RATHBONES

SPECIALIST TAX PORTFOLIO SERVICE

INVESTMENT STRATEGIES FOR TAX PLANNING

It is important that you read this document with a qualified professional adviser. We will only accept applications from clients of financial advisers.

We are unable to accept applications signed by a Power of Attorney.

ABOUT THIS BROCHURE

You've received this brochure because your financial adviser has suggested this investment service may be suitable for you. It is designed specifically to help with tax planning by investing in a portfolio of shares that comes with a number of risks. Please take the time to read this brochure, which describes the service and the situations in which it can be a useful financial planning tool. It is important that you fully understand all of the risks involved and that you discuss these with your adviser before making any decisions.

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ABOUT THE SERVICE

We have designed our Specialist Tax Portfolio Service (STPS) for individuals and couples seeking relief from inheritance tax (IHT), income tax or capital gains tax (CGT), or a combination of the three. We provide these reliefs by building portfolios of investments that should qualify for Business Relief (BR) and/or the Enterprise Investment Scheme (EIS). You can read more about these on pages 14 & 16.

If you choose this service, we will work closely with your financial adviser to create a portfolio comprising investments that match your specific needs. We will then manage this portfolio on a discretionary basis, which means our qualified investment managers have the responsibility for making all investment decisions on your behalf.

Please be aware that the tax reliefs available depend on your individual circumstances and current legislation. Changes to your circumstances and/or legislation may reduce or remove the tax benefits received or available to you.

The Rathbones STPS:

- Is a dedicated service run by a specialist team within Rathbones, which is a FTSE 250 company.
- Invests primarily in qualifying smaller companies traded on the Alternative Investment Market (AIM), which you can read about on page 11.
- Utilises one or a combination of two government-sanctioned reliefs through the Business Relief (IHT Relief) and Enterprise Investment Scheme (EIS).
- Offers bespoke investment portfolios, not collective investment funds or off-the-shelf products.
- Provides you and your adviser with direct access to the investment team.

KEY CONSIDERATIONS

Working with your adviser

This investment service is only available to clients of financial advisers. Before making any decisions, it is important that you understand all of the risks involved, which you can read about on page 21.

The Rathbones STPS invests in smaller companies to benefit from the tax reliefs available, which means there is a relatively high level of risk. It is your adviser's responsibility to determine whether this service is suitable for your requirements. They must also make sure you fully understand the risks involved and have the capacity to bear capital losses, which may occur from time to time.

You must receive a recommendation to invest in this service from a professional adviser and retain their services to monitor ongoing suitability. Rathbones will be responsible for ensuring the suitability of the investments in your portfolio against the investment strategy you and your adviser agree.

Typically, the investments pay no or very low dividends, and your adviser should ensure you have sufficient income from other sources.

Key features and benefits

- Designed specifically as a tax-planning tool for clients of financial advisers using non-contentious government-sanctioned tax relief's (this isn't a tax avoidance scheme).
- Provides access to Rathbones' extensive skills and resources with a minimum investment of £100,000 and an attractive charging structure, with no minimum top-ups.
- Direct contact with a specialist investment management team to assist with ongoing monitoring and tax planning as your circumstances change.
- You remain the outright, beneficial owner of a portfolio of smaller company shares, which we manage on a discretionary basis.
- For Business Relief mandates we begin investing soon after your portfolio is opened and funded, with the majority of funds invested within a month.
- For EIS mandates we invest funds gradually when suitable opportunities arise, building up a portfolio of at least 12 investments.
- We engage an external firm of tax advisers to provide their opinion on the Business Relief qualifying status of companies that we invest in. This partnership provides reassurance that the investments we make should qualify for the relief. If this does not happen, then there will be no tax relief on the value of that Investment

IT IS YOUR ADVISER'S RESPONSIBILITY TO DETERMINE WHETHER THIS SERVICE IS SUITABLE FOR YOUR REQUIREMENTS

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 investment service. From our qualified teams to the efficiency of our administration and reporting, everything we do is designed to provide you and your advisers with a high-quality service.

A tailored approach
The STPS carries many of the hallmarks of our discretionary investment management service. Rather than you simply buying an IHT mitigation product or EIS product, our STPS offers full access to your investment manager. They will provide a personalised service and tailor your portfolio to your individual requirements and be responsible for the investment decisions.

