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- TRUSTS -



SOTERIA BUSINESS RELIEF TRUST ACCOUNT TECHNICAL & OPERATIONAL GUIDE



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WHAT IS BUSINESS RELIEF?

Business Relief (BR), formerly Business Property Relief (BPR), is an important but less well known relief from Inheritance Tax (IHT). BR allows you to claim relief on relevant business property assets that you own once those assets have been held for a minimum of two years.

This time period compares favourably with exemptions under other forms of IHT planning such as gifts and transfers to discretionary trusts, which take seven years to complete.

BR planning is typically done in your own name and therefore there is no loss of control over the assets you have built up over many years.

What constitutes relevant Business Property and the Relief available?

- A business or an interest in a business (100% relief)
- Unlisted shares including shares that are quoted on AIM (100% relief)
- A holding of shares or securities that give you control of a company that are fully listed on a recognised stock exchange (50% relief)
- Any land, buildings, machinery or plant used wholly or mainly for the purposes of the business carried on by a company or partnership (50% relief)
- Any land, buildings, machinery or plant used in the business and held in trust that you have the right to benefit from (50% relief)
- The business has to be carried on by the relevant person, or the company or partnership carrying on the relevant business has to be controlled by the relevant person.
- An investment in an Enterprise Investment Scheme (EIS) can also obtain relief from IHT under BR. The investor would benefit from the relief after holding the EIS investment for at least two years providing the scheme meets the BR trading criteria. An EIS also offers generous income tax and capital gains tax relief to investors.

BR is not available in respect of business that:

- Is not carried on for gain (i.e. not for profit or not on a commercial basis)
- Is engaged wholly or mainly in dealing in securities, stocks or shares, land or buildings or in the making or holding of investments
- Is being sold, unless the sale is to a company that will carry on the business and the estate will be paid mainly in shares of that company
- Is being wound up, unless this is part of a process to allow the business to carry on



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OBTAINING THE RELIEF

In considering whether the business is wholly or mainly engaged to obtain the relief unfortunately no strict test applies. Before granting the relief HMRC will consider a number of factors including:

- The overall context of the business
- The activities over a number of years
- The turnover and profitability of all the different activities
- The activities of the employees and how time is spent
- The acreage or size of business units used
- The capital values of land and property
- The level of cash in the business

If IHT is due and the business property is not covered by 100% BR, you will be able to pay the tax by instalments on:

- certain shares and securities
- the net value of a business or an interest in a business, including a profession or vocation, carried on for gain (this does not include individual assets of a business, which are distinct from the business as a whole).

Qualifying Rules

- Money must be invested in relevant business property for two years to qualify
- Any relevant business property sold from the portfolio must be replaced within three years
- The relevant business property must be held at the date of death for full relief from IHT.

What are the conditions for Replacement Property within Business Relief?

- Where the original relevant business property was disposed of before the transferor's death and the proceeds were used to buy replacement business property, the relief is not necessarily lost.
- In order to still qualify for relief, the whole of the sale proceeds must have been used to purchase the replacement business property, and both the sale and purchase must have been arm's length transactions taking place within three years of each other.



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- The replacement property must also be of such a nature that, if it was transferred by the transferee immediately before the death of the transferor, it would, apart from the minimum period of ownership requirement, qualify for relief.

What is Business Asset Rollover Relief?

Business Asset Rollover Relief enables someone to defer any Capital Gains Tax liability arising from the disposal of a business or trading asset. If the proceeds are used to acquire other assets costing the same as, or more than, the amount received on a disposal of the old assets, the relief allows the individual to postpone paying tax until the disposal of those new assets. If new assets are acquired for less than the amount received on the disposal of the old assets, partial relief will be available.

You must acquire the new assets or enter into an unconditional contract for the acquisition of the new assets, in the period twelve months before, and three years after the disposal of the old assets.

WHY UTILISE BUSINESS RELIEF?

