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Not to be relied upon by retail investors.

Identifying clients who could benefit from BPR-qualifying investments

An Octopus guide

octopus investments
A brighter way

BPR

BPR EIS VCT

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Key investment risks

- The value of a BPR-qualifying investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest.
- Tax treatment depends on individual circumstances and could change in the future.
- Tax relief depends on portfolio companies maintaining their BPR-qualifying status.
- The shares of unquoted or smaller companies could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

BPR-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. This document does not constitute advice on investments, legal matters, taxation or any other matters.

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Investments that qualify for Business Property Relief (BPR) can be passed on free from inheritance tax upon the death of the investor, provided the shares have been owned for at least two years at that time.

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Introducing Business Property Relief

Business Property Relief is an established form of estate planning that can be used to pass on more of a person's wealth, free from inheritance tax.

It was originally introduced as part of the 1976 Finance Act, and was created to allow small businesses to be passed down through generations without facing a large inheritance tax bill. Beneficiaries inheriting family businesses no longer had to sell the business to pay any inheritance tax due when their parents died.

Over the years, successive governments have recognised the value of a tax relief that encourages people to invest in trading businesses, regardless of whether they run the business themselves, and so have expanded the scope of BPR.

This has included increasing the relief to 100% for qualifying shares (up from 50%) and allowing any interest in a qualifying company to benefit from relief – not just majority stakeholders.

As a result, BPR is now recognised as an inheritance tax relief that incentivises investments in unquoted trading companies or those listed on the Alternative Investment Market (AIM).

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.

Using BPR to solve client problems

A BPR-qualifying investment can help solve common problems that clients face when it comes to estate planning. Clients who could benefit include those who want to retain access to their investment, those who have sold a business in the last three years and those where there is a power of attorney in place.

BPR-qualifying portfolios invest in the shares of one or more unquoted or AIM-listed companies. They are higher risk investments than a portfolio of main-market listed equities, and the tax relief is designed to provide some compensation to investors for taking additional risk.

Best Tax and Estate Planning Solutions Provider

This guide shows how BPR-qualifying investments can be used to solve these and other common client problems.

It's important to note that BPR-qualifying investments are not suitable for all clients. Companies that qualify for BPR are not listed on any main stock exchange. As such, the value of an investment, and any income from it, can fall as well as rise. Investors could get back less than they invest. The tax incentives are there to help compensate investors for the risk they take with their money.

About Octopus

As the UK's largest manager of investments that qualify for Business Property Relief[1], we help families plan for their financial future. And we're making a difference in areas people really care about too. We invest in businesses that generate power from renewable sources, build retirement villages and support the UK's valuable smaller companies.

We are a Certified B Corporation™. This requires us to meet the highest standards of social and environmental consideration, transparency and accountability. We care about this because companies that understand their impact on the world are better equipped to create value for their stakeholders and drive change.

If you have any questions after reading this guide, please call our estate planning specialists on **0800 316 2067** or visit **octopusinvestments.com**. We're always happy to hear from you.

[1]Tax Efficient Review, April 2021.

Key benefits

Let's take a look at some of the benefits of BPR-qualifying investments.

Ongoing access and control

As BPR is an investment, it stays in the investor's name and offers on-going access to capital. If the investor's situation changes and they need access to their funds, they can sell down some or all of the investment, subject to liquidity. This might be the case for an older client who needs to pay for long-term care, for example.

Shares sold will no longer be exempt from inheritance tax.

Fast inheritance exemption

BPR-qualifying shares should become exempt from inheritance tax after just two years, so long as the investor is holding the shares at the time of their death.

Simplicity

Buying shares in BPR-qualifying companies is simple compared to some other estate planning solutions. There are no complex legal structures, like trusts, and there is no requirement for underwriting or medical questionnaires as with life insurance.

Key risks

The tax incentives associated with BPR-qualifying investments are there to help compensate investors for the risk they take with their money.

