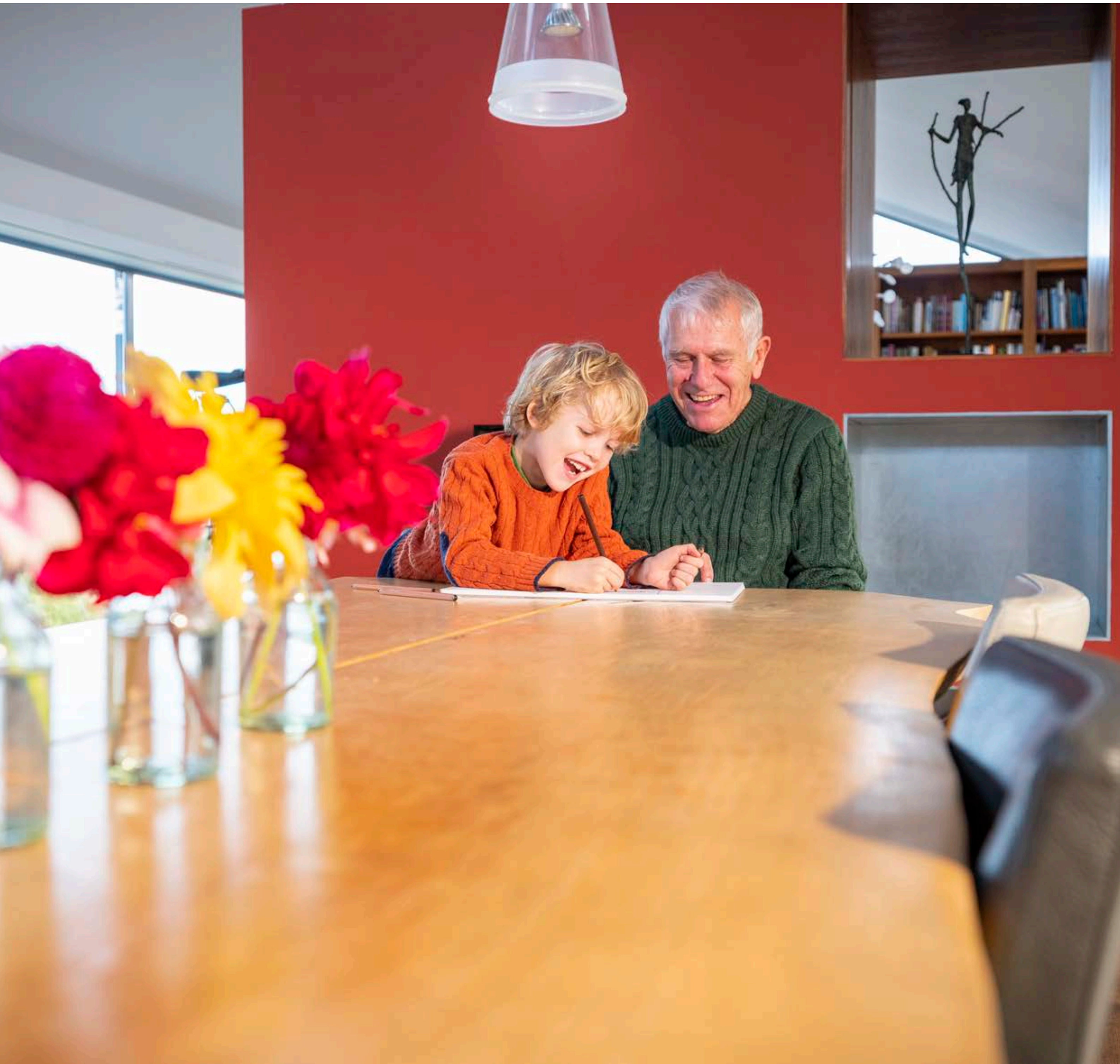
The Close Inheritance Tax Service

A Simple Solution to a Complex Problem

Close Brothers Asset Management



How deeply will Inheritance Tax cut into your legacy?

Inheritance Tax (IHT)[1] has been called the 'voluntary tax'. The Office for Budget Responsibility (OBR) expects IHT to raise £5.6 billion in 2021-22. Sound financial planning could divert much of this to loved ones instead of the tax man.