Ongoing due diligence
We employ an external specialist to undertake initial and ongoing Business Relief due diligence on any investments we buy. This review leaves us free to focus on assessing the companies we invest in to make sure they continue to provide good return prospects.

A straightforward process
Investing in shares that qualify for Business Relief means their value can be free from IHT if you have held them for at least two years before you die. For Business Relief portfolios, we seek to invest your funds quickly after you have opened your account and funds have cleared to start the two-year clock. This feature is an advantage over many other forms of IHT planning, which typically take seven years, such as gifting beyond your annual allowances and setting up a trust.

Flexible ways to reduce tax liabilities
We also offer our STPS within an ISA wrapper. This means it is possible to invest a stocks and shares ISA into Alternative Investment Markets (AIM) traded shares that should qualify for Business Relief, adding to the income tax and CGT benefits an ISA offers. Existing ISAs can be transferred to Rathbones for investment in the STPS.

If you have an existing Business Relief portfolio comprising AIM shares this can also be transferred in specie, which means the share are moved intact and not sold.

Competitive fees
We offer clear and competitive pricing and do not charge set-up fees for new accounts. Please speak to your financial adviser or contact the STPS team for more information.

FOR BUSINESS RELIEF PORTFOLIOS, WE SEEK TO INVEST YOUR FUNDS QUICKLY AFTER YOU HAVE OPENED YOUR ACCOUNT AND FUNDS HAVE CLEARED TO START THE TWO-YEAR CLOCK

OUR STPS OFFERS FULL ACCESS TO YOUR INVESTMENT MANAGER AND THEY WILL TAILOR YOUR PORTFOLIO TO YOUR INDIVIDUAL REQUIREMENTS

WHAT IS THE ALTERNATIVE INVESTMENT MARKET (AIM)

AIM is part of the London Stock Exchange and is designed for smaller companies seeking access to capital and investors, with a regulatory approach that is specifically tailored to the needs of growing companies.

Since its launch in 1995, with just 10 companies and a combined market value of £80 million, AIM has grown and is now home to several hundred companies with a combined market value of tens of billions of pounds. Its reputation has evolved from being a speculative market to one that is home to many large, established businesses and an attractive destination for investors.

Diverse investment opportunities
As well as home-grown businesses, AIM is home to many international businesses. many of which are well managed and profitable, generating a large proportion of their revenue overseas. AIM shares tend to be less liquid, meaning sales and purchases may take time to complete and there can be a larger difference between the buying and selling prices. In addition, the share prices of smaller companies are often more volatile than those of large companies, meaning they can have greater rises and falls in value. You should be comfortable with the risk of large share price movements before investing in this service.

AS WELL AS HOME-GROWN BUSINESSES, AIM IS HOME TO MANY INTERNATIONAL BUSINESSES MANY OF WHICH GENERATE A LARGE PROPORTION OF THEIR REVENUE OVERSEAS

SUMMARY OF THE TAX RELIEFS

We offer two approaches for reducing your tax liabilities:

1. Business Relief (IHT relief) qualifying investments
2. Enterprise Investment Scheme qualifying investments.

The table below shows the UK tax-efficient investments comparison for these two investment approaches.

	Business Relief (IHT relief) qualifying shares	**Enterprise Investment Scheme qualifying investments**
Income tax relief*	Nil	30%
Capital gains tax (CGT) deferral	No	Yes
Inheritance tax (IHT) exempt*	Yes	Yes
Tax-free exit	No, unless held in an ISA	Dependent on exit timing
Tax-free dividends	No, unless held in an ISA	No
Investment limits 2023-24	No	£1 million for income tax relief (£2 million for investment in knowledge intensive companies).No limit for CGT deferral or Business Relief.
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.

*Subject to meeting minimum holding periods
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.
Business Relief (IHT Relief) strategies are able to invest in more established opportunities.
These tax reliefs are explored in more detail on the following pages.

BUSINESS RELIEF (IHT RELIEF)

Business Relief was introduced in the 1976 Finance Act to enable shares in family businesses to be transferred without being eroded by IHT. This framework has evolved to incorporate shareholdings in certain companies traded on AIM.

This is a long-standing tax relief that is considered a non-contentious form of tax planning. Business Relief qualifying assets are exempt from IHT if they have been held for a period of at least two years before and when the shareholder dies.

