Specialist Tax Portfolio Service

Investment strategies for tax planning

This document should be read in conjunction with a qualified professional adviser. Applications will only be accepted from clients of financial advisers.

Please note that we are unable to accept applications signed by a Power of Attorney.

Rathbones
Look forward

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase.

Specialist Tax Portfolio Service

Investment strategies for tax planning

About the service

We have designed our Specialist Tax Portfolio Service (STPS) for individuals and couples seeking relief from income tax, capital gains tax (CGT) and inheritance tax (IHT). Working closely with financial advisers, we create and then manage discretionary portfolios comprising qualifying investments that match the needs of their clients.

The Rathbones STPS:

- is a dedicated service run by a specialist team within Rathbones
- Our investment strategy focuses primarily on companies traded on the Alternative Investment Market (AIM)
- utilises one or a combination of two government-sanctioned reliefs through the Enterprise Investment Scheme (EIS) and Business Relief (BR).

An adviser-led service

We have designed the service as an additional tool for advisers to use when developing financial plans for their clients. Assessing suitability rests with advisers – it is their responsibility to determine whether their clients fully understand the risks involved and have the capacity to accept capital losses.

Investors should only use the service if they are prepared to accept the risks associated with investing in the shares of smaller companies to mitigate their tax liabilities.

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Typically, the investments pay no or very low dividends, and advisers should ensure clients have sufficient income from other sources. The service is not suitable for anyone depending on this capital for a main source of income. Capital invested is at higher risk than in other services, and is invested in order to obtain tax relief. This increases the risk of loss of capital, and clients should not invest funds that are required to generate income or to fund income in retirement.

Key benefits of the service

- Designed specifically as a tax-planning tool for clients of financial advisers using non-contentious, government-sanctioned tax reliefs
- Provides access to Rathbones' extensive skills and resources with a minimum investment of just £100,000 and an attractive charging structure
- Direct contact with a specialist investment management team to assist with ongoing monitoring and tax planning as clients' circumstances change
- Each client remains the outright, beneficial owner of a portfolio of smaller company shares, which we manage on a discretionary basis
- We hold all investments in a segregated, nominee account
- Working together, we time the investment strategy to suit clients' requirements
- Typically, we begin investing as soon as we find suitable opportunities
- We engage an external firm of tax advisers to provide their opinion on the qualifying status of companies that we invest in.

Understanding the risks

The Rathbone STPS is exposed to the following five principal risks:

Investment
- the value of the shares and income received from them will go down as well as up and investors may not receive back the full amount they originally invested
- the service invests in smaller companies, which can experience pronounced share price movements due to a number of factors including limited liquidity
- an STPS portfolio will not meet normal standards for portfolio diversification in many cases as its asset allocation is solely designed for the purpose of securing tax relief
- the nature of smaller company investment means that opportunities to invest can be limited at certain times. There may therefore be times, principally early in a portfolio's investment programme, when investor funds remain in cash until a suitable opportunity to invest arises.

Liquidity
- the ability to buy and sell shares of smaller companies can be limited by the availability of buyers and sellers
- it is possible for companies to de-list from AIM, which may prohibit the sale of shares in a reasonable timescale or at a reasonable price.

Qualifying
- the underlying companies must meet certain criteria to qualify for tax reliefs. A company could lose its qualifying status if, for example, it changes its business activities to those that don't qualify, and its shares would then have no tax advantage.

Relief
- the levels and types of reliefs from taxation may change or cease if the regulatory or statutory environment changes
- the tax reliefs referred to in this brochure are those currently available and their value depends on the individual circumstances of the investor.

Holding period
- the different investment strategies available have different minimum holding periods. Failure to meet these holding periods through share sales or death of the investor may result in the underlying tax mitigation strategy not materialising
- inheritance tax relief accrues during the life of an investor, but its benefit is only realised upon death. In order to benefit from some reliefs available through this service, qualifying investments must be held until the death of the investor.

All investors to the service should be comfortable with the above risks and be in possession of financial advice confirming that it is suitable for their needs.

How we can manage risk

Investment. Investing in smaller companies can offer the potential for higher returns, but is naturally associated with higher levels of investment risk. Our investment process involves analysis and due diligence before making any investment decision, and we then monitor each position. Additionally, we build diversified portfolios comprising a minimum of 10 qualifying holdings once funds are fully invested.

Liquidity. We seek companies that are traded on AIM from the outset. Aquis Stock Exchange traded shares may also be included in portfolios.

Qualifying. The qualifying rules for tax reliefs are complex and companies must meet a range of strict criteria. We engage an independent firm of tax advisers to review companies to assist us in mitigating qualifying risk. The costs for this additional level of due diligence are included in our annual management fee.

Exploring the tax reliefs

The table below shows the two investment approaches we offer for reducing clients’ tax liabilities.

