This presentation is for professional advisers and paraplanners only. Not to be relied upon by retail investors.

A paraplanner's guide to estate planning and Business Property Relief

Mini Powwow with Octopus

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A brighter way

Key risks and important information

- The value of an investment, and any income from it, can fall or rise. Investors may not get back the full amount they invest.
- Tax treatment depends on each investor's circumstances and may change in the future.
- Tax reliefs depend on the portfolio companies and VCTs maintaining their qualifying status.
- The value of shares of smaller companies and VCT shares could fall or rise more sharply and significantly than shares of companies listed on the main market of the London Stock Exchange. These shares may also be harder to sell.
- Personal opinions may change and should not be seen as advice or a recommendation.
- These products are not suitable for everyone. Any recommendation should be based on a holistic review of a client's financial situation, objectives and needs.
- We do not offer investment or tax advice.
- All information, unless otherwise stated, is sourced from Octopus Investments and is correct at date of issue.

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What we'll cover today

1. The inheritance tax landscape
2. Estate planning strategies
3. Planning scenarios and case study
4. Octopus BPR-qualifying investments
5. Due diligence
6. How Octopus can help
7. Q&A

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About Octopus Investments

WINNER THREE TIMES
Investment Life & Pensions Moneyfacts Award 2016-2018
Best Tax and Estate Planning Solutions Provider

WINNER
Investment Life & Pensions Moneyfacts Award 2018
Best Venture Capital Trust Provider

More than **900** employees

More than **£8.5bn** funds under management[1]

Largest provider of portfolios that qualify for Business Property Relief[2]

Largest provider of venture capital trusts in the UK[2]

Robust investment platforms covering sectors such as smaller companies, energy, property, healthcare

[1] Octopus Investments, 31 December 2018.
[2] Tax Efficient Review, April 2018.

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The inheritance tax landscape

Quiz – What was the IHT nil-rate band in 1997?

A: £100k

B: £195k

C: £215K

D: £300k

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Quiz – What was the IHT nil-rate band in 1997?

The correct answer

A: £100k	B: £195k	**C: £215K**	D: £300k

The nil rate band has increased 51% over 20 years

The average house price was £61,830 in 1997; today it's £211,433* or 242% higher

*Source Nationwide Building Society Q4 2017

Quiz –
What was the inheritance tax exemption in 1999?

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More wealth is being passed down the generations

£5.5 trillion passed down in the next 30 years[1]

Annual IHT receipts of £5.2 billion in 2017/18[2]

IHT receipts expected to top £6.9 billion by 2023/24[3]

1Passing on the Pounds report, Kings Court Trust, February 2017.
2HMRC Tax & NIC Receipts, April 2018.
3HM Treasury Autumn Budget, 2018.

The residence nil-rate band

1. New legislation is complex and 90% of people don't know what the implications are for them[1]
2. HMRC inheritance tax receipts are forecast to reach £6.2 billion by 2021/2022[2]
3. An opportunity for advisers to give valuable guidance to clients who are unsure if they'll benefit

- From the 2017/18 tax year, the nil-rate band has increased to include an additional allowance **applicable only to a home** and **only when left to children or grandchildren.**
- Any unused residence allowance cannot be offset against other assets.

	2017-18	**2018-19**	**2019-20**	**2020-21**
Nil-rate band	£325,000	£325,000	£325,000	£325,000
Additional nil-rate band applicable **only** to a home	£100,000	£125,000	£150,000	£175,000

[1]Opinium research, 4 January 2017. Based on a weighted sample of 2,003 nationally represented UK adults (18+). [2]HM Treasury Spring Budget, March 2017.