Capital at risk

The value of a BPR-qualifying investment portfolio, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest.

Tax rules and reliefs can change

Tax treatment depends on individual circumstances and tax rules could change in the future. Whether the investment qualifies for tax relief will depend on portfolio companies maintaining their qualifying status. HMRC will consider a claim for BPR based on the facts when a claim is made, including the relevant legislation in place at the time.

Shares could be more volatile and less liquid

Investments in AIM-listed and unquoted companies are likely to fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

Please note that these key risks apply to all of the scenarios in this document.

Identifying clients who could benefit from BPR-qualifying investments

BPR's attractive range of benefits means it can be used as an estate planning solution for a variety of clients.

About these scenarios

On the following pages are some of the more common scenarios where a BPR-qualifying investment could be used to reduce an inheritance tax liability. They are for illustrative purposes only as each investor's tax position may be different. They assume the nil-rate band is offset against other assets.

For ease of comparison, we have assumed identical charges and growth for each portfolio shown, however it is important to note that the risk profile of each portfolio, costs and any investment growth or losses are likely to differ.

The scenarios do not include any charges paid for financial advice.

Would you prefer to watch a video about these client scenarios? We have six short BPR planning scenario videos on our website.

Clients who require access to their investment

As a BPR-qualifying investment is just that – an investment – it stays in the investor's name and offers ongoing access to capital.

Meet Carol, who doesn't want to lose access to her capital. Carol is 86. She understands that the size of her £1.5 million estate means that when her grandchildren inherit it, they'll need to pay an inheritance tax bill. She is keen to do some estate planning so that more of her estate can go to her loved ones. Her adviser explains that she can afford to give away some of her assets. But Carol has been in control of her wealth all her life and is reluctant to make gifts or put assets out of reach in a trust.

Carol worries that if her health deteriorated, she might want to use the money to pay for her care. It takes seven years for gifts and assets in trust to fully fall outside an estate for inheritance tax purposes and in seven years she'll be 93. So Carol's worried that if she passes away before then, she will still leave her beneficiaries with an inheritance tax bill, even if she gives away assets immediately.

How a BPR-qualifying investment can help

Her adviser assesses Carol's objectives, appetite for risk and capacity for loss and deems her suitable for an investment that qualifies for Business Property Relief. If a BPR-qualifying investment is held for two years and at the time of death, it should be able to be left to beneficiaries free from inheritance tax.

Carol inherited a large investment portfolio from her late husband. Her adviser suggests selling £250,000 of it and reinvesting the proceeds in the Octopus Inheritance Tax Service. The investment will be made in Carol's name, meaning that she will retain ownership of her wealth. If she needs access to some or all of her investment in the future, she can ask to sell some shares. Her adviser makes it clear, however, that as BPR-qualifying investments are made into the shares of unquoted or AIM listed companies, liquidity cannot be guaranteed.

An additional benefit of the Service is its weekly share allotments and sales. If Carol needs access to her capital, she can make ad-hoc requests to sell some of her shares. And if she finds that she needs to access her investment more regularly in the future, she can set up regular withdrawals as well.

How it works in practice

Carol

Original share portfolio	**Octopus Inheritance Tax Service**
£250,000 kept in her share portfolio	**£240,149** invested in the Service after the 1% cost of selling original share portfolio, 2% initial fee and 1% dealing fee

Carol dies after three years

Assuming an example growth rate of 4.2% per annum, and 1% + VAT Annual Management Charge (AMC)

£272,781 value of share portfolio	**£262,032** value of Octopus Inheritance Tax Service portfolio
£109,112 inheritance tax charged at 40% on Carol's share portfolio	**£0** inheritance tax charged as Carol dies after holding the shares for more than two years
£160,941 passed to grandchildren after 1% dealing fee to sell the portfolio has been paid	**£259,411** passed to grandchildren after 1% dealing fee to sell the portfolio has been paid

All fees and the target growth rate used in this scenario are based on the Octopus Inheritance Tax Service. To watch a video about this scenario, visit this web page: **octopusinvestments.com/access-scenario**.