How does IHT work?
When someone dies, their estate is assessed for IHT. Everyone has a personal allowance of £325,000 (frozen until April 2026) – the 'nil rate band' – which is exempt from IHT. At its simplest, a 40% tax rate then applies on the amount by which your estate exceeds the nil rate band.

For an individual's estate worth £1 million, that means a potential tax bill of £270,000. If no action is taken, as little as 60% of your taxable estate could be passed to your loved ones – the rest could go to HM Revenue & Customs (HMRC).

That's the bad news. The good news is there are ways to shelter part of your estate from IHT. A simple and cost effective way is to invest in the Close Inheritance Tax Service (CITS).

Our simple solution
CITS is a specialist, discretionary investment management service designed to provide accelerated relief from IHT by investing in Business Property Relief (BPR) qualifying shares quoted on the Alternative Investment Market (AIM) and the Aquis Stock Exchange Growth Market (AQSE).

Key benefits
- Relief from IHT in as little as two years
- Clients keep control of (and access to) capital
- No complex or costly legal structures
- Eligible for ISA investment
- A client's power of attorney can choose this as an investment-based solution, provided this would be a suitable investment and in the best interests of the client

[1] Office for Budget Responsibility, March 2019.

How does CITS work?

The Service is based on a series of tax incentives called Business Property Relief (BPR).

If you buy shares in investments that fully qualify for BPR at least two years before death, and still hold those qualifying shares when you die, the money invested (and any growth) will not be subject to IHT[2].

BPR applies to qualifying shares that are bought and sold on the Alternative Investment Market (AIM) and the Aquis Stock Exchange Growth Market (AQSE). These are well-established markets, which allow smaller and emerging companies to raise capital.

How we invest
Our experienced Smaller Companies team aim to build a portfolio of profitable and well-managed companies, which they believe have the potential to generate good returns over two to five years.

When choosing companies to invest in, we consider a range of factors:

Financial structure

A strong financial position, visible earnings, robust cash flow and growing dividends.

Market position and customer base

A long trading history, blue chip customers, access to niche markets, strong brands and market leaders.

Other considerations

Strong management, under-researched companies and those uncorrelated to the performance of other assets.

[2] This is not a capital protection service and your capital is at risk.

What are the investment objectives?

- To achieve a beneficial tax status by capitalising on Business Property Relief (BPR)[3]
- To preserve capital[4] and achieve growth over the long-term within the context of BPR
- To diversify risk across sectors and geographies

How are the investments selected?

To meet the portfolio's objectives, we believe that individual holdings should meet the same criteria for any successful investment – high-quality, well-run companies with the potential to grow, available at an attractive price.

Our team evaluates AIM and AQSE listed companies to find the most promising opportunities. We then build a diversified portfolio typically consisting of 25-35 investments. This helps to reduce risk, while increasing the likelihood of more consistent returns.

What do I need to be aware of?

CITS could be suitable if you have £50,000 or more to invest, you want to retain access to your capital and are prepared to invest in higher-risk companies. It isn't suitable if you are planning to rely on your investment to provide an income – e.g. to help with living expenses.

We aim to reduce risk by creating diversified portfolios made up of well-managed companies. However, the value of your investment could rise or fall quite sharply, especially in the short-term. Your capital is not protected and you or your beneficiaries may get back less than you invested.

You should be aware that an investment in CITS carries substantial risk. There can be no assurance that the CITS investment objectives will be achieved and investment returns may vary substantially over time. CITS is only available through a qualified financial adviser.

Maximising the portfolio's efficiency

To achieve IHT relief for investors using BPR, all investments must be 'qualifying shares'. We ensure that individual holdings will be sold if they no longer qualify – for example, if they were to leave AIM or were taken over by a non-qualifying company.

Investments in smaller companies carry a higher risk than their larger peers. By constantly monitoring the operational performance of investee companies and wider market data, we seek to exit positions should we feel the risks of holding a stock for the full two year period outweighs the tax benefits. Any proceeds can be reinvested into replacement shares without the loss of the accrued holding period within three years.

