

For professional advisers and paraplanners only.
Not to be relied upon by retail investors.

Unlocking estate planning

How Business Property Relief is
opening doors for advisers





The research referred to in this report was conducted by Octopus and VouchedFor via an online survey of 560 financial advisers. Research was carried out in December 2019.

Business Property Relief-qualifying investments are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. We do not offer investment or tax advice.

Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London EC1N 2HT. Registered in England and Wales No. 03942880. We record telephone calls. Issued: February 2020. CAM009140

As a way for an adviser to add value, estate planning is hard to beat. It presents a huge advice opportunity for existing and new clients.

Find it fast

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Introduction

Estate planning is set to be the biggest advice opportunity of the next decade.

The amount someone can pass on free from inheritance tax (the nil-rate band) has been frozen at £325,000 since 2009.

And thanks to rising house prices and stock markets, more people than ever are set to face an inheritance tax bill. The amount of inheritance tax collected is predicted to reach £6.9 billion by 2023-24. That's an increase of £1.5 billion in just five years.¹

One consequence of this is that estate planning is likely to become an ever-bigger part of the advice industry. And planning for inheritance tax will be at the heart of it.

This is an area where you can add a lot of value for your existing clients. This isn't something where they can indulge in a spot of 'do it yourself'.

It's also an area where you can win new clients. In either case, estate planning represents a big growth opportunity for advice firms.

This report draws on original research, commissioned by Octopus from VouchedFor, the review site for financial advisers. It draws on a survey of 560 financial advisers, who shared their first-hand experiences of helping clients put estate planning in place. We followed up by interviewing several advisers to get more detailed views on what successful estate planning looks like.

The picture that emerges is one of huge opportunity for advisers who make estate planning integral to their process. In particular, Business Property Relief (BPR) has an important role to play in helping some clients feel confident about taking action in this area.

The next section presents the top three findings from our research.

"Nobody wants to talk about their own death. However, as we know, two things are certain in life, taxes and death. The reality is that we're not doing our job as financial advisers if we don't look at this properly."

Andrew Day, Depledge Strategic Wealth Management, Manchester



"I've been an adviser for the last 19 years, and in the last five years I've done more estate planning than in the previous 14 years altogether."

Paul Huggins, Huggins Wealth Management, Canterbury



¹HM Treasury Budget, October 2018.

Key findings from our research

Estate planning unlocks new assets

Advice firms looking to grow their business should consider making estate planning a key part of their strategy. Most advisers find it leads to them advising on assets they weren't advising on before.

[See page 6 for more.](#)

Clients are becoming more wary of making gifts

Clients are increasingly reluctant to give away money during their lifetime. Advisers who can help clients do inheritance tax planning while retaining access to their assets will have a significant advantage.

[See page 8 for more.](#)

BPR is becoming a mainstream estate planning solution

The majority of advisers we surveyed now recommend BPR-qualifying investments to some clients as part of their estate planning. These are investments that stay in the client's name, in contrast with assets that are given away.

[See page 10 for more.](#)

"To get clients thinking about their estate and drive the need to take action, we'll literally do an inheritance tax calculation in front of their eyes. And when they see that figure based on the information they've just given you, they're quite astounded that you don't need a huge amount of wealth to pay a large amount of inheritance tax."

Ken Bannister, Active Wealth Independent Financial Advisers, Hampshire



How estate planning can lead to more assets under advice

Three quarters (76%) of advisers surveyed say that estate planning has led to them advising on client assets that they hadn't advised on previously. There are several ways this can happen.

Greater visibility of a client's assets

Effective estate planning requires an adviser to have oversight of a client's entire estate. Some clients who were previously cagey about revealing all their assets are more willing to do so once they see the advantages of estate planning. In some cases, an adviser will identify a better way they can invest the money, for example into an investment that will reduce their estate's inheritance tax liability.

Transferring assets into new investments

Estate planning never happens in a vacuum. It's not uncommon for clients to make significant life changes during the period when estate planning takes place. Some clients will sell their home and 'downsize', freeing up capital that was previously illiquid. Clients who are business owners may sell their business, or a part of it, and are very likely to need advice about the best way to do it and what to do with the money.

Then there are clients whose portfolios could benefit from some reallocation, for example those holding more cash than they could possibly need for their own requirements.

In all these cases, you may find you end up advising on assets you weren't advising on before.

Advising a client's parents

For some clients, it may be a bit early to start thinking about their own estate planning. But that doesn't mean the topic holds no relevance. That's because these clients are very likely to be the beneficiaries of their parents' estate planning. We know advisers whose clients have been happy to make a referral to their parents, for example to help the parents do something for their grandchildren.