Clients who worry it's too late

It's common for older clients to feel they've left it too late to plan for inheritance tax. Many clients won't think about estate planning until rather late in life, by which time approaches like gifting or life insurance may not be appropriate.

Meet Harold, who worries he's left estate planning too late. Harold and his wife are in their 90s. Most of their assets are in Harold's name, with his wife his sole beneficiary. The pair recently celebrated their platinum wedding anniversary, causing Harold to reflect on his advancing years and his legacy. Harold and his wife are not getting any younger, and they would like to do estate planning so that they can leave something for their two children and five grandchildren.

The couple's adviser tells them that a £500,000 chunk of their investment portfolio would be liable for inheritance tax were they both to pass away without putting any planning in place. Harold is concerned that neither he nor his wife may survive the seven years necessary to get the full benefit from gifting. Life insurance is also an unrealistic option because of their ages.

How a BPR-qualifying investment can help

The adviser assesses Harold's objectives, appetite for risk and capacity for loss and suggests making an investment that qualifies for Business Property Relief. He explains that if a BPR-qualifying investment is held for two years and at the time of death, it should be zero-rated for inheritance tax.

If Harold survives for two years after making the investment and continues to hold the shares until he passes away, they would be expected to qualify for BPR. That means he should be able to leave them to any beneficiary free from inheritance tax when he dies.

If Harold were to die within two years of making the investment and is survived by his wife, the shares can pass to her without the need to pay any inheritance tax because they are married. His wife would then continue the two-year clock and only need to survive until the two-year anniversary of Harold making the investment for the shares to be zero-rated for inheritance tax.

In other words, so long as one spouse survives two years, the investment should be zero-rated for inheritance tax.

How it works in practice

Harold

Original share portfolio	**Octopus Inheritance Tax Service**
£500,000 kept in his share portfolio	**£480,297** invested in the Service after the 1% cost of selling original share portfolio, 2% initial fee and 1% dealing fee

Harold dies after one year

Harold's wife inherits his portfolio and dies a year later

Assuming an example growth rate of 4.2% per annum, and 1% + VAT Annual Management Charge (AMC) calculated annually

Original share portfolio	**Octopus Inheritance Tax Service**
£529,931 value of share portfolio	**£509,049** value of the Octopus Inheritance Tax Service investment
£211,972 inheritance tax charged at 40% on Harold's share portfolio	**£0** inheritance tax charged as Harold's wife dies after holding the shares for more than two years combined
£312,595 passed to grandchildren after 1% dealing fee to sell the portfolio has been paid	**£503,958** passed to grandchildren after 1% dealing fee to sell the portfolio has been paid

All fees and the target growth rate used in this scenario are based on the Octopus Inheritance Tax Service. To watch a video about this scenario, visit this web page: **octopusinvestments.com/speed-scenario**.

Clients who want an inheritance tax-efficient ISA

ISAs come with attractive tax benefits during a person's lifetime, but are subject to inheritance tax along with the rest of their estate when they pass away.

Meet Peter, who wants to use his ISA to plan for inheritance tax. Peter is in his 70s. He never married, and he plans to leave his estate to his only daughter. His house alone is worth more than £500,000, so he expects his daughter will need to pay some inheritance tax when he dies. Peter would like to pass on as much of his wealth as possible, so he speaks to his financial adviser about his options.

Peter is shocked to learn that his ISA is included in the value of his estate for inheritance tax purposes. He'd always assumed that ISAs were exempt.

Like many people his age, Peter has been a committed ISA investor for years. He's built up a large pot of ISA investments and these would be liable for inheritance tax were he to die without any planning in place. Peter is reluctant to sell down his ISA pot after years of investing. He asks his adviser if there's a way he can keep the benefits of his ISA wrapper, while also planning for inheritance tax.