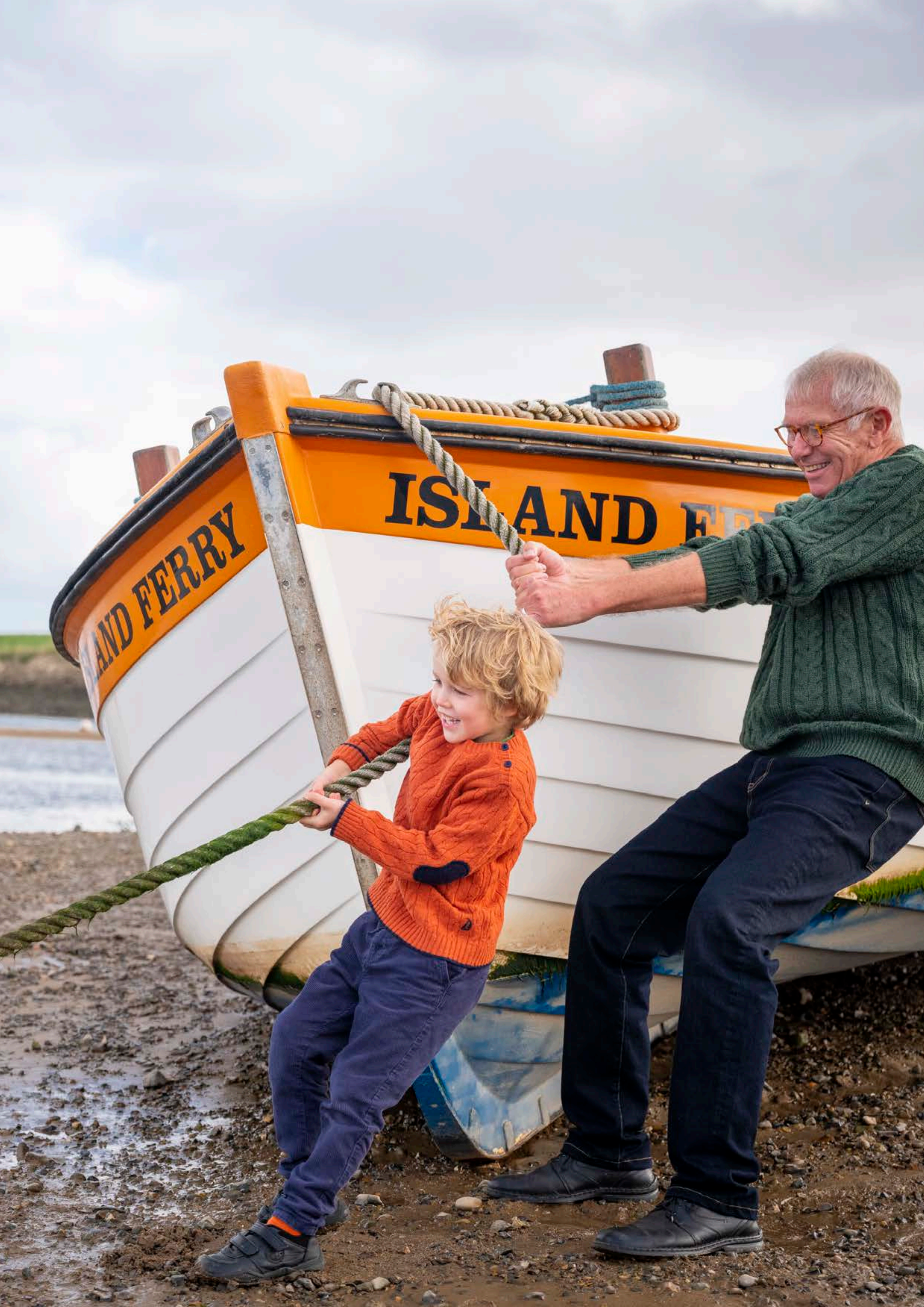
[3] A company that qualifies for BPR at the time of investment may cease to qualify for reasons outside our control at a later date, which means any tax benefits will be lost until the capital is reinvested in BPR qualifying company.

[4] This is not a capital protection service and your client's capital is at risk.

How much could CITS save you?
Assuming two individuals owned estates worth a total of £1 million each when they died, CITS can make a sizeable reduction to IHT payable on death.

This example is for illustration purposes only and does not include any assumptions on gains or losses made on any assets held. Any tax benefits realised will be dependent on individual circumstances. Tax rules can change in the future. Each person has a tax-free allowance of up to £175,000 to use against the value of their home, provided they leave it to their children or grandchildren. Both of these examples do not include this tax-free allowance, which is explained in more detail in the 'Your questions answered' section.