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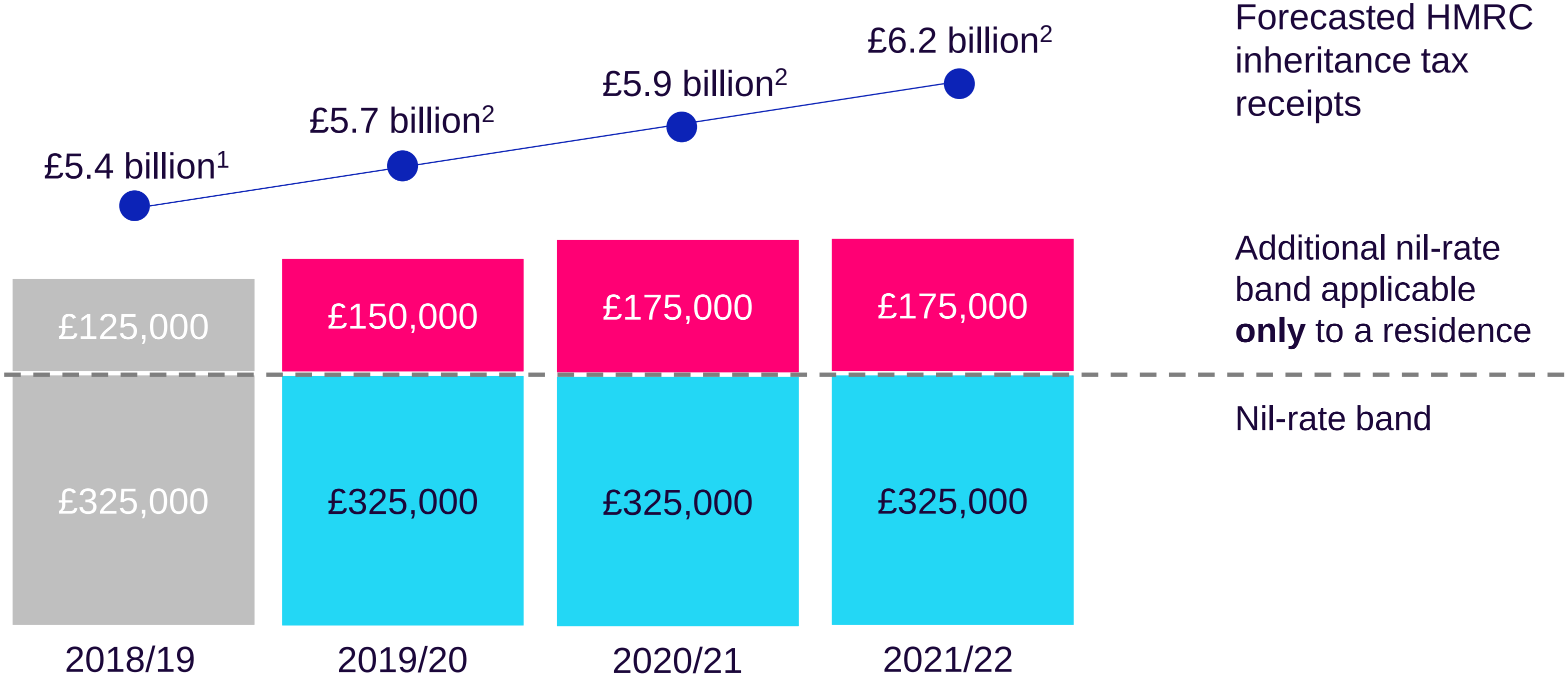
The residence nil-rate band is unlikely to reduce inheritance tax collected



[1]HMRC Tax & NIC Receipts report, April 2018.
[2]HM Treasury Autumn Budget, 2018.

Estate planning strategies

A summary of estate planning options

	Gifting	BPR-qualifying investment	Trusts	Life insurance
Pros	• Familiar • Easy to understand • Can reduce size of estate	• Speed • Access and control • Doesn't use up nil-rate band • Power of attorney potential	• Reduces size of estate • Control over asset distribution	• Can be used as a way to save for and pay any inheritance tax due to HMRC
Cons	• Can use up nil-rate band • Slow • Irreversible • Unsuitable for Power of Attorney	• Small/unquoted companies present a higher degree of risk • Doesn't reduce value of an estate	• Irreversible and can be complicated • Various taxes payable	• Medical underwriting required • Can be costly • Will form part of a taxable estate
Speed of relief	• 7 years	• 2 years	• 7 years	• Whole of life

BPR-qualifying investments are only suitable for clients with the appropriate risk profile.

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Gifting

Making gifts is a popular way to reduce an inheritance tax liability.