How a BPR-qualifying investment can help

The adviser assesses Peter's objectives, appetite for risk and capacity for loss and deems him suitable for an investment that qualifies for Business Property Relief. He suggests transferring £100,000 held in Peter's stocks and shares ISA into a BPR-qualifying ISA portfolio.

His adviser explains that some BPR-qualifying investments can be held within an ISA. These can be left to his daughter free from inheritance tax, provided they are held for two years and at the time he dies.

BPR-qualifying ISA portfolios invest in the shares of companies listed on the Alternative Investment Market (AIM). They are a higher risk investment than Peter's existing ISA portfolio, and the tax relief is designed to provide some compensation to investors for taking additional risk.

A BPR-qualifying ISA would retain the same tax benefits his ISAs have always enjoyed, but after two years the ISA becomes free from inheritance tax, assuming it is still held at the time of death. It also offers access to the growth potential of UK smaller companies.

How it works in practice

Peter

Original stocks and shares ISA

£100,000
retained in stocks and shares ISA

Octopus AIM Inheritance Tax ISA

£98,020
invested into Octopus AIM IHT ISA , after the 1% cost of selling the original portfolio and a 1% dealing fee

After two years, investment becomes free from inheritance tax

Peter dies after five years

Assuming an example growth rate of 5% per annum, and 1.5% plus VAT Annual Management Charge (AMC) and annual dealing charges of 0.2%*

£117,142
value of share portfolio

£115,057
value of Octopus AIM IHT ISA portfolio

£46,857
inheritance tax due

£0
inheritance tax due

£69,114
passed to daughter after 1% dealing fee to sell the portfolio has been paid

£113,906
passed to daughter after 1% dealing fee to sell the portfolio has been paid

*Annual dealing charges shown are based on a typical investor portfolio but actual charges can vary and may be higher or lower.

To watch a video about this scenario, visit this web page: **octopusinvestments.com/isa-scenario**.

Clients with a power of attorney in place

Where a lasting power of attorney is in place, the ability to make gifts is limited without approval from the Court of Protection.

Meet Barbara who is 88 and widowed. She has lost capacity, and a lasting power of attorney is in place for her financial affairs, with her grandson acting as attorney. Barbara's grandson wants to help her stay in her home, where she receives at-home care. The cost of this care is being met by income from Barbara's pension. Her grandson is also mindful of inheritance tax, and the fact that Barbara has expressed the desire to leave as much of her estate as she can to her great-grandchildren.

Although Barbara's adviser explains that her ongoing needs should be met from her income, her attorney is reluctant to make gifts from her estate in case she needs access to the funds in the future. Plus, the circumstances in which her attorney can make gifts from her estate without Court of Protection approval are limited. In any event, gifts will take seven years to fully fall outside of Barbara's estate for inheritance tax purposes.

How a BPR-qualifying investment can help

Barbara's attorney needs to ensure that any investment decisions are made in his grandmother's best interests and won't disadvantage her, for example, by making her money inaccessible.

The adviser assesses Barbara's objectives, appetite for risk and capacity for loss and suggests moving £300,000 of her existing investments into an investment that qualifies for BPR.

He explains that since the investment is made in Barbara's name, she will retain ownership of her wealth. As long as Barbara has held the investment for at least two years when she dies, she can leave the shares to her beneficiaries free from inheritance tax, saving them an inheritance tax bill of over £127,000.

Unlike estate planning strategies that rely on life assurance, there are no underwriting or complicated medical forms to complete – the application process is straightforward.

Withdrawals can be requested at any time, for example if Barbara requires additional funds for care home fees, however they will be facilitated by the sale of shares and so cannot be guaranteed.