Investor A – without a CITS portfolio
House valued at £500,000
£100,000 in cash
£50,000 in other assets
£350,000 in stocks and shares
Total IHT payable on death (after personal allowance) – £270,000
IHT saving – £0
Investor B – with a CITS portfolio
House valued at £500,000
£100,000 in cash
£50,000 in other assets
£150,000 in stocks and shares
£200,000 in CITS (for more than two years)
Total IHT payable on death (after personal allowance) – £190,000
IHT saving – £80,000


ISLAND
FERRY

ISAs an even more tax-efficient way to invest

An Individual Savings Account (ISA) is a tax-free way to save or invest, helping your money work harder for you.

Many people do not realise that while ISAs are very tax-efficient, the investments they may have built up in ISAs will form part of their estate on death. This means that ISA assets could be subject to IHT at 40%.

Since August 2013, shares quoted on AIM and AQSE have been eligible to be held in an ISA.

You can transfer part or all of your existing ISA or open a new ISA when you choose to invest in CITS. This means you can receive even greater tax benefits, by sheltering your capital not only from IHT, but also from Income Tax and Capital Gains Tax.

No Stamp Duty
Investing in most AIM and AQSE quoted shares does not attract stamp duty – a further tax advantage.

Service information

Making withdrawals
As long as you leave at least £50,000 invested in CITS, you can make cash withdrawals at any time. These will usually be settled within 10 days of receiving the request. Where larger withdrawals (£50,000 or more) are being made, timescales may be longer due to the sometimes illiquid nature of the markets we invest in.

It is our understanding that any money withdrawn from CITS will fall back into you estate for IHT purposes. We therefore recommend that tax advice is sought before any action is taken.

Investing in 'series'
Generally, investors' subscriptions are collected and invested together within a new 'series'. A series is launched after the last business day of every alternate month (February, April, June, August, October and December). There is no minimum or maximum series size.

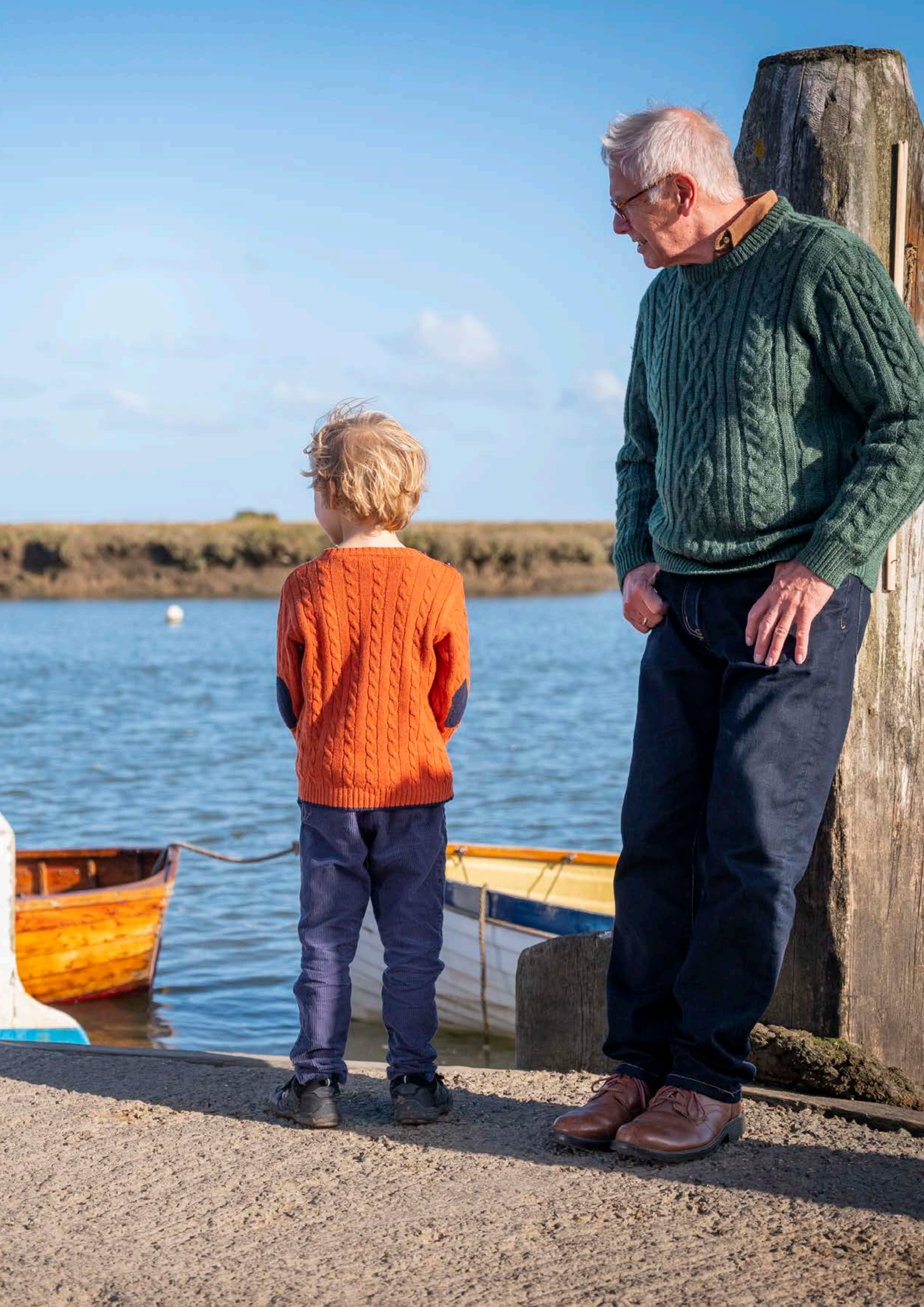
Timing of investments
We aim to invest funds as soon as possible, **but this process can take up to six months to complete**, depending on the availability of suitable investment opportunities and market conditions.

