ADVISER ROUNDTABLE

VIEW FROM ADVISERS

MODERATOR: JOHN SCHAFFER INTELLIGENT PARTNERSHIP

ATTENDEES

JOHN SCHAFFER
INTELLIGENT PARTNERSHIP

ANDREW TUSTIN (AT)
PARTNERS WEALTH MANAGEMENT

CARL HANSON (CH)
SANLAM

JEREMY GOODMAN (JG)
OCULUS WEALTH

JOHN CUNLIFFE (JC)
EDISON CONSULTING

WESLEY HARRISON (WH)
INVESTEC

WHAT IS YOUR PREFERRED ESTATE PLANNING SOLUTION? HOW HEAVILY IS BR INTEGRATED INTO YOUR CLIENTS' STRATEGIES?

WH: We don't have a preferred solution but review what might be suitable based on individual client circumstances and objectives. For example, if capital preservation is key then an asset-backed or lending BR solution might be appropriate, whereas if we are using BR for a small proportion of a client's assets or they have the capacity to accept a greater level of risk, then an AIM solution might be more suitable.

For those clients with IHT issues, high incomes and/or CGT liabilities, we might also look at Enterprise Investment Scheme (EIS) as a possible option, though we don't look at EIS as a pure BR solution but part of wider tax planning. BR on EIS is usually an added extra in these circumstances.

We do not go out of our way to integrate BR into client strategies, but will always consider it as an option for clients with significant assets or in advancing years where they have done little estate planning.

JC: We tend to use BR for people in our client bank who are a little bit older, and for clients who want to retain access to the funds. We're in a relatively fortunate position, our client base is quite wealthy, so a lot of our clients are happy to forego the access. In that case, we'd look to use discretionary trusts. BR is getting more and more integrated, but we tend to explore other things prior to using it.

JG: We don't have a preferred solution. It could be a trust, it could be BR, it really depends on the parameters of the client setting.

BR comes into play where clients may have done trust planning in the past, but are particularly concerned about losing access to the capital or income. As clients move into later life, care costs are the one thing that they continually worry about. So placing money beyond their reach in a trust gives them that feeling of insecurity.

AT: BR is a topic I raise with all clients. It's rare that clients within five years of retirement do nothing to plan for succession planning and managing IHT.

Most people are a bit sceptical. Unless they're entrepreneurs themselves, then obviously they know full well what BR is about. But the average high net worth client who isn't a business owner in their own right, their knowledge of BR is pretty limited.

DOES THE INTRODUCTION OF THE RNRB AFFECT HOW YOU ADVISE ON BR?

CH: Only if they've got substantial estates, which is not always the case. A lot of clients are certainly pleased that it's been introduced. In terms of the effect on using a BR solution, I wouldn't say it's changed too much how I advise the clients.

WH: Other than advising clients that mistakenly think BR helps to reduce the value of the estate for the purposes of calculating the RNRB, this has not had much bearing.

JC: No, because the clients we're looking at are far over the threshold of the RNRB, so it hasn't affected us so far.

AT: Almost no impact. My clients tend to have significant IHT liabilities so it has a marginal impact, albeit a positive one.

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The RNRB is nice to have, and it's a positive step, but the reality is that it doesn't make a big difference for clients. It only really affects people who are right on the cusp as to whether there's enough tax to make them think about doing further estate planning. The RNRB gives them an extra couple of thousand pounds of allowance, which means they can put off doing something for a year or two until they really have to.

I've had clients where they have a family home that's worth the best part of £1m. Especially if they're inside London, that's not that difficult any longer. They may have wealth built up in their ISAs over the years, or they've had a living inheritance from a parent who's released a chunk of money from their death, so they find themselves in a situation where they've got a property that's pushing the million-pound envelope, but they could easily find themselves with £500,000 in addition to that outside of their pensions.

All of a sudden, they're starting to realise that they don't necessarily think of themselves as being high net worth in any shape or form, but when you sit them down and say, on paper, if you were to die tomorrow, this is what your total worth is. After allowances and deductions, this is how much potential IHT liability you have.

WHAT LEVEL OF KNOWLEDGE DO YOUR CLIENTS HAVE OF BR?

CH: Its very much an educational piece to explain BR to clients. Most aren't aware of it, and more often than not, it's a solution that they become very interested in, and quite often take forward.

WH: It varies enormously, especially between clients that are more engaged during the initial discussion and those that are not. Before investing in BR for a client, we always ensure that they fully understand how it differs from a more conventional investment portfolio, and the consequences of the reliefs that BR offers as far as the income that the investment generates and the two-year qualifying period.

HOW DO YOUR CLIENTS VIEW THE RISK PROFILE OF BR?

AT: BR may be viewed by the regulators as being a high risk product, but the chances of you walking away with a significant reduction in the value of your investment are relatively slim, if you choose the right asset-rich structures. There's also the 40% buffer in terms of the tax that would be applied.

