BPR CASE STUDY

HOW BPR WORKS IN PRACTICE

SCENARIO

Consider the case of Iris, who is a widow aged 89. She has an estate of £900,000, comprising £500,000 real estate assets and £400,000 of securities (some held in ISAs), cash and other assets (see table). Iris has three properties with respective market values of £200,000, £120,000 and £180,000. The first property has always been held as buy-to-let. She lived in the latter two in the past and is currently residing in the second property (worth £120,000).

Iris realises the potential IHT liability could levy an unnecessary financial burden on her heirs when she dies, so she decides to seek professional advice from a financial adviser. She tells the adviser that she does not have any estate planning in place and her objective is to eliminate her IHT liability completely.

She has inherited her deceased husband's Nil Rate Band and therefore has £650,000 of NRB available. In addition, from 6 April 2017, she also qualifies for the new Residence Nil Rate Band. Because the RNRB can be transferred to the surviving spouse regardless of when the first of the couple died, her total RNRB available is £200,000.

However, as the RNRB can only be applied to a property that the deceased lived in at some stage before death, she cannot use the allowance on her buy-to-let property. The personal representative can choose which property to apply the band on (the band can only be applied on one property). In this case, a logical choice is to nominate the third property for the purpose of RNRB as a greater portion of the allowance can be utilised.

Iris can **gift** away her taxable estate and, since she has not made any gifts before, her unused annual exemption from the preceding year can be transferred to the current tax year. This means that she would have £6,000 tax free gifting allowance and the rest will be taxed on a sliding scale depending on the number of years between gifting date and death — her taxable estate will only become free from tax after seven years. Given Iris' age, gifting is clearly a risky choice as it requires her to live for another 7 years to achieve her objective.

Setting up a **trust** can be expensive and complex and often involves a high volume of paperwork. The amount of Iris' taxable estate is relatively small (less than £100,000), and the total IHT payable is only £28,000. Therefore, the benefits from setting up a trust may not offset the associated costs.

Iris' adviser suggests investing all the taxable estate — £70,000 — into **BPR** qualifying investments. After holding the investments for two years this portion of her estate will be free from IHT.

In addition, at her present age, the probability of living for another two years is higher than living for seven more years, making it a more suitable option than gifting in terms of timing and retaining access to her assets. Although Iris has no previous experience with estate planning, BPR's simple structure makes her feel comfortable that she understands what will happen to her money after an investment is made. She is also happy about the fact that she doesn't lose control of her wealth and can liquidate the investment should her circumstances change.

Her adviser tells her that despite its benefits, BPR qualifying investments are inevitably more risky than conventional solutions. However, as the average minimum subscription has been falling over the recent years, Iris can invest with more than one BPR provider to provide an extra layer of diversification and hence further mitigate risk.

Iris likes the idea but she tells her adviser that there is only £50,000 cash available in her portfolio and she doesn't want to sell any of her tangible assets because of her emotional attachment to them. After further investigation into her portfolio, the adviser finds Iris hold several Stock & Share ISAs with different providers. The adviser tells her that she can transfer her Stock & Share ISAs to BPR qualifying AIM ISA provider. This means she can keep all the ISA benefits on her existing ISA holdings and remove the assets from her estate after holding the new BPR qualifying AIM ISA for two years.

After considering the adviser's recommendation, Iris decides to invest in BPR qualifying investments.

ASSET CLASS	WITHOUT BPR	WITH BPR
RESIDENTIAL PROPERTY	£300,000	£300,000
BUY-TO-LET PROPERTY	£200,000	£200,000
SECURITIES	£300,000	£280,000
CASH	£50,000	£0
OTHER ASSETS	£50,000	£50,000
TOTAL ESTATE	£900,000	£900,000
RESIDENCE NIL RATE BAND AVAILABLE	£180,000	£180,000
NIL RATE BAND AVAILABLE	£650,000	£650,000
BPR QUALIFYING INVESTMENTS	£0	£70,000
TOTAL ALLOWANCE	£830,000	£900,000
TAXABLE ESTATE	£70,000	£0
IHT PAYABLE	£28,000	£0
RESIDUAL ESTATE	£872,000	£900,000