UK tax-efficient investments comparison

	Business Relief (BR) (IHT relief) qualifying shares	Enterprise Investment Scheme qualifying investments
Income tax relief	Nil	30%
Capital gains tax (CGT) deferral	Nil	Yes
Inheritance tax (IHT) exempt	Yes	Yes
Tax-free exit	No	Dependent on exit timing
Tax-free dividends	No	No
Limits 2022-23	No	£1 million for income tax relief (£2 million for investment in knowledge intensive companies). No limit for CGT deferral or BR.
ISA eligible?	Yes	No
Minimum holding period	Two years	Three years for income tax relief. Two years for IHT relief. No limit for CGT deferral – gains are brought back into charge upon the disposal of shares or extinguished upon death of the investor.

Tax relief and its availability can change suddenly or be removed completely by HMRC.
EIS is the issuance of new shares in early stage venture capital.
BR strategies are able to invest in more established opportunities.

Business Relief (IHT relief)

BR was introduced in the 1976 Finance Act to enable shares in family businesses to be transferred through the generations without being subject to IHT. Over time this has evolved to include shares in companies listed on the Alternative Investment Market (AIM) subject to meeting qualifying criteria.

BR is a long-standing framework that shouldn’t be considered a contentious form of tax planning. The attractions of a BR qualifying investment portfolio include:

- **speed:** assets are removed from the estate after just two years. Investors can take life insurance for the two years subject to appropriate advice
- **control:** investors retain full beneficial ownership
- **simplicity:** no complicated tax structures or age restrictions
- **efficiency:** from August 2013 AIM listed shares became ISA eligible
- **replacement relief:** allows reinvestment from and to qualifying assets.

After being invested in qualifying assets for two out of the five years preceding death and still holding qualifying shares upon death, the value of the shares can be excluded from an investor’s estate for IHT purposes. Our investment strategy focuses primarily on companies traded on the AIM. We aim to commence investment shortly after funding and portfolios are invested across at least 20 investments.

Enterprise Investment Scheme (EIS)

The Enterprise Investment Scheme was introduced in 1994 to encourage investment into smaller, unquoted companies in exchange for a suite of tax reliefs. To qualify, companies must meet strict criteria set out by HM Revenue & Customs.

Through the Rathbones STPS, we manage individual portfolios of investments rather than a collective fund. As a result, clients receive EIS3 certificates for each individual investment in order to claim the associated tax reliefs.

EIS investors can only participate in the primary market in which a company issues new shares in exchange for cash, so shares purchased in the secondary market would not qualify.

Our investment strategy focuses primarily on companies traded on the AIM. Aquis Stock Exchanged traded shares may also be included in portfolios. Portfolios are typically invested in a minimum of 12 investments.

Subject to the flow of suitable investment opportunities and clients' investment deadlines, we aim to be fully invested in around 18 months, but this could take longer. EIS3 certificates are issued typically three to seven months following the issue of shares.

Due to our investment programmes taking time to complete, we might not accept applications where there is an investment deadline of 12 months or less. The reason for this is that to achieve a reasonable degree of diversification, short investment deadlines are unlikely to support a broad base of EIS investments.

Income tax relief

Income tax relief is available at 30% of the value of an investment in EIS qualifying shares, up to a maximum of £1 million each year (or £2 million for investment in knowledge intensive companies). This means it's possible to reduce a client's income tax liability by up to £300,000 (or £600,000) each year; however, the liability can only be reduced to zero.

Also, there is a carry-back facility, which allows all or part of the cost of shares acquired in one tax year to be treated as though they had been acquired in the preceding tax year. Relief is then given against the income tax liability of that preceding year, providing the limit for any individual year is not exceeded.

Investments must be held for a minimum of three years from the commencement of the relevant period, otherwise the income tax relief will be withdrawn.

CGT deferral

Paying the tax due on a capital gain can be deferred where the value of the gain (not the tax liability) is invested into EIS qualifying shares. The gain can arise from the disposal of any kind of asset, and to assist in planning the EIS investment can be made within the period of one year before or three years after the date the gain arose.

There are no minimum or maximum limits of investment for deferral relief and no minimum period for which the shares must be held. The deferred capital gain is brought back into charge whenever the shares are disposed of, or deemed to have been disposed of, under EIS legislation.

Business Relief (IHT relief)
EIS qualifying investments should also qualify for BR against IHT. The value of the shares falls outside an investor's estate after they've been held for two years.

Loss relief
If EIS investments are disposed of at a loss, a client should be able to use that loss, less any income tax relief given, against capital gains. Alternatively, they can elect for the amount of the loss, less any income tax relief given, to be set against income of the year in which they were disposed of or any income of the previous year.

Unlike income tax relief, loss relief is set against taxable income not the income tax liability. Loss relief can be limited where income tax relief has not been claimed on the investment.

CGT exemption
If a client claims income tax relief (which has not subsequently been withdrawn) on the cost of the shares, and the shares are disposed of after they have been held for the relevant period, any gain is free from CGT. However, if no claim to income tax relief was made, then any subsequent disposal of the shares will not qualify for exemption from CGT.

Why the Rathbones STPS?

Specialist expertise
Rathbones is one of the UK's leading investment management firms. We have the in-house skills and expertise required to provide the STPS. From our qualified teams to the efficiency of our administration and reporting, everything we do is designed to provide advisers and clients with investment services of the highest quality.