Access and Control

The owner retains access to their investment which is made in their own name. The holdings can be changed and clients can withdraw their money. However, it should be noted that any withdrawals will form part of the estate and be liable to IHT.

Timing

Once the investment has been held for two years the capital and any profits will obtain 100% relief from IHT, unlike traditional trust planning or making gifts, which generally take seven years before they achieve the same exemptions.

A spousal transfer does not restart the two year clock which enables investments to be passed with maximum efficiency.

Simplicity

BR opportunities are relatively simple compared to traditional trust planning; there are no complex structures and they do not require advance notification to HMRC.

Further details on BR opportunities can be found on our website www.soteriustrusts.com



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SBRT SINGLE PERSON CASE STUDY

Mr A, a 53 year old divorcee with two children in their late 20's, has an estate valued at £700,000. When taking into account the current nil rate band for individuals of £325,000, an assessment shows that his estate currently has an IHT liability of £150,000 ($700,000 - 325,000 = 375,000 \times 40\% = £150,000$). If Mr A takes no action then the estate value on death would be £550,000 and his beneficiaries would each receive £275,000, if he were to die today.

Mr A is made aware of his IHT liability by his adviser and for the first time sees the benefit of advance planning so as to mitigate as much of the liability as he can. After careful consideration, he decides to open a Soteria BR Trust Account and deposits £150,000 into the account, which is then used to buy BR qualifying shares. After two years, the £150,000 will be outside of his estate so he is very happy that he took action and opened the account. Mr A is fit and healthy at the time of planning and goes on to live another 20 years, during which time he enjoys modest growth on his shares of 4% per annum. Upon his death the value of his account has grown to be £315,168

Assuming no increase in estate value over that 20 year period, once probate has been granted the beneficiaries will now share the value of his estate's assets (£550,000), plus another £315,168 from the Soteria BR Trust Account. So the total value of assets to be shared is £815,168. To achieve that uplift and reduce the IHT liability, all Mr A did was to make a decision to restructure his assets and move £150,000 from other existing accounts (bank account/shares/investment funds etc.) and put them into his Soteria BR Trust Account, where they were used to buy BR qualifying shares. The estate is now saved from paying IHT of £150,000 and instead the total value, to be shared equally by his children, increases by over £300,000 and his two children will now receive £407,584 each. The planning that Mr A did meant that his children receive £265,168 more than they would have done had he not opened a Soteria BR Trust Account.