- Clients give up access to their money
- Clients need to survive 7 years for the gift to be free of inheritance tax
- Taper relief – only helps where gifts total more than £325,000
- Gifts between spouses are free from inheritance tax
- Annual gifting allowance of £3,000 (can carry over one year)
- Wedding gifts up to £5,000 are free from inheritance tax
- Inheritance tax not paid on gifts to charities
- Gifts out of regular income

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Gifting – taper relief

Taper relief only applies where gifts total more than £325,000

- Gifts typically become free from inheritance tax provided the person making the gift survives for seven years after the gift is made.
- If the person who made the gift dies within seven years, the value of the gift will be included in their estate.
- The person receiving the gift will have to pay any inheritance tax due.

Time between making gift an death	Rate of taper relief
0 – 3 years	No taper relief
3 – 4 years	20%
4 – 5 years	40%
5 – 6 years	60%
6 – 7 years	80%
7+ years	No inheritance tax due

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The benefits and limitations of gifting

1. An easy way to pass wealth onto the next generation.
2. Easy to understand.
3. Can reduce the value of the estate on death.

1. It takes 7 years to become fully exempt from inheritance tax.
2. It's irreversible. The person giving the money away loses ownership.
3. The person receiving the gift, or the estate, pays inheritance tax on it if the person making the gift dies within 7 years.

Trusts

Trusts can be used to ensure that assets are given to beneficiaries in a timely and controlled way, without incurring an inheritance tax bill.

People usually set up trusts as a way to make sure assets are kept in the family over generations. The biggest advantage of trusts is that they can be set up exactly to your own personal wishes.

Your client wants to leave assets to children or grandchildren, but don't want them to have access until they're a certain age

Your client wants to recommend certain restrictions on how their estate is allocated to beneficiaries

Your client wants someone to receive an income from their assets during their life, but ultimately wants the assets to be passed to someone else

The benefits and limitations of trusts

1. Can reduce the value of an estate on death.
2. Clients have a say over what happens to their assets after they have given them away.
3. Can be useful for longer term intergenerational planning.

1. Irreversible.
2. Can be complicated.
3. Taxes may be payable upon setting up the trust and at various stages during the trust’s lifetime.
4. Inheritance tax might also be payable if the settlor dies within 7 years.

Business Property Relief (BPR)

Government investment incentive to encourage investment into unquoted or AIM-listed companies

→

100% relief from inheritance tax, as long as shares are held for two years and at time of death

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The benefits and risks of BPR-qualifying investments

1. Potential for investment growth.
2. Inheritance tax free after just two years (as long as held on death).
3. Investment stays in an investor's name and they retain access to it during their lifetime.
4. Simple.

1. Capital is at risk and investors could end up getting back less than they invested.
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4. Investments can be volatile and shares may be hard to sell.

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Claiming the relief

IHT 400

HM Revenue
& Customs

Inheritance Tax account
IHT400

When to use this form

Fill in this form if the deceased died on or after 18 March 1986, and there's Inheritance Tax to pay, or there's no Inheritance Tax to pay, but the estate doesn't qualify as an excepted estate.

The IHT400, 'Notes', page 1, gives details about excepted estates.

Deadline
You must send this form to us within 12 months of the date of death. Interest will be payable after 6 months.

The Inheritance Tax account

The account is made up of this form and separate schedules. You'll have to fill in some of the schedules.

To help you get started:

- gather the deceased's papers and the information you have about their estate – make a list of their assets, liabilities, investments and other financial interests and any gifts made
- fill in boxes 1 to 28 then work through boxes 29 to 48 of this form to identify which schedules you'll need - if you don't have them all
  – download them from www.gov.uk/inheritance-tax
  – or phone the helpline to request them
- fill in the necessary schedules before moving on to fill in this form

Inheritance Tax reference number

If there's any tax to pay, you'll need to apply for an Inheritance Tax reference number before you send this form to us. Fill in form IHT422, 'Application for an Inheritance Tax reference' and send it to us. Apply for a reference at least 3 weeks before you plan to send us this form.

Filling in this form

- use the IHT400, 'Notes' to help you fill in this form
- fill in the form in black or blue ink
- make full enquiries so you can show that the figures you give and the statements you make are correct
- if an instrument of variation has been signed before applying for a grant, fill in the form to show the effect of the will/intestacy and instrument together – see IHT400, 'Notes'

Answer all the questions and fill in the boxes to help us process your form.