"Sometimes I will ask clients who own buy-to-let properties whether they have considered giving this away now, or perhaps selling the property and even downsizing their home and doing something more tax efficient with the capital. These are assets that we otherwise wouldn't advise on, as they tend to be wholly client driven."

Felix Milton, Philip J Milton Wealth Management and Financial Planning, Devon



76%

of advisers we asked said that estate planning has led to them advising on client assets that they hadn't previously advised on.

"When you start talking to clients about their inheritance tax problem, more often than not, they will begin to open up about all the other assets they own, whether it's the second bank account or the holiday home in Spain."

Jessamy Walker, Brown Dog Financial Planning, Hungerford





Why clients are increasingly wary about giving up access to capital

Nine out of ten advisers surveyed (89%) say their clients have become more mindful, compared to five years ago, of potentially needing access to their money in later life.

The UK has an ageing population. A feature of increased life expectancy is that it's harder than ever to know how long you'll need your money for. Rising care costs are another factor that make clients reluctant to give up control of their assets.

Often this can lead to clients being reluctant to do estate planning in general, as it feels complicated and fraught with uncertainty. There is also the obvious but important point that many people are less than enthused by the prospect of giving away large sums of their own money, an act many associate with estate planning.

The good news is that while giving up ownership of assets might be true for some of the estate planning solutions clients are most familiar with, such as gifting and settling assets into a discretionary trust, not all planning solutions mean permanently putting capital out of reach.

This is important. As you've just read, nine out of ten advisers surveyed say this is a growing concern for clients. And in fact, 55% of advisers said that reluctance to lose access to assets stops some of their clients doing any estate planning at all.

"Even if it's quite clear from cash flow modelling that it's not going to be needed, people often just don't want to give away what's usually a six-figure sum of money, because it's the money they've earned during their lifetime."

Peter Ditchburn, Buckingham Gate Chartered Financial Planners, London



"Clients tend to see estate planning in black and white terms – we can keep the assets, or we can give them away. Once clients understand that it doesn't have to be as inflexible or expensive as they may have thought, they're a lot more open to considering estate planning sooner."

Susie Bewell, Raymond James Investment Services, Hertfordshire



Nine out of ten advisers surveyed say their clients have become more mindful, compared to five years ago, of potentially needing access to their money in later life.

What is Business Property Relief?

For a client who wants to do inheritance tax planning while retaining access to their assets, a BPR-qualifying investment could be the answer.

BPR was first introduced in 1976 as a means of passing on family businesses without triggering an inheritance tax bill. Since 1996, BPR has also been applicable to minority passive stakes in certain unlisted and AIM-listed companies. It helps channel long-term investment into qualifying companies.

Commenting on BPR in its review of patient capital in November 2017, HM Treasury said it is "committed to protecting the important role that this tax relief plays in supporting family-owned businesses, and growth investment in the Alternative Investment Market and other growth markets."¹

As long as BPR-qualifying shares have been held for at least two years at the time of the shareholder's death, they can be passed on to beneficiaries free from inheritance tax. The investment stays in the client's name, so if the client needs money later on, they can request to sell some or all of their BPR-qualifying shares.

What are the risks?

BPR acts as an incentive for investors to take investment risk with their money, in exchange for inheritance tax relief. The value of a BPR-qualifying investment, and any income from it, can fall as well as rise, and investors may not get back the full amount they invest.

Clients should be aware that tax rules could change in the future. Tax treatment depends on an individual's personal circumstances.

BPR is assessed by HMRC on death. Qualification cannot be guaranteed because tax relief depends on portfolio companies maintaining their qualifying status.

The shares of smaller and unquoted companies could be more volatile than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

¹HM Treasury, Financing growth in innovative firms: consultation response, November 2017.

Make Business Property Relief an integral part of your toolkit

Our research reveals that more than half of all advisers surveyed (60%) are now recommending BPR-qualifying investments to some clients as part of their estate planning.

While it won't be the right solution for every client, a BPR-qualifying investment can be a good option for a client with large sums they need to plan for, but who is reluctant to do anything irreversible, and who is happy to take more investment risk with their wealth in return for the benefits that tax relief can bring.

Because the investment stays in the client's name, if the investor's situation changes and they need access to their funds, they can request to sell down some or all of the investment, although liquidity can't be guaranteed.

And by talking about BPR, you bring the conversation back to investments, familiar ground for many clients. Compared with some estate planning solutions, BPR is relatively easy for clients to understand. There are no complex legal structures, and there is no requirement for underwriting or medical questionnaires that you might find elsewhere. BPR could also be an option for an investor who wants to plan to leave their ISA free from inheritance tax.

