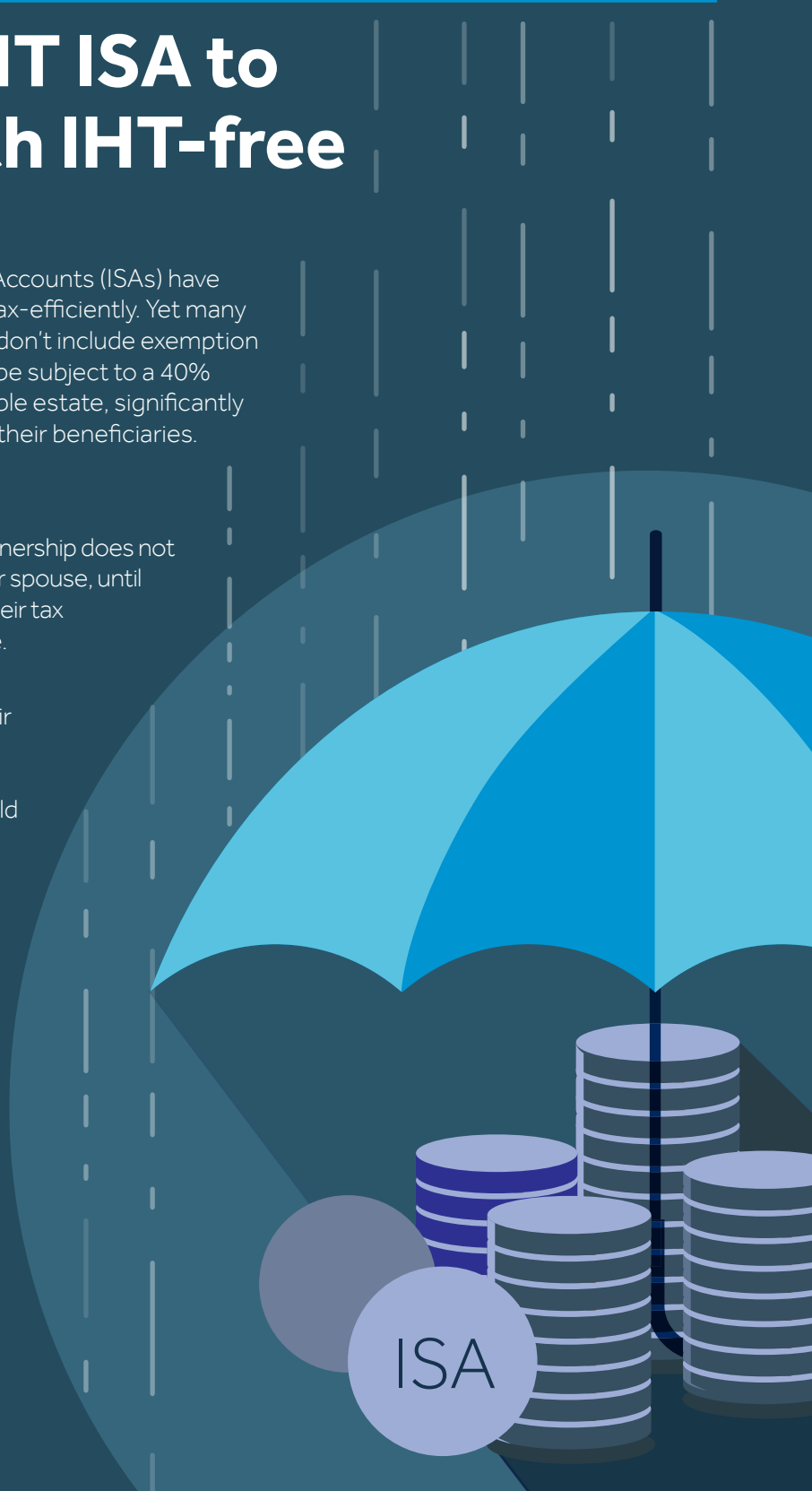
Understanding the Additional Permitted Subscription

Although someone who is married or in a civil partnership does not pay IHT on money or property left to them by their spouse, until recently any investments held within an ISA lost their tax benefits when transferred to the surviving spouse.

However, since 2015, a surviving spouse or civil partner is able to 'inherit' the tax benefits of their deceased partner's accumulated ISAs. This is called the 'Additional Permitted Subscription' (APS) and means that any accumulated ISA could effectively be inherited by a surviving spouse or civil partner in the form of an increased ISA allowance for them, provided that they were living with the deceased within the meaning of section 1011 of the Income Tax Act 2007 at the date of the deceased's death.

Once an APS has been arranged, the surviving spouse can keep the accumulated ISAs with the same product provider, or transfer to a new provider of their choice. Where an investor held ISAs with several companies, a separate APS is available for each. The APS doesn't affect the surviving spouse's own annual ISA allowance (£20,000 for the 2020/21 tax year).

Please note: Tax reliefs depend on individuals' personal circumstances, minimum holding periods and may be subject to change.