Help

For more information or help, or another copy of this form:

- go to www.gov.uk/inheritance-tax
- phone our helpline on 0300 123 1072 – if calling from outside the UK, phone +44 300 123 1072

About the deceased

1 **Deceased's name**
Title – enter MR, MRS, MISS, MS or other title
Surname
First name(s)

2 **Date of death** DD MM YYYY

3 **Inheritance Tax reference number. See note at the top of this form**

4 **Was the deceased male or female?**
Male ☐ Female ☐

5 **Deceased's date of birth** DD MM YYYY

6 **Where was the deceased domiciled at the date of death?**
See IHT400, 'Notes' for information about domicile

- England and Wales ☐
- Scotland ☐
- Northern Ireland ☐
- other country ☐ specify country below

If the deceased wasn't domiciled in the UK, fill in IHT401 now, and then the rest of this form

---

38 Listed stocks and shares

Did the deceased own any listed stocks and shares or stocks and shares ISAs (excluding control holdings)?

No ☐ Yes ☐ Use Schedule IHT411

39 Unlisted stocks and shares and control holdings

Did the deceased own any unlisted stocks and shares (including AIM and OFEX), or any control holdings of any listed shares?

No ☐ Yes ☐ Use Schedule IHT412

40 Business Relief, business and partnership interests and assets

Do you want to deduct Business Relief from any business interests and assets owned by the deceased or a partnership in which they were a partner?

No ☐ Yes ☐ Use Schedule IHT413

41 Farms, farmhouses and farmland

Do you want to deduct Agricultural Relief from any farmhouses, farms or farmland owned by the deceased?

No ☐ Yes ☐ Use Schedule IHT414

Section 39 for BPR

Source: Inheritance Tax account, IHT400, www.gov.uk

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Inheritance tax planning scenarios

The following client scenarios are designed to assist you in developing your own client strategy where appropriate. The examples are for illustration purposes only. The tax situation should be assumed as is stated. Tax treatment is assumed as per current legislation and interpretation, which may change in the future. Fees are not included. BPR-qualifying investments are not suitable for everyone.

Who might consider BPR-qualifying investments?

BPR-qualifying investments are only suitable for clients with the appropriate risk profile and objectives.

- Clients who are elderly or in poor health
- Clients subject to power of attorney
- Clients with existing loan trusts
- Clients who want to retain ownership over their assets
- Immediate post death interest trusts (IPDI)
- Clients who are selling or have recently sold a business
- Clients who want to set up a discretionary trust
- Clients who own their own company

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Case study and task

The following client tax scenario is designed to assist you in developing your own client strategy where appropriate. The example is for illustration purposes only. The tax situation should be assumed as is stated. Tax treatment is assumed as per current legislation and interpretation, which may change in the future. Fees are not included. BPR-qualifying investments are not suitable for everyone.

Meet Diane

- Aged 83
- Widowed
- Living in family home
- Two children
- Grandchildren and great grandchildren
- Future health concerns

What is Diane's situation?

- Diane is 83 and lives alone in the family home after the death of her husband John, last year.
- Diane and John had two children – Margaret (58) and Tony (48).
- Tony is unmarried and Margaret is divorced, and has one daughter – Jessica, who is recently married to Henry. They have one child, Annie.
- Diane is in good health at the moment and does not want to move out of her home. Her children are worried about it deteriorating as she gets older.
- When John passed away last year, he left all his assets to Diane. The family realised that John had done very little estate planning and the Williams' estate was larger than initially thought.
- Diane is keen to seek some financial advice. She'd like to pass on as much of her wealth as possible to her children and grandchildren.

What does Diane's estate look like?

Main residence	= £500,000
Apartment in Spain	= £150,000
Cash savings	= £250,000
Stocks & Shares ISA	= £275,000
Cash ISA	= £125,000
Jessica's (granddaughter) discretionary trust set up in 2006	= £120,000

What are Diane’s investment objectives?

Capital preservation

Diane and John have spent their whole lives building up their estate. They are wary of the fluctuations of the stock market.

