Additional Personal Subscription (APS) Allowance

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

Additional Permitted Subscription allowance

Legislation introduced 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 (APS) allowance.**

Importantly, the valuation of the ISA was conducted on the date 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, this changed on 6 April 2018.

Now, 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.

The intention of this legislation is that effective 6 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.

Continued over

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STELLAR

ESP AiM Portfolio Service

Additional Personal Subscription (APS) Allowance

Pre April 2015 APS example

If Mr Smith (deceased) had a £1m ISA portfolio growing at 5% 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 APS she could only add £1m (the value on death) and her annual allowance of £20,000 (if she hadn't already used her allowance for the tax year).

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

With the current Continuing ISA rules

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

If her husband died before 6 April 2018, the APS allowance would be calculated based on the value of his ISA as of date of death.

If he died on or after 6 April 2018, the APS allowance could be one of two values: either the value of Mr Smith's ISA as of date of death, or the value of his ISA when it is closed and stops being a Continuing ISA. This is subject to a cut-off of three years after the date of death.

This 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 investor's 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
ISA £20,000
GIA £40,000

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