Client planning scenario

For the use of professional advisers only and not to be relied upon by retail clients.

Clients who've sold a business in the last three years

Clients who own their own company may find themselves having to sell the business for a number of different reasons. Ill health is common, but it's also increasingly likely that the clients' children have no wish to keep running the family business. While the family business could be passed on to beneficiaries free of inheritance tax, if the client sells the business in advance, they will leave behind an inheritance tax liability.

In this example, we show how a client who has chosen to sell his company could invest the proceeds with the aim of reducing the inheritance tax bill likely to be due on their estate.

octopus investments

About this scenario

This tax-planning scenario is designed to help advisers develop appropriate planning strategies for their clients. Advisers should consider, among other things, the value of tax reliefs for their client. You will also need to consider the impact of charges (including initial fee and ongoing fees such as annual management charges) relevant to the products represented and/or any specific product you have chosen.

Nothing here should be viewed as advice. Any suitability decisions should be based on a comprehensive review of your client's objectives, needs and attitude towards risk. For more details and information about the associated risks, please see the relevant product literature available at **octopusinvestments.com**.

Meet Alan, former owner of a small business

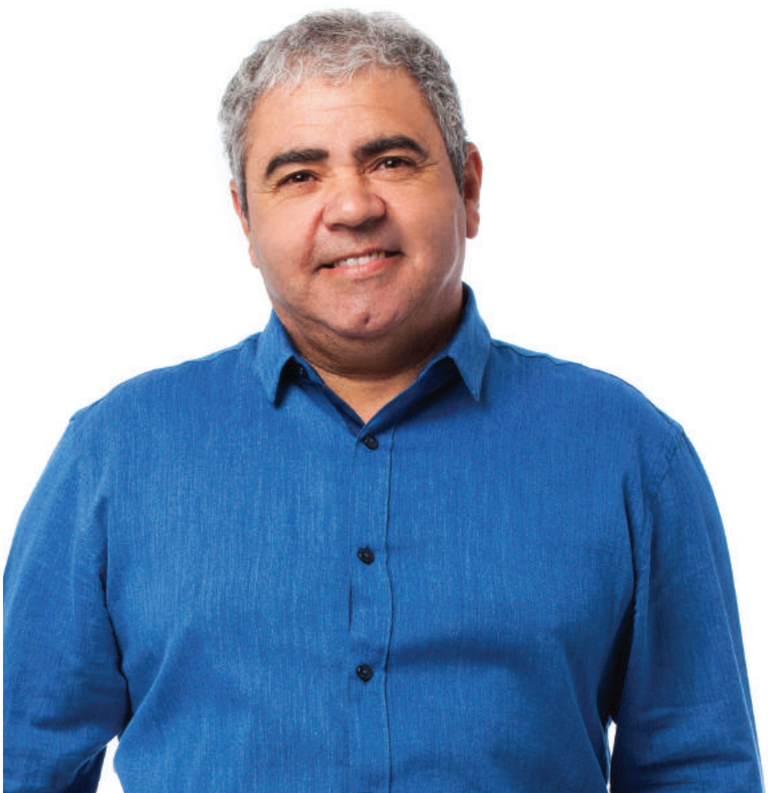
Alan sold his business two years ago. He's a widower and his health has deteriorated recently, which means he is considering ways to get his financial affairs in order. He would like to be able to leave the proceeds of his investments (£1 million) to his three daughters without them facing a large inheritance tax bill. Given Alan's health, his adviser has cautioned against traditional forms of estate planning, such as gifts and trusts, which take seven years before becoming free from inheritance tax.

A tax-planning solution from Octopus

When Alan still owned his company, his shares were expected to qualify for Business Property Relief (BPR), meaning he could have left them to his daughters on his death free from inheritance tax. However, now Alan has realised his investment in his business, he is concerned about the inheritance tax that may be payable on the proceeds.

New investments into BPR-qualifying shares usually take two years to become exempt from inheritance tax. However, the good news for Alan is that there is a three-year window, during which some or all of the proceeds resulting from the sale of a BPR-qualifying business can be invested back into BPR-qualifying assets. If such action is taken, the newly acquired BPR-qualifying assets should be immediately exempt from inheritance tax. Therefore, Alan wouldn't need to wait the two years it would normally take for a BPR-qualifying investment to become exempt from inheritance tax.