Cash held within CITS
Please note that uninvested cash held in portfolios does not qualify for BPR. We aim to keep portfolios fully invested where possible, although we keep small cash balances in order to cover ongoing fees.

Statements and valuations
Portfolio valuations and statements are sent quarterly. It is also possible to ask for an interim valuation, should you need one. A consolidated tax pack will be sent out for taxable portfolios each tax year.

These documents can also be viewed via our online portal. Please contact us if you would like access to the portal.

The custody arrangements for CITS
The assets are held by Close Asset Management Limited ('CAM'). CAM is authorised and regulated by the Financial Conduct Authority. Stock is registered in the name of Lion Nominees Limited ('Lion') for all portfolios established under the Service. Lion is a wholly owned subsidiary of CAM. It acts purely as a nominee company and has no other business. For further detail on this please refer to the Close Brothers Asset Management Terms and Conditions.



Your questions answered

Can I take an income?
We do not offer income payments from the Service. Your investments may generate an income, but this is typically used to cover the costs of running your portfolio and any advisers' fees. Any excess income will be reinvested over time.

What happens if I take money from my portfolio?
Should you choose to redeem any part of your portfolio, that portion will no longer qualify for BPR and will fall back into your estate for IHT purposes.

What happens if I die before my investment becomes exempt?
If your beneficiary is your spouse or a civil partner and the portfolio is left intact, the IHT benefits will pass to them and the investments will continue to work towards the two-year qualifying period. If the beneficiary is neither a spouse nor a civil partner, then the qualifying assets will not be exempt from IHT.

What does it cost?
CITS charges are kept clear and simple. At initial investment, there is a one-off administration charge of £250 plus VAT.

There is an annual management charge of 1.25% plus VAT (e.g. £1,250 + VAT for £100,000), and a dealing fee of 1% on the value of each transaction.

What about adviser charges?
This is subject to receipt of a signed adviser charging agreement. Close Brothers Asset Management will facilitate the collection of a client-approved adviser charge.

How does the IHT personal allowance work for couples?
The £325,000 personal allowance can be passed between married couples and civil partners. So if one person owned assets of £200,000, no IHT would apply on their death, and the remaining £125,000 of their personal allowance could be passed on to the surviving partner. Potentially, this means that up to £650,000 of the couple's total estate would be exempt from IHT when the second partner dies.

Each person has a tax-free allowance of up to £175,000 to use against the value of their home, provided they leave it to their children or grandchildren. This allowance can also be transferred to a spouse or civil partner if it isn't fully used on the first death. So in the 2021/22 tax year, a couple could leave up to £1 million to their beneficiaries (including family) without paying IHT. Estates worth more than this would still be subject to IHT at 40% and investing in CITS may be suitable.