A tailored service
The STPS carries many of the hallmarks of our individual portfolio service. Rather than the client simply buying an IHT mitigation product or EIS product, our STPS provides full access to an investment manager and we can meet individual requirements, such as timing and additional investments.

Ongoing due diligence
We employ an external specialist to undertake initial and ongoing due diligence on any investments we buy. This external validation leaves us free to focus on assessing the investment fundamentals of our holdings.

A straightforward process
Investing in unquoted shares that qualify for Business Relief (BR) means that assets should be removed from the investor's estate subject to deal flow and holding periods being met. We seek to invest clients' funds quickly once the account is open and funds cleared. This is an advantage when compared to other forms of tax planning where longer holding period tests are applied or medicals are required.

Flexible ways to reduce tax liabilities
We also offer our STPS within an ISA for BR investors. This means it is possible for clients to invest in a portfolio comprising shares that qualify for BR without losing ISA status and retain the income tax and capital gains tax benefits they bring.

Competitive fees
We do not charge set-up fees for new accounts, and offer a clear and competitive pricing arrangement. Please contact us for more information.

Taking the next step

To speak to a member of the team, please contact:

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To set up a meeting or to find out more about Rathbones' additional offerings, please get in touch with our intermediary services desk on 020 7399 0399 or email ifaservices@rathbones.com

For more information, please visit: rathbones.com

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Risks

The Specialist Tax Portfolio Service is only suitable for higher risk investors seeking tax relief, and who are investing funds that they do not need in connection with supporting their standard of living. Do not invest funds into this service that clients rely on, or are likely to come to rely on to support their income or other living expenses now or in the future. Clients should seek independent tax and financial advice before investing. Rathbones is not acting as a financial planning adviser to any investors and will not, therefore, be responsible for the suitability or affordability of the service. All investors in the service must have an appointed adviser from whom they are in receipt of advice in relation to the service.

Due to the nature of smaller company qualifying investments, the level of income generated by dividends from the underlying investments and interest earned on funds awaiting investment may be minimal, and will be used in the first instance to offset charges. In order to maintain the value of relief secured, you may periodically need to provide additional funds to meet charges for the service.

The value of shares and income received from them in a portfolio may go down as well as up and investors may not receive back the full amount invested. Given the nature of the investments used within this service, this risk is increased, and permanent losses are more likely than in a standard portfolio.

The levels and bases of reliefs from taxation may change or disappear. The tax reliefs referred to in this brochure are those currently available and their value depends on the individual circumstances of the investor. The benefit of some reliefs used will only be realised in the event that an investor continues to hold qualifying investments at the point of death, and not before. Advisers should ensure that they are fully familiar with the nature and operation of each type of relief when advising clients. We are not private client tax advisers.

While tax advice will be taken (where practicable), no guarantee is given that all investments made will qualify for tax relief or continue to qualify for tax relief. Each investment will be selected on the basis that it is considered by the manager and our external advisers in good faith to be qualifying, but it may not be or may cease to be. Loss of qualifying status could occur if, for example, a company in which we invest changes its business activities or its corporate structure.

If an investee company is taken over by another company which does not qualify it may lose it's tax relief status.

If a company's shares become listed on a stock market they may cease to be unquoted for EIS or BR purposes.

The principal focus for investment is to secure tax relief and capital growth. Any relief obtained should be regarded as a part of the overall return from the portfolio. Given the nature of the investments concerned, no guarantees can be given as to the investment performance or the level of return achieved from the investments made, or that the overall objectives of the service will be achieved.

As minority shareholders in a given company, neither Rathbones nor investors may have any influence over the company's activities, with regard to the preservation of the tax relief status of the company.

An investment in this service is suitable only for well-informed investors and should be regarded as high risk and longer-term in nature, especially as investments generally have a minimum holding period in order to secure tax reliefs sought. Potential investors are requested to seek the advice of a financial adviser authorised under the Financial Services and Markets Act 2000 before applying.

The past performance of investments managed by Rathbones should not be regarded as an indication of the future performance of investments to be made under the service. All investors to the service must have an appointed financial intermediary in order to invest. It is that intermediary's obligation to monitor the ongoing suitability of the service for their client.

Each portfolio's investments will be in AIM and/or Aquis and/or other junior markets and/or privately held companies, and will be made principally to secure tax relief and capital growth potential. Such smaller companies generally have a higher risk profile than larger blue-chip companies and investment in them may prove difficult, or even impossible, to realise in a reasonable timescale or at an acceptable price. It may be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed.

While there may be a number of qualifying companies available for investment, Rathbones may not consider them of sufficient quality and may therefore not complete the investment programme on an investor's behalf within a given time frame or at all.

The death of an investor within two years of investing in qualifying securities could result in an IHT liability, as in order to qualify for relief, funds must be invested in qualifying securities for a minimum of two years.

Important information

This publication is printed on material sourced from responsibly managed forests. It is certified in accordance with the FSC® (Forest Stewardship Council®) and manufactured under strict environmental management systems, the international ISO 14001 standard, and the EMAS (Eco-Management & Audit Scheme).

T3-STPS-4-22

Rathbones
Look forward

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