Act in haste, repent in displeasure?

Two dates loom large in the diary: the Autumn budget (26 November) and the new tax year, when changes to Business Relief (BR) come into effect. With BR on AIM shares set to half from 6 April 2026 onwards, some clients and advisers have, or are, viewing a switch from AIM into qualifying asset backed schemes as almost a “no brainer”.

Turn over to continue reading

The prima facie case to do so appears compelling; retain zero IHT liability on qualifying assets (up to £1m) or face a 20% tax hit. To us, this is a non sequitur and, by acting too hastily, may actually lead to a potentially worse outcome than maintaining the status quo.

To explain, we first summarise previously communicated arguments in favour of the Stellar AIM IHT service, and AIM shares more generally, as part of a wider inheritance tax planning solution:

- **Size is the enemy of returns**
- **Strong value proposition**
- **Once in a generation value to be found in UK small-cap stocks**
- **The "great rotation" from the US to the Rest of World**
- **50% BR is still attractive**
- **Unchanged attractions**
- **Crowding in capital**
- **Tax change risk**

1. Size is the enemy of returns

We have much greater flexibility to invest across the whole AIM market than larger AIM IHT peers, which has delivered significant relative outperformance, as explored **here**.

3. Once in a generation value to be found in UK small-cap stocks

Risk is primarily a function of price, and lowly valuations today should help to deliver attractive uncapped returns in the future.

2. Strong value proposition

Stellar's AIM IHT service offers compelling value for money, particularly relative to larger AIM providers' fees, as well as most asset backed schemes.

4. The “great rotation” from the US to the Rest of World

The so called ‘magnificent seven’ stocks in the US present extreme levels of index concentration risk, concomitant with, we believe, a gross misallocation of capital into AI. The smart money is already moving on with the UK stock market a notable beneficiary from overseas investors’ capital this year (*Source: Schroders Equity Lens August 2025*).

5. 50% BR is still attractive

We only need to grow investors’ capital at c. 8% per annum over the next 3 years (*£100 x (1.08)[3] = £125.97 – 20% IHT = £100.78 (close enough!)*), to put them back in the same position they were before the tax rule change.

[3]This is based on a 2% dividend yield and 10% forecast dividend growth (2% +10% = 12%). Should valuations re-rate back to their long-term average, this would add c. 3% p.a. to returns over a 10 year period (12% + 3% = 15%).

6. Unchanged attractions

AIM shares will continue to offer flexibility, transparency, and liquidity while clients retain total control over assets at all times.

7. Crowding in capital

There are a multitude of initiatives across various stakeholders including the London Stock Exchange, FCA, and government to encourage fund flows back into UK equities.

Whether these come from ISA and/or pension rule changes that encourage (or outright mandate) a domestic bias, the effect on prices would be significant. When attractive fundamentals align with fund inflows, good things tend to happen.

8. Tax change risk

By switching from AIM into asset backed, there is the real risk of transferring a more known tax risk for an unknown one. Any sort of levelling up between AIM and asset backed (something we are lobbying for) could see liquidity severely tested.

While this liquidity profile will be suitable for certain clients, it likely won't be for all, and the more money that is invested into such schemes the more likely the government will review matters (yet again). Indeed, Citywire recently highlighted that the Treasury is considering equalising the tax treatment between asset backed and AIM, as reported **here**.