Inheritance tax relief

Diane is elderly and widowed. Her aim is to pass on the family wealth free from inheritance tax.

Access and control

Diane needs to retain access to her wealth, so that that she can afford care should she one day need it.

What could Diane do?

Choosing a BPR-qualifying investment: The due diligence process

Choosing the right investment

Before you recommend a BPR-qualifying investment, there are four questions you should ask any provider.

- Financial strength
- Investment experience
- BPR-qualification track record
- Ability to provide liquidity

Personal opinions may change and should not be seen as advice or a recommendation.

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Assessing suitability

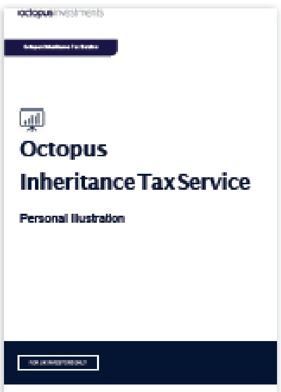
The Financial Ombudsman gives guidance on what factors may be significant when determining suitability:

- Age
- Occupation
- Personal circumstances
- Financial circumstances
- Level of existing debt
- Financial requirements and objectives
- The period of investment under consideration
- Attitude to risk
- Capacity to bear loss
- The amount invested

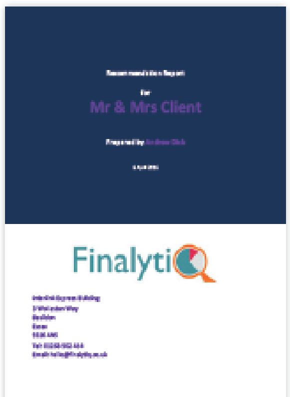
https://www.financial-ombudsman.org.uk/publications/technical_notes/assessing-suitability-of-investment.htm

We can help with your due diligence

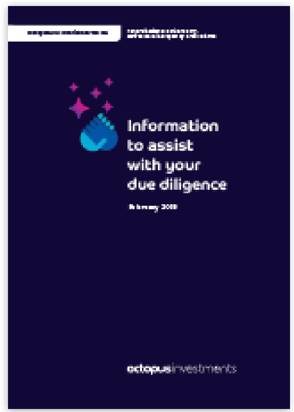
We have some useful resources to make things more straightforward when it comes to assessing whether an Octopus inheritance tax investment is right for your client.



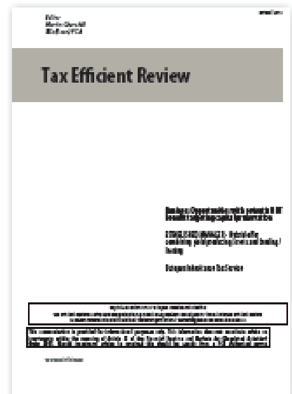
Bespoke client illustrations showing fees as well as product charges.



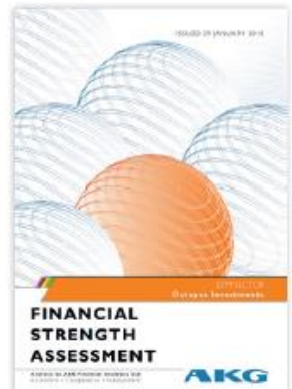
Third party suitability reports on the Octopus Inheritance Tax Service.



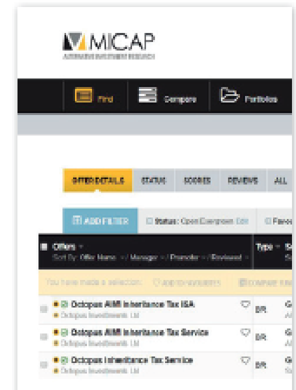
Due diligence report for Octopus AIM Inheritance Tax ISA.



Tax Efficient Review of the Octopus Inheritance Tax Service.



Financial strength assessment on Octopus Investments, produced by independent ratings provider AKG.