It's about getting clients to understand that although we may rate something as a high-risk solution, because it's very concentrated in a very small number of companies, when you look at the makeup of the underlying companies, you can take a big sigh and relax a little bit.

The companies in the BR world tend not to be young start-up companies with instability, they tend to be more established businesses with a good track record in the space that they operate within. It would be beneficial if we were able to clarify that differentiation between the companies within the different providers.

HOW HAS YOUR EXPERIENCE OF USING BR BEEN? HAVE YOU HAD TO MAKE ANY CLAIMS FOR CLIENTS YET?

JC: The couple of clients that died unfortunately hadn't completed the two years, but BR provides quite a compelling investment story anyway. But the experience has been good. Firms we deal with are up-front about the way things work, so no bad experiences as yet.

AT: It's done exactly what it said on the label. It was simple, it was easy, and it was processed in a timely fashion. The biggest challenge was dealing with the lawyers of the estates, who were acting as co-executors, and getting them to get their act together. The reality was, it did exactly what I expected to do and it gave me a lot of confidence in the product provider. So yes, I've had a positive experience.

WHAT DO YOU LOOK FOR IN A BR PROVIDER?

CH: They have to have a long track record of performance and client experience. It's no good having a scheme which isn't effective the other end when clients pass away.

WH: Transparency of process, uncomplicated fee structure, past performance history, financial strength plus a good management team in place. Good customer service is a must and being able to resolve issues, quickly and efficiently.

JC: Transparency is key for us. Transparency in terms of cost, who's paying what, what the annual management charges are, how they're charged. A lot of companies don't charge the underlying companies, so we want to see through the whole thing.

Liquidity, that's really key for us as well. All providers will tell you they've got a great ability to provide liquidity, but the test will come when the markets start to fall, which inevitably happens. And track record is key to us.

AT: Clients don't want to end up going into a care home, dying after two years and effectively just handing a big chunk of money to the tax man. It's about balancing off the liquidity needs for a client in the scenarios where they may

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need to get that money back, but equally allow them to benefit from the exemption rules that apply through BR.

HOW WOULD YOU LIKE TO SEE BR PROVIDERS' SERVICE IMPROVE?

CH: They need to extend their profile to the general public. 90% of the clients that I speak to have never heard of BR.

JG: I still think BR providers are enormously expensive. I appreciate there are more moving parts than some of the other investments we deal with, but they are very costly. I also think that the accessibility of websites for BR investment is not great. if I were to press a button and say, how much is that worth today, even if it was only valued once a week... It's very difficult to find that, so I think accessibility digitally would be a major improvement.

WH: Better access to data on individual clients, as can be found on many platforms and large insurance providers. For instance, the ability to 'log-in' and see a complete list of information/ performance data of clients with that BR provider.

AT: Cut costs. The investment is not there just to generate a tax benefit and wash its face in respect of the providers' charges. Clients want to see a real investment return. There also need to be investment solutions that compliance can view as low/medium risk, as it can be seen as a high risk solution and offputting to clients and advisers.

Where clients are doing BR for pure tax reasons, and not doing it as an investment, I feel uncomfortable with that. There has to be genuine risk. There has to be potential uplift or return for the client for their stake in the underlying companies. It shouldn't just be about IHT planning. This should be seen as an investment with an expected return proportionate to the risk you're taking, rather than something that gives slightly better returns than cash – but is effectively more of a cash cow for the product providers.

WHAT ARE YOUR THOUGHTS ABOUT THE FUTURE OF BR?

CH: As long as legislation doesn't change, there will be a continuing market for BR. With IHT bandings being closed, the demand is certainly going to be here for the short to medium term.

WH: Depending on the regulatory and political environment, I think it will be a sector that grows in stature and has a bright future as BR planning becomes more accepted and mainstream among private clients.

JG: My major concern is surrounding HMRC. We know already that there's no guarantee that BR is going to be applied on death, it's on a case by case basis when it's actually applied.

I also wonder whether the perception of wealthy individuals benefiting from something which is probably the rules being tweaked or pushed to the extreme is palatable in the current market with tax. You wonder whether there may be some tweaking of the rules which may impact on the sort of investments that can go into BR – so removing the stability of renewable energy and the like. That's my real worry, that there may be some change in the rules that has an effect on some of the claims that may occur.

However, using BR has always been a very positive move for us. Clients like it because of the accessibility and the diversification. The IHT mitigation is a benefit for something they probably would invest in anyway.

AT: Given the positive changes with flexi drawdown and succession planning with pensions, BR should be seen as one of the go to solutions in the future and be more widely accepted.

BR is here to stay, but I think the regulator and HMRC have a part to play in how these companies operate and to ensure that they're transparent. People need to be able to see exactly what's going on underneath, that products are not run as cash cows for the providers, but that clients are being rewarded for the risks they take. I don't necessarily think that a lot of the reward that comes out of these products is matched with the level of risk that's being taken.