Returns considerations

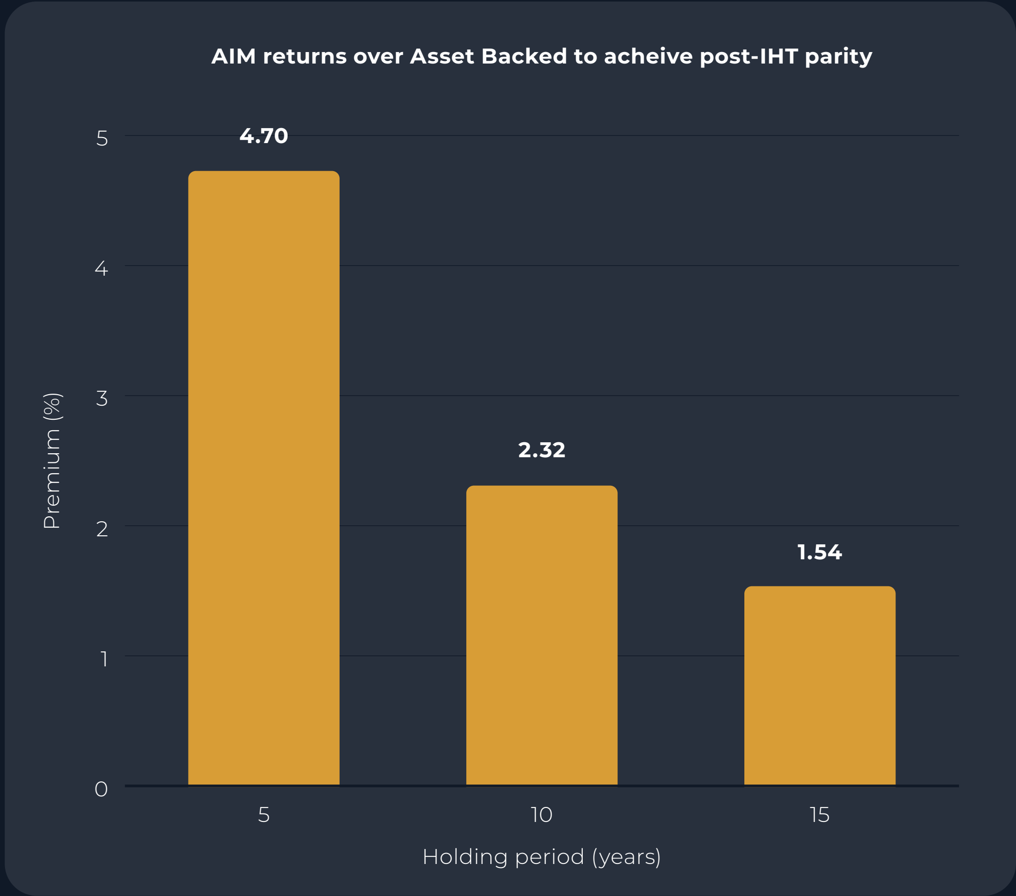
Clearly the situation is a fluid one, and we will have to wait until the Budget for more certainty. We do, however, want to highlight the importance of assimilating returns expectations into the decision-making process.

We believe recent historical returns have been creditable, at an annualised **5.4%** over the last 5 years (to 30 Jun '25), given myriad headwinds including Brexit (sentiment overhang), Covid, Ukraine, Inflation, Interest Rates, and Trump/Tariffs. These, as well as US exceptionalism and structural selling of UK equities, have conspired to act as a major drag on valuations offsetting intervening earnings/dividend growth.

That has left valuations at a steep discount to their long-term average, and with a more conducive backdrop, devoid of as many exogenous shocks, we believe the service could deliver long-term compound annual returns of between **12%-15%***. Such on outturn would see AIM significantly outperform most, if not all, asset backed equivalents even net of 20% tax.

To complete the analysis we look at various breakeven return rates over 5, 10, and 15 years. Here we calculate the required return premium AIM must deliver to provide an identical post-tax return versus a hypothetical asset backed scheme that returns 3% per annum. The results to the right show the required premium as relatively modest, becoming ever more so as the holding period is extended.

For example, to deliver an identical return to our hypothetical asset backed comparator, AIM would need to grow by only **2.32%** more p.a. (5.32% in total) over 10 years. This assumes an ending 20% IHT tax for the AIM investment and nil IHT tax on asset backed investment.



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Summary

What’s past is prologue, and today’s setup is particularly favourable for those investors able to look through the near-term noise. Volatility is the necessary table-stakes to enjoy outsized returns. We are bullish on the absolute return potential of the service, with an abundance of world-leading, quality businesses, with strong balance sheets trading at too cheap a price relative to their earnings power. The opportunity cost of switching into asset backed schemes typically targeting, but not always delivering, a modest 3% annualised return may therefore turn out to be a high one, especially should the relative tax treatments be equalised.