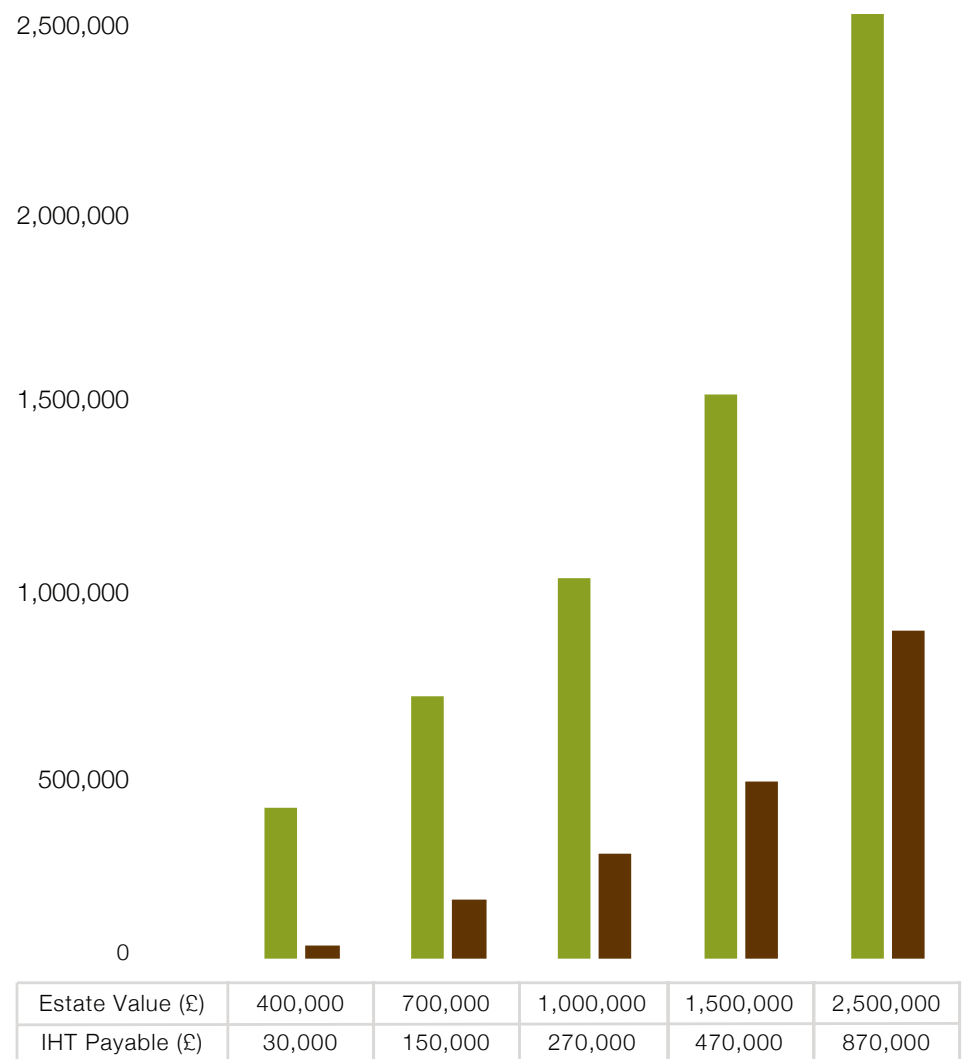
The cost of doing nothing would have been £315,168



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IHT PAYABLE BY A SINGLE PERSON

- Estate Value on Death (£)
- IHT Payable at 40% (£)





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SBRT MARRIED COUPLE CASE STUDY

Mr & Mrs B, who are married and aged 67 and 63 respectively, have three grown up children. All of their children have long since left home and become independent with careers, homes and families of their own. They have a total of 5 grandchildren so far and Mrs B expects to have at least two more before long.

For over 27 years the 'B's ran a successful card and gifts shop on their local high street, but as age and health took their toll, a family decision was made to sell the business and enjoy their retirement. Despite the assets they acquired over the years, the B's never felt the need to maintain anything more than a comfortable lifestyle, with their main luxury being a two week cruise every year. Their number one priority had always been the children and that meant that each of them had been afforded a private education, followed by further financial support through university. Having seen their children do well, they would now like to do something similar for all their grandchildren.

Mrs B revealed this desire to their financial adviser at a recent review meeting, but as the adviser shared his professional views and recommendations, what became more apparent was that HMRC and not the grandchildren were set to ultimately benefit the most from the B's hard work. Along with their adviser they set about putting new arrangements in place, to make sure that it was their children and grandchildren who would benefit from their efforts, when they finally die.

Until then they have decided to remain in the house that they bought 32 years ago, to make a new Will, as their original one hadn't been revised since they bought the house, consider a range of IHT mitigation solutions from their adviser and spend as much time with the grandchildren as they possibly could. The new Will made provision that their joint estate would be split equally between their three children upon the second death and at the same time that each of the grandchildren, (including any as yet unborn), would receive the equivalent of £75,000 from them. A clause in the Will states that the fund will become accessible on their 20th birthday, and that parents should see that firstly it would be used to pay for their university fees.