How it works in practice

Barbara

Original share portfolio

£300,000
kept in her existing share portfolio

Octopus Inheritance Tax Service

£288,178
invested in the Service after the 1% cost of the original share portfolio, 2% initial fee and 1% dealing fee

Barbara dies after two years

Assuming an example growth rate of 4.2% per annum, and 1% + VAT Annual Management Charge (AMC)

£317,959
value of share portfolio

£127,183
inheritance tax charged at 40% on the share portfolio

£187,596
passed to great-grandchildren after 1% dealing fee to sell the portfolio has been paid

£306,667
value of the Octopus Inheritance Tax Service portfolio

£0
inheritance tax charged, as Barbara survived two years

£303,600
passed to great-grandchildren after 1% dealing fee to sell the portfolio has been paid

All fees and the target growth rate used in this scenario are based on the Octopus Inheritance Tax Service.
To watch a video about this scenario, **octopusinvestments.com/power-of-attorney-scenario**.

Clients looking to settle assets into trust

Settling assets into trust is a way of reducing a potential inheritance tax bill, as they are no longer part of an estate.

Meet Louise, who wants to settle assets into trust. Louise wants to plan for inheritance tax so that she can provide for her children and grandchildren after she dies. One of her biggest concerns is that the marriage of one of her children could end in divorce. Louise hates the idea of her assets being lost through divorce proceedings and wants to make sure her grandchildren will benefit from her wealth when she dies.

Louise talks through her options with her financial adviser. She is interested in settling assets into trust. A trust could help her plan for her estate, while giving her some control over what happens to her assets over the long term. She would like to settle £600,000 of her existing share portfolio into trust. These assets would then be considered outside of her estate for inheritance tax purposes after seven years.

Her adviser explains that as she has not previously made any gifts or set up any trusts, she can settle the first £325,000 into trust with no charge to inheritance tax. Anything settled into trust over the nil-rate band would immediately incur a chargeable lifetime transfer charge of 20%. This would reduce the amount in the trust by £55,000. What's more, if Louise were to die within seven years of setting up the trust, further inheritance tax would also be payable.

How a BPR-qualifying investment can help

The adviser assesses Louise's objectives, appetite for risk and capacity for loss and deems her suitable for an investment that qualifies for BPR. He suggests selling £600,000 of her share portfolio and reinvesting the proceeds into a portfolio of BPR-qualifying companies.

The adviser explains that once the BPR-qualifying shares have been held for a minimum of two years, they should be exempt from inheritance tax. Louise can then settle the shares into a discretionary trust and no chargeable lifetime transfer will be payable.

If the trust continues to hold the BPR-qualifying investment for seven years, or until Louise dies (whichever is sooner), there will be no future inheritance tax charge payable by her estate. In addition, this planning hasn't used any of Louise's nil-rate band,so she can use it to offset against other assets.

How it works in practice

Louise

Trust	Octopus Inheritance Tax Service
£600,000 placed in a trust	**£582,178** invested in the Service after 2% initial fee and 1% dealing fee
First **£325,000** set against nil-rate band – therefore no charge	
Remaining **£275,000** subject to £55,000 chargeable lifetime transfer	

After two years

Assuming an example growth rate of 4.2% per annum, and 1% + VAT Annual Management Charge (AMC)

Trust	Octopus Inheritance Tax Service
	£617,029 investment (now BPR-qualifying) placed in trust
	£0 chargeable lifetime transfer
£577,625 held in trust for beneficiaries	**£617,029** held in discretionary trust for beneficiaries
Although Louise is in good health, if she were to die within seven years of settling assets into the trust, **an additional inheritance tax liability may be triggered**	**No further inheritance tax liability, provided the trust retains the investment** until either Louise's death or the seventh anniversary of when the assets were settled into trust

All fees and the target growth rate used in this scenario are based on the Octopus Inheritance Tax Service.
To watch a video about this scenario, visit this web page: **octopusinvestments.com/trust-scenario**.

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

Meet Alan, who used to own a business. Alan sold his business two years ago for £3 million. He’s a widower and his health has recently deteriorated. When he sold his business, he invested half of the money to help generate a retirement income. Alan would like to be able to leave proceeds from his business to his three daughters without them facing a large inheritance tax bill. Given Alan’s poor health, traditional forms of estate planning, such as gifts and trusts, may not be suitable because they will take seven years before becoming free from inheritance tax.

