



ESP AiM Portfolio Service

An update to ISA rules due to come into effect in April 2018 has the capacity to save your clients thousands of pounds.

Additional Permitted Subscription allowance (APS)

Legislation introduced back in 2015 allowed ISA account holders to pass on their investment to a spouse tax free.

The rules state that for deaths on or after 4 December 2014, ISA holders can pass the entire value of their ISA to their spouse after death without an inheritance tax (IHT) liability.

What passes to the surviving spouse isn't the money in the ISA itself, but instead an additional ISA allowance – equal to whatever their spouse held in their ISAs at the time of their death. This is known as an **additional permitted subscription allowance**.

But importantly the valuation of the ISA was conducted on the day of death, this meant that any gains made by the investments between the date of death and the estate being wound up were liable to both income and capital gains tax in addition to IHT.

It also meant that asset growth between the two dates could not then be placed back into an ISA.

Continuing ISA

However from 6 April 2018 this is changing (subject to Royal Assent).

When an investor dies, their ISA will be reclassified as a “continuing account of deceased investor” or a “Continuing ISA”.

No money can be paid into it from this point, but it will continue to benefit from the tax advantages of an ISA, so growth inside the wrapper will remain tax free. This status lasts until either the administration of the estate is complete, the ISA is closed, or three years has passed since death — whichever is soonest. The surviving partner will also be able to put the entire amount back into their own ISA.

Currently the allowance that is transferred to the surviving spouse is equal to the value of the ISA on the date of death. The intention of this legislation is that from April 2018, the APS will normally be the value of cash or investments passed on, or the value of the ISA on the date of death – whichever is higher.

Investment Manager

Stellar Asset
Management Limited

Nominee

Pershing Nominees Limited

Custodian

Credo Capital plc

Tax Objective

IHT Relief after two
years

Investment Objective

Capital growth

Structure

Discretionary Portfolio

Initial fee

0.5%

Annual Management fee

0.75% (plus VAT)

Annual Administration fee

0.25% (plus VAT)

Dealing fee

1%

Minimum

£20,000 (ISA)

£40,000

Continued over

Important Information

Stellar Asset Management Limited, trading as Stellar, does not offer investment or tax advice or make recommendations regarding investments. Prospective investors should ensure that they read the brochure and fully understand the risk factors before making any investment decision. This document is dated **March 2018** and is exempt from section 21 of the Financial Services and Markets Act 2000 and is not required to be and has not been approved for the purposes of the section because it is only being communicated to selected Investment Professionals (as defined under article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005). If this document is forwarded to any other person, you must ensure that you have taken responsibility for the document under the financial promotions rules and identified yourself as the issuer. Stellar Asset Management Limited of Kendal House, 1 Conduit Street, London W1S 2XA is authorised and regulated by the Financial Conduct Authority.

STELLAR ASSET MANAGEMENT LIMITED

Kendal House, 1 Conduit Street, London W1S 2XA

t +44 (0)20 3195 3500

e enquiries@stellar-am.com

w www.stellar-am.com

Authorised and regulated by the Financial Conduct Authority (FCA) under No. 474710.



ESP AiM Portfolio Service

A current APS example

If Mr Smith (deceased) had a £1m ISA portfolio growing at 5 per cent a year and probate takes a year to be granted, his ISA could grow by £50,000.

This £50,000 of growth is exposed to both capital gains and inheritance tax.

When Mrs Smith tops up her own ISA using the additional permitted subscription she can only add £1m (the value on death) and her annual allowance of £20,000 (if she hasn't already used her allowance for the tax year).

This would mean that Mrs Smith was unable to transfer the full value of the ISA including the growth accrued while probate was processed.

With the proposed Continuing ISA rules

Mrs Smith is able to transfer the full value of her deceased husband's ISA into her own ISA using an additional permitted subscription once probate has been granted.

This hugely simplifies the tax rules and means that ISAs retain their tax efficiency even after an investor has died.

Inheritance tax

It is important to note that ISAs are only inheritance tax free when they are transferred to a spouse, as with all assets transferred to a surviving spouse.

ISAs are a tax efficient wrapper during an investors lifetime – with income and capital gains tax free growth – but on death they are far less tax efficient.

ISAs are fully liable to inheritance tax when passing to any beneficiary other than a surviving spouse, this is something that can be commonly overlooked.

However, ISAs holding Business Relief qualifying assets, such as AiM quoted companies, can benefit from full inheritance tax relief in addition to ISA wrapper benefits.

This means that ISAs can be passed to beneficiaries **entirely free from tax**.

Investment Manager

Stellar Asset Management Limited

Nominee

Pershing Nominees Limited

Custodian

Credo Capital plc

Tax Objective

IHT Relief after two years

Investment Objective

Capital growth

Structure

Discretionary Portfolio

Initial fee

0.5%

Annual Management fee

0.75% (plus VAT)

Annual Administration fee

0.25% (plus VAT)

Dealing fee

1%

Minimum

£20,000 (ISA)

£40,000

Important Information

Stellar Asset Management Limited, trading as Stellar, does not offer investment or tax advice or make recommendations regarding investments. Prospective investors should ensure that they read the brochure and fully understand the risk factors before making any investment decision. This document is dated **March 2018** and is exempt from section 21 of the Financial Services and Markets Act 2000 and is not required to be and has not been approved for the purposes of the section because it is only being communicated to selected Investment Professionals (as defined under article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005). If this document is forwarded to any other person, you must ensure that you have taken responsibility for the document under the financial promotions rules and identified yourself as the issuer. Stellar Asset Management Limited of Kendal House, 1 Conduit Street, London W1S 2XA is authorised and regulated by the Financial Conduct Authority.

STELLAR ASSET MANAGEMENT LIMITED

Kendal House, 1 Conduit Street, London W1S 2XA

t +44 (0)20 3195 3500

e enquiries@stellar-am.com

w www.stellar-am.com

Authorised and regulated by the Financial Conduct Authority (FCA) under No. 474710.