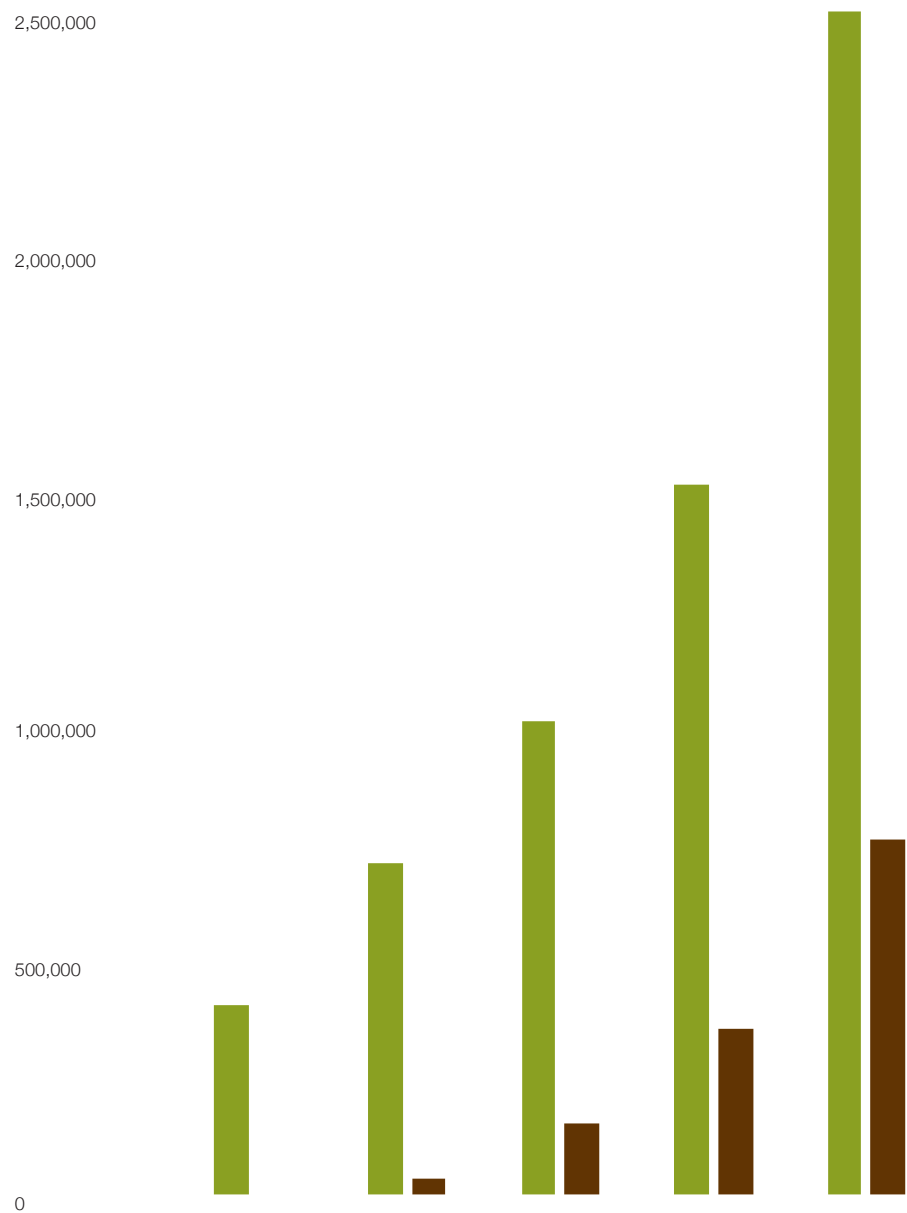
An initial calculation of their estate showed that there would be a sizeable IHT bill coming the children's way. Their main home was now worth just over £1.1m and with the proceeds from the sale of the business, as well as savings, investments and bank accounts that they own, the total estate value was £2.8m. They have no debt and do not want that to change.



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IHT PAYABLE BY A MARRIED COUPLE

- Estate Value on Death (£)
- Married Couple IHT Payable at 40% (£)



Estate Value (£)	400,000	700,000	1,000,000	1,500,000	2,500,000
IHT Payable (£)	0	20,000	140,000	340,000	740,000



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Mr B had heard about IHT, but didn't know how it would be applied to him, nor did he have any idea of the significant reduction that it will make to his children's inheritance. A risk assessment places him as an adventurous investor, but after input from his wife it was agreed that they should adopt a balanced approach. Long conversations, followed by several rounds of meetings, got them to a place where they were comfortable utilising a combination of life insurance, discretionary trusts and a Soteria BR Trust account, to mitigate as much as possible of the £860,000 liability that they had. Both are relatively healthy and don't have any immediate concerns or thoughts that they are nearing the end of their lives.