Alan’s financial adviser explains that when Alan owned his company, his shares in the business would have been expected to qualify for Business Property Relief, meaning he could have left them to his daughters free from inheritance tax. However, the cash he received from selling the business will be subject to inheritance tax when he dies because of the size of his estate.

How a BPR-qualifying investment can help

The adviser assesses Alan’s objectives, appetite for risk and capacity for loss and deems him suitable for an investment that qualifies for BPR. He suggests that Alan invest £1 million of the cash proceeds from the sale of his business in an inheritance tax service. New investments into BPR-qualifying shares usually take two years to become free from inheritance tax.

However, Alan’s adviser has some good news. He explains that there is a three-year window during which some or all of the proceeds from selling a BPR-qualifying business can be invested back into BPR-qualifying shares. Because Alan’s investment qualifies for replacement relief, his new investment 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.

How it works in practice

Alan

New stocks and shares portfolio	Octopus Inheritance Tax Service
£970,297 invested in stocks and shares, after 2% initial fee and 1% dealing fee	**£970,297** invested into the Service after 2% initial fee and 1% dealing fee

Alan dies after one year

Assuming an example growth rate of 4.2% per annum, and 1% + VAT Annual Management Charge (AMC)

New stocks and shares portfolio	Octopus Inheritance Tax Service
£1,000,939 value of share portfolio	**£1,000,939** value of Octopus Inheritance Tax Service portfolio
£404,420 inheritance tax charged at 40% on Alan's share portfolio	**£0** inheritance tax charge, as replacement relief applies
£586,510 passed to daughters after 1% dealing fee to sell the portfolio has been paid	**£990,930** passed to daughters after 1% dealing fee to sell the portfolio has been paid

All fees and the target growth rate used in this scenario are based on the Octopus Inheritance Tax Service. To watch a video about this scenario, visit this web page: **octopusinvestments.com/sold-business-scenario**.

Clients who have inherited a spouse's ISA

An Individual Savings Account (ISA) offers valuable tax benefits during someone's lifetime, but is still subject to inheritance tax along with the rest of a person's estate.

Meet Sylvia, who recently lost her husband Gordon. Sylvia is sorting out Gordon's estate. He left all his assets to her, including his stocks and shares ISA worth £200,000. Sylvia's estate is above the usual inheritance tax allowances and faces a sizeable inheritance tax liability when she dies. Gordon's passing has encouraged her to look at how she can pass on as much to her three children as possible.

How a BPR-qualifying investment can help

Sylvia's financial adviser explains that due to the Additional Permitted Subscription (APS) rules, Sylvia has the opportunity to reinvest some or all of the value of Gordon's ISA into a new ISA of her choosing. If she does so, she will benefit from the lifetime tax benefits such as tax-free interest, dividends and growth that an ISA wrapper affords.

A new ISA taken out by Sylvia will be subject to inheritance tax when she passes away. At 40%, that would mean an inheritance tax bill of £80,000 on the ISA pot alone.

Sylvia's adviser makes an assessment based on her circumstances and her objectives, including the fact that she doesn't need to access the amount she inherited from Gordon, and the fact that she is keen for that money to stay invested in stocks and shares which has the potential to grow for her children.

He suggests she opens an Octopus AIM Inheritance Tax ISA that is specifically managed to invest into companies that qualify for Business Property Relief (BPR). As long as she has held the investment for at least two years when she dies, it will pass to her children free from inheritance tax. It's worth remembering that ISAs which invest in companies listed on the Alternative Investment Market and those which qualify for BPR are likely to have a higher risk profile than a standard stocks and shares ISA.

