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Planning Scenario: A solution for elderly clients who worry it's too late

Find out how this works in our client example below:

Executive summary

Many elderly clients can worry that they have left their inheritance tax planning too late. They may feel that they won't be able to gift assets and live for seven more years. In addition, other solutions like life insurance may not be appropriate.

Business Relief solutions, such as investing in AIM shares, may be able to help. If held for two years and at the time of death these assets should be exempt from inheritance tax.

What's more, married couples benefit from a joint two-year qualifying period. If the first spouse dies within two years of investing, the business relief assets can be passed to their surviving spouse or civil partner without restarting the two-year clock.

A little about Arthur and Katrina

Arthur and Katrina had both recently celebrated their 87th birthdays. They met at university and had been together ever since, raising a family that extended to many grandchildren.

Sadly, Arthur suffered a stroke a few years ago. Although he was recovering well, that event and Arthur's growing immobility prompted the couple to move to an apartment in an upmarket retirement/sheltered development close to several of their children.

The problem

Before retiring, both Arthur and Katrina had successful careers and had built up significant savings. Arthur also had a large stocks and shares ISA. They already had an inheritance tax liability and after downsizing their property they were left with a significant cash pile.

Although they had considered inheritance tax planning before, they had been nervous about gifting assets away. In their late eighties, they were now worried that they had left it too late to make lifetime gifts, where they would have to live for a further seven years.

Turn over to see the solution

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The solution

Arthur and Katrina met with their financial adviser who assessed their objectives, risk appetite, and capacity for loss. After a discussion, the financial adviser recommended that Arthur convert his stocks and shares ISA to an AIM ISA. The AIM provider would sell down his current holdings and reinvest in AIM stocks. This was the only way to get the ISA out of his estate's potential inheritance tax liability without breaking open the ISA wrapper and this approach should make the ISA free of inheritance tax within two years if held at the time of death.

If Arthur were to die within two years of making the investment and was survived by Katrina, his ISA of AIM shares could pass to her tax free to continue the two-year business relief clock. As long as one spouse survives for two years from the point of initial investment, the shares should be free from inheritance tax.

Conclusion

One year after investing in AIM shares in his ISA, Arthur sadly passes away. As the required two years hadn't been completed, the AIM shares then transferred to Katrina's ISA. This was done through an additional permitted subscription.

Katrina then continued to hold the AIM ISA portfolio in her name until she passed away a year later. As the two-year holding period had been completed between them, the AIM ISA qualified for business relief in full.

How an AIM IHT Portfolio can pass an extra £199,506 to Arthur and Katrina's beneficiaries

Arthur and Katrina

Arthur holds a stocks and shares ISA worth £500,000

Keep Stocks and Shares ISA in non-AIM assets	Convert to Charles Stanley AIM ISA
£500,000 No initial charges as retaining shares	**£495,000** Invested into service after 1% dealing fee

Arthur passes away after one year

Katrina inherits the AIM ISA by additional permitted subscription and dies a year later

£551,250 Value after two years assuming 5% growth p.a and no ongoing charges	**£535,613** Value after two years assuming 5% growth p.a and a 1.25% + VAT management fee
£220,500 Inheritance Tax charge at 40%	**£0** No Inheritance Tax charge
£330,750 Passed to beneficiaries assuming no costs to sell portfolio	**£530,256** Passed to beneficiaries after 1% dealing charge to sell the portfolio

This example is for illustrative purposes only and it assumes that Arthur and Katrina's inheritance tax nil rate bands have been used.
Any growth or losses illustrated are likely to differ.
This example does not include any financial adviser fees.
The Charles Stanley AIM service has an Annual Management Charge of 1.25% + VAT and 1% dealing commission.
A small proportion of the Charles Stanley AIM portfolio may be held in cash which will not qualify for business relief at the time of death.

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