CASE STUDY SCENARIOS: DAVID AND SUSAN

Susan and David had been married for 32 years and raised two grown-up children before David passed away. David's entire state was left to Susan – including the family home (valued at £1 million) and his ISA investments. David opened his first ISA back in 1999 (the year when ISAs were launched), and had been a keen investor ever since. As a result, he had accumulated ISAs valued at £200,000.

1 ESTATE PLANNING THROUGH AN INHERITED ISA

THE PROBLEM

LEAVING WEALTH TO BENEFICIARIES AFTER IHT ALLOWANCES ARE USED UP

David had not written a will, so his entire estate – including the family home and his Stocks & Shares ISA (valued at £200,000) – went to Susan. Susan understands she will need to start planning for her own estate for the family wealth to be passed on to her children.

Susan discusses David's estate with her financial adviser, who explains that now the house is in her name, as the surviving spouse she can leave it to her children, making use of the combined nil-rate band for couples and also transfer the unused Residence Nil-Rate Band (RNRB) inherited from David.

However, the adviser also informs Susan that as things stand, her husband's accumulated Stocks & Shares ISAs will be subject to IHT. Without any available allowances left to claim, a 40% charge on the accumulated ISAs would leave an IHT bill of £80,000. Split equally between her two children, this would leave them with an ISA inheritance of just £60,000 each.

THE SOLUTION

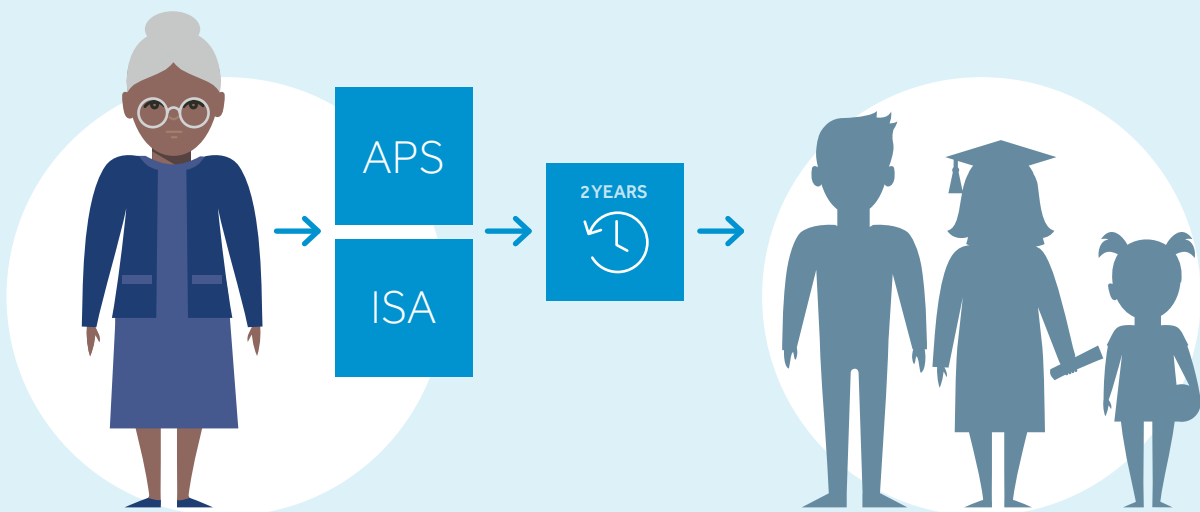
Transferring inherited ISA wealth into an AIM ISA for estate planning

Susan's adviser explains that with careful estate planning, Susan's ISAs could achieve full IHT exemption, so both children inherit the full £100,000. He explains the benefits of using the APS, and gives her the information she needs to contact David's ISA providers and confirm the amount available to transfer.

After assessing Susan's own investment objectives, her attitude towards risk, her capacity for loss and her personal circumstances, her financial adviser recommends an AIM IHT ISA.

The adviser points out that as well as making a one-off investment that matches the value of David's accumulated ISAs, she can also make new investments into the same ISA, up to the annual allowance of £20,000. Susan could also transfer any ISAs held in her own name if desired.

Once Susan has held the AIM ISA for at least two years, the BR-qualifying shares can be passed to her children free from inheritance tax when she dies.



The case study scenario is for illustrative purposes only and assumes no gains or losses on investments. The advisor will need to consider the eligibility and timings of tax reclaims and tax liabilities depicted, and the impact of charges, as relevant to the offering(s) represented and/or any specific offer chosen. Tax reliefs depend on the individual investor's circumstances and may be subject to change.

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USING AN AIM ISA FOR FIRST DEATH PLANNING

THE PROBLEM:

HOW TO PASS ON THE FAMILY HOME AND ISA WEALTH TAX-EFFICIENTLY

When the RNRB was introduced in April 2017, David contacted his financial adviser to talk about ways to ensure his estate (including the family home and his accumulated ISAs) could be passed on as tax-efficiently as possible. David's adviser told him that he can leave the family home to his wife without any IHT to pay. In the event of Susan dying first, David can leave the home to his two children, which would make the RNRB available. David also wants to make sure his ISAs can be passed on to his wife, and ultimately his children, without an IHT liability.