Why choose US?
CITS is one of the longest running AIM-based IHT services on the market, and the Service has a successful track record. Since its launch in March 2001, it has proved effective in protecting clients' estates from IHT.

Backed by the strength of Close Brothers Asset Management, CITS benefits from the expertise of our highly experienced research analysts. As a firm, we are proud to have received several awards for reporting and client service (see page 17).

Please be aware that past performance is not a reliable indicator of future returns.

If I am acting as a power of attorney can I use CITS?
The Office of the Public Guardian makes it clear that express instruction should be given in the Lasting Power of Attorney (LPA) and Enduring Power of Attorney (EPA) to delegate investment decisions. We are unable to accept new clients into CITS who do not have the following wording (or similar) included in their LPA (or EPA if applicable).

We aim to invest funds as soon as possible, **but this process can take up to six months to complete**, depending on the availability of suitable investment opportunities and market conditions.

Attorneys must make decisions in the client's best interests. Part of this is taking into account what the client would have decided if they could make the decision themselves, and to consider their past and present values and wishes. It is recommended that the attorney seeks legal advice to ensure that there is no conflict of interest.

If you have an existing LPA or EPA in place, please check that it contains the above wording prior to submitting your CITS application.

"My attorney(s) may transfer my investments into a discretionary management scheme or, if I already had investments in a discretionary management scheme before I lost capacity to make financial decisions, I want the scheme to continue.

I understand in both cases that managers of the scheme will make decisions and my investments will be held in their name or the names of their nominees."

Next steps

Who can I contact for more information?
Please note, that we will only accept applications where a qualified financial adviser has assessed the suitability of the Service for your requirements. Please contact your usual adviser for further information about CITS.

How do I apply?
Please read the Close Brothers Asset Management Terms and Conditions before completing the application form and carefully read the risk warnings.

The CITS application form and the adviser charging agreement will need to be completed by you and your financial adviser.

Any monies we receive will be held in a designated client money account by us, segregated from accounts which hold our own money.

What's the deadline?
The Service is open for new subscriptions on any business day, however each series closes to further investment on the last working day of every other month (February, April, June, August, October and December). Applications must be received by this date to be included in the series. We reserve the right to close any series more frequently if necessary.

What happens after I apply?
We will acknowledge receipt of your funds and outline our expected timetable for commencing investment. Once we start investing, we will send out an initial valuation.

Giving you confidence through clarity

Who we are
In the complex world of finance, we deliver clarity and clear direction. Our expertise helps pinpoint what matters, guiding the decisions that will help you achieve your goals. So you can enjoy the peace of mind that comes from understanding and feeling understood.

We are one of the UK's largest and longest-established providers of high-quality investment services. We manage £15.3 billion on behalf of individuals, charities and institutions.

We are part of the Close Brothers Group, a FTSE 250 leading UK merchant banking group, providing lending, deposit taking, wealth management services, and stocks and shares trading. Established in 1878, our strategy focuses on developing long-term relationships through delivering high levels of client service and professional expertise to help the people and businesses of Britain thrive over the long-term.

Close Brothers Group

Established 1878

FTSE 250 Listed Company

3,000+ Employees

Close Brothers Asset Management

650+ Employees

80+ Investment Professionals

£15.3bn Assets Under Management

As at 31 July 2022

Award winning service

The Close Inheritance Tax Service is recognised as offering high levels of dedicated service and aiming for excellence in performance.

Growth Investor Awards

The Close Inheritance Tax Service won Best AIM Portfolio Service 2018.

The Close Inheritance Tax Service was a finalist for Best AIM Investment Manager 2017.

MJ Hudson Allenbridge

The Close Inheritance Tax Service successfully completed an independent review and a full due diligence research report was published by MJ Hudson Allenbridge on 01/06/2021.

MICAP

The Close Inheritance Tax Service is reviewed and verified by MICAP.

Past performance is not a reliable indicator of future returns.

We would be delighted to work with you

If you would like further information or to arrange an initial meeting, speak to your financial adviser.

closebrothersam.com

CBAM4113 ISA. March 2023.

Close Brothers
Asset Management