Independent due diligence reports on all our inheritance tax products. Go to **micap.com**

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Our BPR-qualifying investments

Our BPR-qualifying investments

	Octopus AIM Inheritance Tax Service	Octopus AIM Inheritance Tax ISA	Octopus Inheritance Tax Service
Objective	Growth	Growth	3% per annum growth
Structure	Discretionary management service	Discretionary management service	Discretionary management service
Investments	AIM portfolio	AIM portfolio	Unquoted shares
Inheritance tax relief after two years	✓	✓	✓
Access and control[1]	✓	✓	✓
Deferred annual management charge	✗	✗	✓

[1]Access is subject to liquidity being available, and control means investors remain the beneficial owner of their shares.

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How Octopus can help

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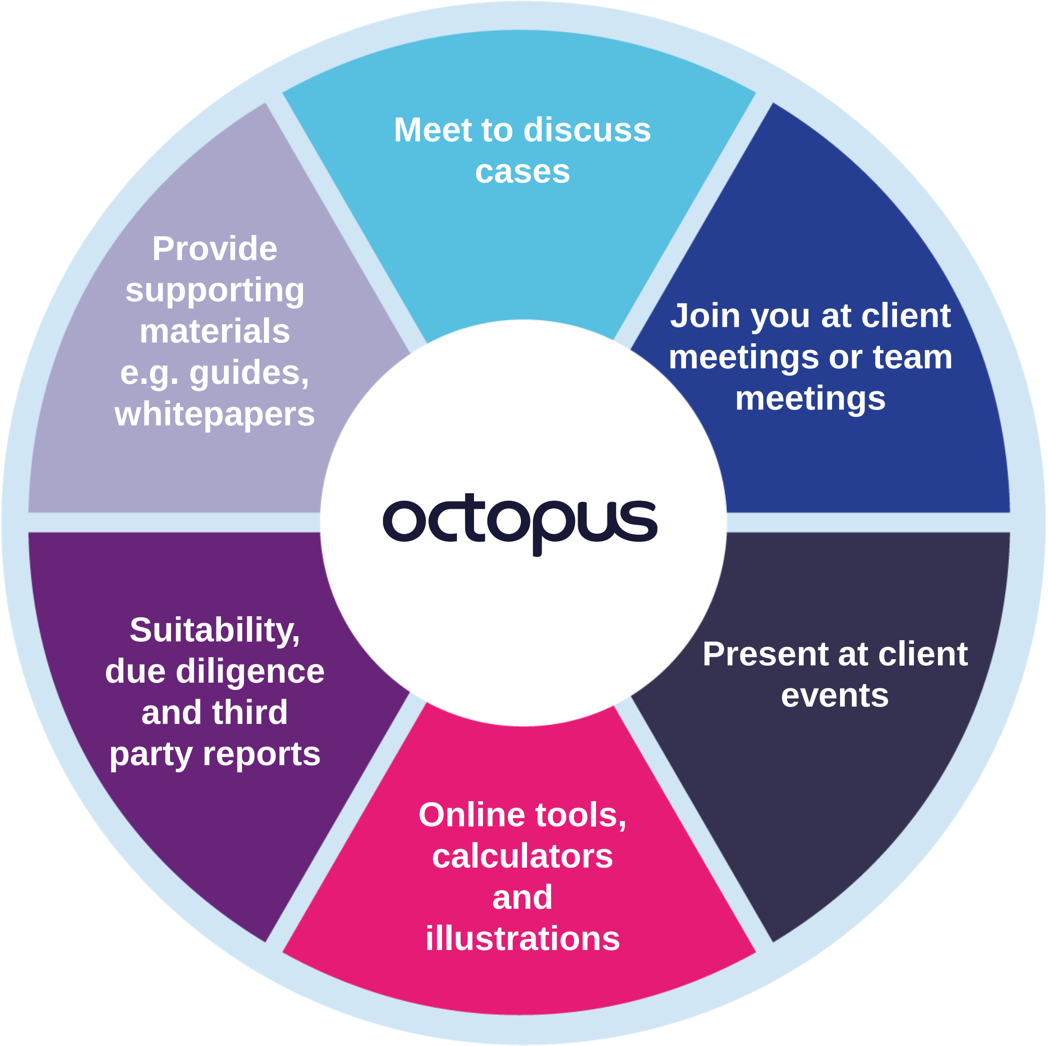

Q&A

Thank you

If you've got any further questions about this presentation please get in touch with our business development managers by calling **0800 316 2067** or by visiting **octopusinvestments.com**.

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