How it works in practice

Sylvia

Original stocks and shares ISA

£200,000
subscribed for a standard stocks and shares ISA, from which a 1% dealing fee is taken as shares are purchased

Octopus AIM Inheritance Tax ISA

£200,000
subscribed into Octopus AIM IHT ISA, from which a 1% dealing fee is taken as shares are purchased

After two years, investment becomes free from inheritance tax

Assuming an example growth rate of 5% per annum, and 1.5% plus VAT Annual Management Charge (AMC) and annual dealing charges of 0.2%*

Sylvia passes away after two years

£211,532
The value of her portfolio with growth and fees

£211,532
The value of her portfolio with growth and fees

£84,613
inheritance tax due

£0
inheritance tax due

£124,804
cash value available to beneficiaries after shares have been sold and 1% dealing fee has been applied

£209,417
cash value available to beneficiaries after shares have been sold and 1% dealing fee has been applied

Sylvia's children

*Annual dealing charges shown are based on a typical investor portfolio but actual charges can vary and may be higher or lower.

Clients who have a loan trust in place

With a loan trust, any investment growth on the capital lent to the trust will be expected to fall outside the client's estate for inheritance tax purposes. However, the amount of the original loan still remains subject to inheritance tax when the client dies.

Tony has named his children as beneficiaries of a loan trust. He's in his late 70s and has an attractive income from his pension. Two decades ago, Tony inherited a large sum of money. He used this inheritance to set up a loan trust so that the growth on his capital would benefit his children. At the time, the capital lent to the trust was invested into a portfolio of stocks and shares which have delivered growth. However, while the growth of Tony's investment is outside of his estate for inheritance tax purposes, the capital lent to the trust remains inside the estate, and is therefore still subject to inheritance tax.

How a BPR-qualifying investment can help

Tony is aware that the capital is subject to an inheritance tax liability, and is now considering wider estate planning. He talks to his financial adviser, who makes an assessment based on his risk profile, and attitude towards investing in unquoted companies. He explains to him the benefits and risks of investments that qualify for BPR.

Now that the underlying investments in the loan trust have matured, his adviser suggests Tony requests repayment of the loan and reinvests the proceeds in a BPR-qualifying investment held in his own name.

This would effectively turn the loan capital into an investment that is inheritance-tax efficient. As long as Tony has held his BPR-qualifying investment for at least two years when he dies, the shares are expected to be able to pass to his beneficiaries free from inheritance tax. The growth achieved by the loan trust would continue to be outside of Tony's estate for inheritance tax purposes, and could itself be invested to generate further growth within the trust.

How it works in practice

Tony

Stocks and shares portfolio remain within the trust

£600,000
loan trust capital plus **£400,000** of growth remains within the trust

£1,000,000
remains invested within the trust in a stocks and shares portfolio, of which £600,000 is the loan and £400,000 is growth within the trust

Octopus Inheritance Tax Service

£600,000
of investment sold and loan repaid to Tony

£582,178
invested in the Octopus Inheritance Tax Service after 2% initial fee and 1% dealing fee

£400,000
of growth remains invested in stocks and shares portfolio within the trust

Tony dies after three years

Assuming an example growth rate of 4.2% per annum, and 1% + VAT Annual Management Charge (AMC) calculated annually

£1,091,124
value of stocks and shares portfolio within the trust

£360,000
inheritance tax payable on the loan within Tony's estate

£851,123
passed to children after inheritance has been paid

£436,449
value of stocks and shares portfolio within the trust

£635,228
value of the Octopus Inheritance Tax Service

£1,071,678
left to children after inheritance has been paid

All fees and the target growth rate used in this scenario are based on the Octopus Inheritance Tax Service.

BPR-qualifying investments from Octopus

At Octopus, we're the largest provider of investments that qualify for relief from inheritance tax[1].