Our investment strategy focuses on companies traded on AIM, and typically your portfolio will comprise 25 to 45 companies. These smaller, growth companies tend to have a low dividend yield and you should not rely on them to provide an income. As qualifying investments need to be held upon death to achieve the relief, the STPS should be considered a long-term investment strategy of at least two years.

The attractions of a Business Relief qualifying investment portfolio include:

- Speed – once qualifying investments have been held for more than two years their value is removed from your estate for IHT purposes providing you hold them when you die.
- Control – you retain full beneficial ownership of the assets.
- Flexibility – income can be paid away and additional funds can be added at any time.
- Simplicity – no complicated tax structures, age limitations, life cover or health checks.
- ISAs – AIM shares can be held in ISAs.
- Replacement Relief – allows proceeds from qualifying investments to be reinvested into other qualifying investments without restarting the two-year holding requirement
- Liquidity – being traded on AIM generally means transactions can be completed quickly upon request although in very difficult market conditions this may take some considerable time.

The following table illustrates how a range of potential investment returns combined with tax relief could impact the value left to your beneficiaries:

	Bank account at 3% interest p/a	Non-BR investment portfolio assuming 5% growth p/a	BR portfolio assuming a fall of 20% p/a (or 36% over two years)	BR portfolio assuming no change in value	BR portfolio assuming 8% growth p/a
Initial investment	£200,000	£200,000	£200,000	£200,000	£200,000
Value after 2 years	£212,180	£220,500	£128,000	£200,000	£233,280
IHT liability at 40%	£84,872	£88,200	£0	£0	£0
Value left for beneficiaries	£127,308	£132,300	£128,000	£200,000	£233,280

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

BUSINESS RELIEF PORTFOLIO CASE STUDY: SARAH'S STORY

Sarah has just celebrated her 70th birthday and is looking for an efficient way to pass on wealth to her children.

Taking into account the value of her net assets totalling £950,000, which comprises a home, savings and investments, the beneficiaries would face a potential IHT liability on her estate of £180,000.

After discussing the situation with a financial adviser and confirming she is comfortable with the risks of investing in smaller, AIM traded companies, Sarah's advisor recommends that she transfers £100,000 from her existing share portfolio into a Rathbones STPS portfolio.

Providing Sarah holds the shares for at least two years, and still holds them at the time of death, the investments in the portfolio should be exempt from IHT, providing a potential tax saving of £40,000.

The ultimate tax saving will be affected by price movements in the underlying shares. The table on page 14 shows how changes in the portfolio value could affect the potential returns from the portfolio.

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, which include:

- passing a gross assets test
- carrying out a qualifying trade and
- having fewer than 250 employees at the time of share issuance (or 500 for 'knowledge intensive companies')

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 i.e. from other shareholders, would not qualify.

Through the Rathbones STPS, we manage bespoke portfolios consisting of a minimum of 12 investments traded on AIM, or occasionally Aquis (another specialist stock exchange for smaller companies), rather than a collective fund. Each client portfolio is managed on a continual basis rather than with a pre-set exit date as with some EIS products.

As investments can only be made in newly issued shares deal flow can be unpredictable. Subject to the flow of suitable investment opportunities and any investment deadlines, we aim to be fully invested in around 18 months, but this could take longer. EIS3 certificates are issued for each investment made and typically arrive 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 achieve a broad spread of EIS investments.

There are complex rules surrounding EIS tax relief and we highly recommend clients engage an accountant familiar the rules to assist with tax returns and calculations.

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 your income tax liability by up to £300,000 (or £600,000) each year. However, the liability can only be reduced to zero.

There is also 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.

Capital gains deferral relief (EIS Reinvestment Relief)

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. If EIS qualifying shares are held upon death of the investor then the deferred gain is extinguished.

EACH CLIENT PORTFOLIO IS MANAGED ON A CONTINUAL BASIS RATHER THAN WITH A PRE-SET EXIT DATE AS WITH SOME EIS PRODUCTS.

Business Relief (IHT relief)
EIS qualifying investments should also qualify for Business Relief against IHT. The value of the shares falls outside an investor's estate after they've been held for two years. Qualifying assets need to have been held for two out of the five years preceding death and still held upon death. Replacement Relief allows the time invested in BR qualifying assets that are sold and reinvested into other BR qualifying assets to be added together.