After assessing David's investment objectives, his attitude towards risk, capacity for loss and personal circumstances, David's financial adviser recommends he transfer his accumulated ISAs into an ISA that invests specifically in companies listed on the Alternative Investment Market (AIM), the world's most successful growth market. Many of the companies listed on AIM meet the qualifications for Business Relief (BR). BR is a long-established tax relief that encourages the support of small and medium-sized trading businesses.

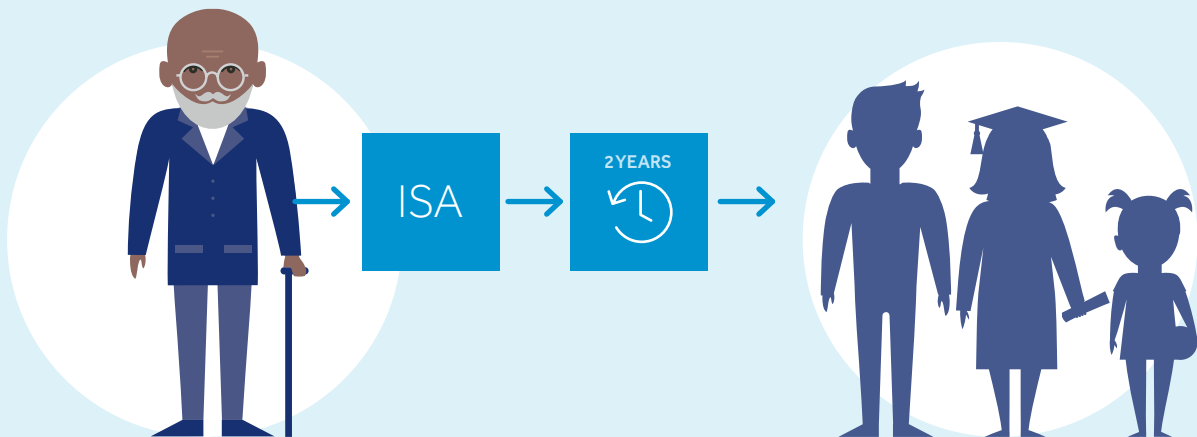
THE SOLUTION:

USING AN AIM ISA FOR ESTATE PLANNING

David transfers his accumulated ISAs into an ISA that invests in AIM-listed companies that are expected to qualify for 100% relief from IHT after two years (provided David still holds the investment at the time of death).

David goes ahead with the investment, feeling comfortable knowing that his AIM ISA should become free from inheritance tax and can be passed to his beneficiaries without incurring any IHT liability. David can also continue to make new investments into his AIM ISA, up to his annual ISA allowance of £20,000.

When David dies, his AIM ISA can be sold and the proceeds paid to his beneficiaries, his two children. As David's ISA was, in the main, invested in companies expected to qualify for Business Relief, the investments he has held for two years or more are exempt from IHT at the time of his death. After the remainder of the estate is transferred to Susan, her financial adviser tells her that she can still inherit the intended tax benefits of the total value of David's accumulated ISAs, through the APS, even though she was not the intended recipient of the assets. Susan can then arrange her estate so that the family home is left to her and David's children – using their combined nil-rate band and RNRB).



UNDERSTANDING THE INVESTMENT RISKS

David and Susan's financial adviser spent a considerable amount of time with each of them explaining the risks and charges associated with this investment. He explained that a new AIM ISA will invest in shares of AIM-listed companies, the shares of which are more volatile and carry a far higher risk than shares listed on the main market of the London Stock Exchange. AIM-listed shares may also be harder to sell. The adviser also reminded David and Susan that an ISA should be considered as a long-term investment. The value of investments can go down as well as up, and the investor or their beneficiaries may not receive the full amount invested. Because this ISA is intended for tax planning purposes, the adviser told them that tax rules can change, and that tax reliefs are subject to their personal circumstances. Her Majesty's Revenue & Customs (HMRC) will only assess whether the individual investments within the AIM ISA qualify for BR after death, and claiming BR will depend on whether each company qualifies at that time.

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For more information about the Puma AIM ISA Inheritance Tax Service, please visit <https://www.pumainvestments.co.uk/advisors-puma-aim-isa>

Risk Factors

An investment in the Service carries risk and may not be suitable for all investors. Investors should refer to the Investment Details and Investor Agreement, copies of which are available on pumainvestments.co.uk. Below are the key risks of the Service:

Past Performance: Past performance is no indication of future results and share prices and their values can go down as well as up.

Tax Reliefs are not Guaranteed: Tax reliefs depend on individuals' personal circumstances, minimum holding periods and may be subject to change.

You May Lose Money: An investment in smaller companies is likely to be higher risk than other investments. Investors' capital may be at risk and Investors may get back less than their original investment.

Long-Term Investment: An investment in the Service should be considered a long-term investment.

Potentially Illiquid Investment: AIM stocks are largely small and illiquid. They are characterised by significant spreads and low trading volumes. It may prove difficult for Investors to realise immediately or in full proceeds from the sale of such shares.



Cassini House,
57 St. James's Street,
London, SW1A 1LD

info@pumainvestments.co.uk
www.pumainvestments.co.uk

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