After Alan talks to his financial adviser, who makes a recommendation based on Alan's objectives and attitudes to risk, he decides to invest £1 million in the Octopus Inheritance Tax Service. Because Alan's investment qualifies for replacement relief, his investment in the Octopus Inheritance Tax Service should be exempt from inheritance tax from day one. This means that, on his death, he expects to be able to leave it to his daughters free from inheritance tax.



An important reminder about key risks

The value of an investment, and any income from it, can fall or rise. Investors may not get back the full amount they invest.

We invest in companies that we believe qualify for BPR. Entitlement to claim relief will depend on companies invested in qualifying for BPR at the time a claim is made. Relief is assessed by HMRC on a case by case basis.

The benefit of tax relief will depend on personal circumstances. Tax legislation may change in the future.

The shares of unquoted companies can be harder to sell than shares listed on the London Stock Exchange.

How a client who has recently sold a business can use the Octopus Inheritance Tax Service

This diagram shows how an investor can reduce an inheritance tax liability by investing in the Octopus Inheritance Tax Service. We've assumed Alan's home is valued at more than £325,000, meaning that his nil-rate band will be used up. This means his three children would be liable to pay inheritance tax at a rate of 40% of the value of all his other assets, including the proceeds he received on the sale of his business. After the inheritance tax bill is paid, Alan's three children will have just £600,000 from Alan's £1 million to divide between them.

However, if Alan chooses to invest the proceeds of the sale of his business in the Octopus Inheritance Tax Service within three years of the sale, the investment should instantly be exempt from inheritance tax. Provided Alan still holds the investment at the time of his death, it should be possible to pass it to his children inheritance tax free.

Alan

£1,000,000 invested into a stocks and shares portfolio	**£1,000,000** invested into the Octopus Inheritance Tax Service investment (instantly BPR-qualifying)

Initial charge of 2%, dealing fee of 1% and annual management charge of 1%+VAT per annum applied to both portfolios.

Value of portfolio after 1 year at 3% net growth **£999,406**	Value of portfolio after 1 year at 3% net growth **£999,406**
£399,762 inheritance tax due	**£0** inheritance tax due
£589,650 left to pass on at death after 1% dealing fee to sell the portfolio has been paid.	**£989,295** left to pass on at death after 1% dealing fee to sell the portfolio has been paid.

Alan's three daughters

Please note: This example is for illustrative purposes only and each investor's own tax situation may be different. It assumes that the investments will be held until death, the nil-rate band is offset against other assets and that the investment in Octopus Inheritance Tax Service qualifies for BPR, at death. It is important to remember that the risk profile of each portfolio, costs and any investment growth or losses, are likely to differ. It does not include any charges paid for financial advice. The Octopus Inheritance Tax Service has an initial charge of 2%, a deferred annual management charge (AMC) of up to 1%+VAT per annum and a dealing fee, for investments and withdrawals, of 1%. We only take our AMC after the investor or their beneficiaries ask us to sell shares. Also, we will only take our full AMC if the investment has delivered the annual target return of 3% over its lifetime, after AMC has been taken into account.

Octopus – an investment company with a difference

When we launched Octopus in 2000, our ambition was to create a different type of financial services company. We wanted to be known for putting our customers first.

Today, Octopus is an investment company with more than 550 employees and more than £7.5 billion in funds under management (source: Octopus, December 2017). We work with tens of thousands of clients, and we've built market-leading positions in tax-efficient investment, smaller company financing, renewable energy and healthcare. But no matter how big we get, our aim is to keep doing the simple things well and to look after each of our customers, day in, day out.

These products are not suitable for everyone and we require investors seek professional advice before deciding to invest. They should also read the product brochure before deciding to invest. This is available at **octopusinvestments.com**.

Why not look through some of our other tax-planning scenarios?

- Clients looking to settle assets into a trust
- Clients looking for an inheritance tax-efficient ISA
- Clients who require access to their investment
- Clients with a loan trust in place
- Clients with a power of attorney over someone's affairs

For a copy, or to find out more about Octopus and what we do:

Call our Business Development Managers on **0800 316 2067**
or visit **octopusinvestments.com/clientscenarios**