All of which means a conversation about BPR can be a good way to show a client the range of options they have and the flexibility that's available. This in turn can help a client become more comfortable with the reality of estate planning, and more confident about doing it in practice.

"Business Property Relief is something that's becoming more relevant, because it offers more flexibility when it comes to estate planning."

Susie Bewell, Raymond James Investment Services, Hertfordshire



60%

of advisers surveyed are now recommending BPR-qualifying investments to some clients as part of their estate planning.

"Business Property Relief is an area that is not generally well known, and clients are interested by the concept when you talk to them about it. In the main, people understand why the relief exists. It seems to resonate with some clients because they like the idea of investing in businesses that need support as we look to grow the UK economy."

Nick Brown, NB Wealth Management, London



This report draws on a survey of 560 financial advisers, who shared their first-hand experiences of helping clients put estate planning in place.

Maintaining access is a concern for some clients when it comes to estate planning. Access is a key feature of BPR-qualifying investments, but you should be aware that the ability to withdraw from this type of investment is not guaranteed. Indeed, this is one reason why these investments qualify for tax relief. BPR-qualifying investments are likely to have a higher liquidity risk than shares quoted on the main market of the London Stock Exchange. So when you speak to BPR providers, be sure to ask about how they plan for facilitating withdrawals and what their track record is.

A working relationship that lasts

Clients typically hold BPR-qualifying shares until they die. This gives advisers another opportunity to maintain the relationship with their client, updating them on the investment's performance and revisiting their situation to check that the planning remains appropriate.

Clients may hear about BPR from someone else

There's another reason it's a good idea to be familiar with BPR-qualifying investments.

It's also possible that a client will read about BPR in the press. Or they may have someone in their social circle who has made this type of investment. It makes sense to be aware of BPR, so that when it's suitable for a client, you're the one who brings it up.



A word about liquidity

For investments that qualify for BPR, it's important to bear in mind that liquidity can't be guaranteed. That's because companies that qualify for BPR will always be either unlisted or their shares will be listed on AIM. It may not always be possible to sell unlisted or AIM-listed shares straight away. Always talk to providers about their track record for returning funds to investors who ask for them, and how they address the issue of liquidity if it is important to your client.

In the 13 years to January 2020, Octopus has provided more than £650 million of liquidity to investors in its flagship Octopus Inheritance Tax Service. Although this service invests in unquoted shares, shares can usually be sold within ten days. Investments on AIM are listed, so in normal circumstances we are more likely to be able to sell them quickly. For investors in our Octopus AIM Inheritance Tax Service, it's usually possible to sell shares within a week.



“We find estate planning is extremely important for clients as often they’re keen to pass on as much wealth as they can to their loved ones, particularly to family members who are likely to possess far fewer assets. I work with many clients who have worked hard all their lives and want the possibility to pass down their wealth in tax efficient ways, approved by HMRC.”

Aled Philips, Niche IFA, Newport, Wales



How Octopus can help

Octopus has been managing BPR-qualifying portfolios for clients since 2005.

We have a range of inheritance tax solutions that enable investors to pass on more of their wealth to loved ones, by investing in companies that are expected to qualify for Business Property Relief.



The Octopus Inheritance Tax Service gives clients the opportunity to invest in the shares of one or more unlisted UK companies that are making a positive contribution to the growth of the UK economy. This investment targets a steady investor return of 3% a year over the holding period.



The Octopus AIM Inheritance Tax Service is managed by one of the most experienced smaller companies teams in the UK. This investment targets growth from a portfolio of 25–30 companies listed on the Alternative Investment Market (AIM).



The Octopus AIM Inheritance Tax ISA offers clients inheritance tax relief within an ISA wrapper. It invests in the same portfolio of AIM companies as the Octopus AIM Inheritance Tax Service. This investment is available for ISA transfers and new investment.

A reminder of the risks

The value of a BPR-qualifying investment, and any income from it, can fall as well as rise, and investors may not get back the full amount they invest. The Octopus AIM Inheritance Tax ISA is likely to be higher risk than other investment ISA portfolios.

Tax treatment depends on an individual's personal circumstances and tax rules could change in the future.

Tax relief depends on portfolio companies maintaining their qualifying status.

The shares of smaller and unquoted companies could be more volatile than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

Get in touch

Octopus is the UK's leading provider of investments that qualify for Business Property Relief. We've got inheritance tax experts around the country, and we've yet to come across an adviser we can't get to for a meeting.

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