Loss relief
If EIS investments are disposed of at a loss, you should be able to use that loss, less any income tax relief given, against capital gains.

Uniquely to EIS, you can elect for the amount of the loss, less any income tax relief given, to be set against income of the tax year in which they were disposed of or any income of the previous tax 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.

WE MANAGE BESPOKE PORTFOLIOS CONSISTING OF A MINIMUM OF 12 INVESTMENTS TRADED ON AIM, OR OCCASIONALLY AQUIS (ANOTHER SPECIALIST STOCK EXCHANGE FOR SMALLER COMPANIES), RATHER THAN A COLLECTIVE FUND

CGT exemption
If you claim 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 on the investment itself 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.

ENTERPRISE INVESTMENT SCHEME PORTFOLIO CASE STUDY: ALEX'S STORY

ALEX IS IN HIS LATE 40S AND WORKS AS A SENIOR CONSULTANT EARNING £175,000 A YEAR. HE HAS AN INVESTMENT PORTFOLIO WITH LARGE UNREALISED GAINS.

Alex maximises his pension contributions each year and discussed with his financial adviser further ways to reduce the amount of income tax he pays.

His adviser assessed Alex's risk tolerance and financial position, and recommended investing £100,000 into an EIS Investment portfolio to provide £30,000 in income tax relief. The EIS portfolio will also allow Alex to realise £100,000 of gains from his investment portfolio and defer the payment of capital gains tax on the gain.

At his annual review six years later, Alex had a large realised loss on another investment. His adviser recommended bringing some of the sheltered gains back into charge. By selling part of the existing EIS portfolio, this revived the gains that were then offset by the loss. In addition, reinvesting the sale proceeds into new EIS investments provided a further round of income tax relief.

The EIS investments need to be held for a minimum of three years otherwise HMRC will reclaim the income tax relief. However, the portfolio should be considered a long-term investment of greater than three years. If or when EIS investments are disposed of, the gains being deferred by that investment would become taxable.

THE EIS PORTFOLIO WILL ALLOW ALEX TO RECLAIM £30,000 FROM INCOME TAX HE HAS PAID

WE ENGAGE AN INDEPENDENT FIRM OF TAX ADVISERS TO REVIEW COMPANIES TO ASSIST US IN MITIGATING QUALIFYING RISK

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 you may not receive back the full amount you originally invested.
- The service invests in smaller companies, which can experience large share price movements due to a number of factors including limited liquidity.
- The nature of smaller company investment means that opportunities to invest can be limited during certain periods. Therefore, there may be times, principally early in a portfolio's investment programme, when your funds remain in cash until a suitable opportunity to invest arises.
- An STPS portfolio will not meet normal standards for portfolio diversification in many cases because its asset allocation is solely designed for the purpose of securing tax relief.

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 25-45 investments for BR portfolios, and a minimum of 12 qualifying holdings for EIS portfolios.

Liquidity

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

We seek companies that are traded on AIM, or occasionally Aquis, from the outset.

Qualifying

- The underlying companies must meet certain strict criteria to qualify for the 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.

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.

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 your individual circumstances.

The taxation, regulatory or statutory environment changes and your requirement for the reliefs should be discussed with your adviser regularly.

Holding period

- The various investment strategies available have different minimum holding periods. Failure to meet these holding periods through share disposals or death may result in the underlying tax mitigation strategy not materialising.
- IHT relief accrues during your life, but its benefits are only realised by your estate after you die. To benefit from some reliefs available through this service, qualifying investments must be held until death.

The holding period to qualify for tax relief should be discussed with your adviser regularly.

Before investing in this service, it is important that you understand all of these risks and that you have discussed your situation with a financial adviser who has confirmed it is a suitable approach for you.

HOW TO INVEST

Due to the risks involved with investing in a portfolio of AIM traded shares, it's important you understand what's involved. Working closely with a professional financial adviser who has expertise in estate and tax planning should form part of this process.

To find out more about the Rathbones STPS, please speak to your financial adviser in the first instance. If you or your adviser then would like to find out more, please contact a member of the STPS team or our Intermediary service desk whose details are below.

If your adviser recommends an STPS portfolio for you they can request investment proposals and account opening documents from us and will assist you in completing the forms.

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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

ADDITIONAL INFORMATION