

A NEW ERA FOR ESTATE PLANNING

Stellar Asset Management is offering financial advisers the chance to build a family office solution for their clients with its new estate planning service, Stellar ICENI.

Advisers can turn their businesses into family offices with the help of a new planning service, Stellar ICENI, that provides in-depth investment services to clients and allows them to tap into a rich seam of inter-generational tax planning.

Stellar Asset Management is best known to advisers for its specialist estate planning services, including its Stellar AIM Portfolio Service, Stellar Income Portfolio Service, Stellar Growth Portfolio Service and Stellar Business Service that provide tax-efficient investments using the premise of 'business relief' (BR) to allow investments to become inheritance tax (IHT) exempt after two years.

Stellar recently expanded its service to fill the 'huge gaps' in the estate planning services being offered to clients.

Estate planning is more than just reducing an IHT bill, it often involves the need for power of attorney, specialist tax advisers, probate services, and advice for family members who have been bequeathed sums of money.

Stellar's Business Development Director Matthew Steiner said the company and its directors have been creating and managing services that qualify for BR for 20 years, which is a preferable way to tax plan for IHT

as gifting money or using trusts means the person gifting the money needs to survive for seven years before it is exempt from IHT.

Over the last five years, Steiner says he had seen 'massive changes in the way these services are used' as a 'legitimate financial planning tool' rather than a quick-fix investment 'for the death bed' in order to remove capital from an estate.

'It's not just older clients that advisers are using us for,' says Steiner. 'They are starting to split out their services, and we have AIM portfolio, Growth portfolio, and Income portfolios. We also have a single company portfolio that turns the investors into a shareholder in a qualifying business.'

As well as thinking about IHT planning earlier, advisers are also thinking about where else they can help their clients plan around death.

'High-net-worth investors need tax advice, and business owners need tax advice. If you do not have a power of attorney in place or a will, it will undermine the whole rationale for financial planning in the first place,' says Steiner.

This is where the new Stellar ICENI Service is aiming to fill the gaps, by providing advisers with access to specialists that will enable fuller financial planning for their clients.

Stellar ICENI offers tax advice from Obsidian, legal services, and estate administration from Kings Court Trust through its new service, as well as its own investment solutions.

Advisers can choose the levels of involvement they have with each of the partners, adding to the services as and when they are needed. It may be that advisers start with an investment solution from Stellar and then involve the legal services and tax service at a later date, then finally the estate administration.

'The service can be matched to the needs of the underlying client,' says Steiner. 'Maybe they need to think about power of attorney, maybe they have a big IHT liability. It could be that they only take legal advice. We have a lot of interest in the tax advice partners for clients who have businesses, overseas properties, or complex tax affairs.'

'They may be looking for an interpretation of the law in a specific area.'

While advisers will be familiar with the work of legal and tax specialists, estate administration may be a new area for them. Steiner describes it as a 'concierge service for grief'.

'You have probate but administration is a third of the cost of a solicitor and they will sort everything out: the transfer of utilities at a property, they will even get someone to mow the lawn of a property so it is easier to sell... A solicitor oversees the probate but is not skilled in being a financial detective and hunting down every aspect of a person's finances. However, estate administrators will, and they will take care of everything.'

All of these additional services mean 'financial advisers are confident they can offer the highest level of service and give their clients the best outcome,' says Steiner.

'It's a family office solution for many firms,' says Steiner.

'For some advisers who work for larger firms, Stellar ICENI may not be the right thing because they may already have the infrastructure to deal with it, but if you are a small or medium-sized business where you do not have the infrastructure of larger firms, you can call on the partners to facilitate the services.'

By offering clients a holistic service, advisers will be able to take better advantage of what Steiner calls the 'largest transfer of wealth in 30 years', as the baby boomers pass down their accumulated wealth to their children.

'If you are a really good financial planner, you spend your life optimising your clients' financial position and you want to continue doing that for the next generation and become the architect for the next of kin - that is a great business model for an advice firm,' says Steiner.

He says Stellar ICENI has shaped the partners service proposition as an 'inter-generational wealth transfer', which puts advisers 'in a strong position'.

'The other big benefit is helping financial advisers to develop and identify not just the next generation of clients but other members of the family that are important - the executors of the estate, family who will inherit money, friends that will inherit, who has power of attorney,' he says.

'If the adviser is able to build a strong picture of the family and the other key people, they have a better chance when the money is transferred to the next generation to retain the investment.'

Steiner says after the death of a client, the 'vast majority' of money leaves a financial adviser - around 90% of assets are lost, and two-thirds of spousal benefits leaves advisers' control.

Stellar ICENI creates a 'collaborative service' that 'keeps clients at the centre of the advice process' and not only allows advisers to retain the next generation of business but gain reciprocal work through the other partners.

'The adviser works in a connected way with other partners,' says Steiner. 'The tax advisers will be making sure the financial adviser is in the loop all the time.'

In order to explain the proposition to advisers and help them explain it to their clients in turn, Stellar ICENI is developing a toolkit to provide introductory letters to accountancy firms, and regular seminars and workshops with the specialist partners.

Education is key for both advisers and clients and Stellar wants to expand adviser knowledge of tax-efficient

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investment solutions. Advisers may be more aware of the benefits of EIS and VCT, the latter of which raised a record sum of £728 million in the 2017/18 tax year, the highest amount raised at the current level of 30% upfront tax relief. However, less is known about BR.

Steiner says that VCTs and EIS require clients to invest in small companies and 'put their investment capital at risk to get upfront tax relief'.

'You are going to have some people switch off from this,' says Steiner. 'You cannot just get tax relief for the relief's sake.'

'Business relief acts like a much wider investment. It is asset-backed with physical assets that do not have the same risk profile. A lot of the education we do is encouraging financial advisers to separate EIS and VCT from BR because it's not the same.'

Steiner adds that the portfolios with single companies that make clients the only shareholder provide a bespoke arrangement designed for each client's needs. 'The rules from HMRC in BR qualifying activities are clear and our structures are robust and stand up to scrutiny.'

'With single company portfolios, clients become shareholders in companies and undertake qualifying business actions and then they get the tax relief in two years. We are a nation of shopkeepers; there are investments in UK forestry, hotels, and residential property developments.'

Steiner says the investment that BR provides for British business is 'great in light of Brexit' and in terms of investing, Stellar 'knows a lot of sectors very well'.

'We have the widest range of physical asset choices in the industry,' he says. 'Whether that's hotels in

Scotland, residential developments, renewables, or construction finance.'

Steiner maintains that the Stellar portfolios provide a great way for advisers to add diversification to their clients' portfolios as well as gaining valuable tax reliefs. The AIM Portfolio Service, which is available on platforms such as Transact and Standard Life, is well diversified, holding an average of 40 companies in the funds compared to the industry average of 25.

'We are steady and cautious and will diversify, and we have been doing this for over 20 years,' he says.

While EIS has been under the microscope in recent year and Steiner believes much of this is to do with the upfront tax relief received, the tax reliefs are different around BR as it is only offered on the death of the investor as long as they have held the investment for at least two years, with no upfront reliefs and no 'advanced assurance' that they will qualify, as with EIS.

'The client is assessed for BR on their estate on death and you cannot get any advanced assurance,' says Steiner.

Stellar ICENI is aiming to take advisers into a new realm of financial planning, not only using BR but with its estate planning service.

'We do not think there is any such thing as IHT planning,' says Steiner. 'You create an estate plan to pass money down to the next generation. It is a reallocation of capital into into something more tax efficient.'

'Death and wills scare people - we are adjusting a portfolio and re-allocating assets to protect wealth.' 

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