If you have clients that might be suitable for BPR-qualifying investments, we'll help you identify which of the following inheritance tax products could provide the best solution:

- Octopus Inheritance Tax Service: targets modest and predicable growth. Invests in the shares of one or more unlisted UK companies that are having a positive impact on the growth of the UK economy.
- Octopus AIM Inheritance Tax Service: invests in a diversified portfolio of smaller companies listed on the Alternative Investment Market (AIM) and targets growth. This investment is also available in an ISA.

Estates and Probate Team

We've been managing inheritance tax-efficient investments since 2005. In our experience, when an investor dies, members of their wider family are often not familiar with this kind of investment.

An understanding adviser can make a real difference, both by helping executors during the probate process and by advising beneficiaries on their options once they inherit shares.

Our dedicated Estates and Probate Team has helped more than 3,000 estates through the probate process and helped more than 800 advisers retain beneficiaries as clients of their own.

You can call them on **0800 294 6826** with any queries about your client's investment and the process of claiming Business Property Relief.

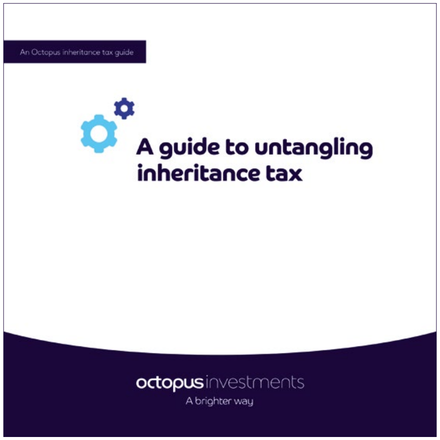
We can also support you if you want to advise any of your client's beneficiaries on what to do with the shares they inherit. There are often benefits to retaining the shares, which beneficiaries should understand before making their decision.

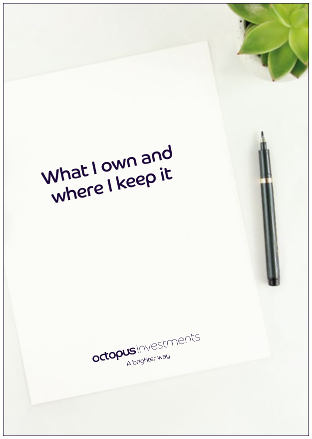
We can also facilitate paying an inheritance tax bill directly to HMRC if your client holds a BPR-qualifying investment with us. This can be done in advance of probate being granted, using the **IHT421 form**. Our team will be happy to talk you through this process.

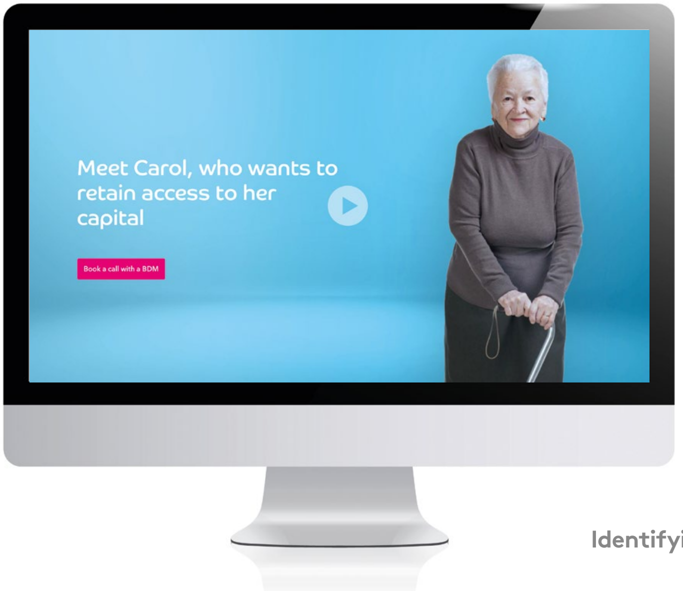
[1]Tax Efficient Review, April 2021.

Resources from Octopus

We have some other handy guides and videos that you and your clients might find useful. Go to **octopusinvestments.com** or email us on support@octopusinvestments.com and we can direct you to them.







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