Running a small business for as long as they did had meant Mrs B was cautious when it came to spending money. Apart from the annual cruise they were frugal and didn't spend money unnecessarily. The business insurances that they had paid for years without a claim seemed like dead money to them. They had similar feelings about life insurance as well, so having agreed to an overall strategy that included it, they put a budget on a premium they would pay each year rather than go with the more expensive proposal that had been recommended. Another of the advisor's recommendations was to establish a Family Trust, so that some of the assets could be placed within it and be gifted to the children. Whilst they understood what the overall objective was, they weren't quite 100% in agreement with this proposal because they were losing control of the assets today, and they still had to survive 7 years for those funds to be completely out of the estate. They considered gifting their property as an alternative, but for several reasons, ultimately decided against it.

The strategy of using BR eligible shares appealed to Mr B because some of the funds amassed in savings accounts had come from investing into small or newly listed companies over the years. The features and benefits of the Soteria BR Account were explained to him, along with the risks and illiquidity attached to the likely assets. He understood and wanted to open an account in his name and a second one for his wife.

The total invested into BR shares via Soteria was £400,000. Based on their own life expectancy of 10 years and an illustration provided by their advisor, they were both happy that the estate size would be reduced by £590,000 after two years. The life insurance policy, which was set up on a joint life, second death basis, gave them £160,000 of cover. They were advised to have the policy set up so that the proceeds would be in trust and go straight to their three children when the last survivor passed away. These proceeds could then be used towards paying HMRC the IHT liability existing at that point.

A discretionary trust was also established and £600,000 was settled into it. Amongst the instructions given to the Trustees was one that stated only conservative or guaranteed types of investments be bought with this portion, so as to not risk the original capital. That capital amount plus growth was to be split equally between the three children following their death, but only after each of the grandchildren had been given their £75,000 entitlement.



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Assuming they both live the two years necessary for Business Relief to be effective and a further 5 years for the Trust assets to be completely outside of their estate, they now felt well advised and content that their children would inherit the vast majority of the estate. New calculations showed the estate had reduced in value by £1,000,000, and that coupled with the £160,000 of life cover which was earmarked for HMRC, plus the new joint IHT thresholds of £1m being in force, their total liability would be on assets of £800,000 and not the massive £2,800,000 it had been a month before.

The IHT payable on £800,000 is £320,000, and with half of that already taken care of by the insurance policy proceeds, the B's felt that the residual value in the trust, once the grandchildren's pay-outs had taken place, meant that HMRC would still collect some taxes from their assets, but it was now significantly less, so they were happy that everybody would get what they deserve.

Their Soteria BR Trust Accounts, started with £200,000 each, were a part of their overall strategy which reduced the estate liability. In this example the cost of doing nothing would have been a staggering £860,000 to the B's children and grandchildren with Soteria BR Trust accounting for £590,000 of that saving.

USEFUL INFORMATION ABOUT THE SOTERIA INHERITANCE TAX SERVICE FOR ACCOUNT HOLDERS

The Soteria Inheritance Tax Service gives you the opportunity to invest in the shares of one or more unlisted UK companies that are having a positive impact on the growth of the UK economy.

We identify and make available companies that we expect to qualify for Business Relief, and which are likely to be granted this government approved relief from inheritance tax. Provided the investments made have been held for at least two years at the time of death, they can be left to the chosen beneficiaries and will not be assessed for inheritance tax. The service has the aim of preserving capital and delivering a consistent, but modest, level of return.

You should keep in mind that tax rules may change in the future, and the value of tax reliefs gained depends on the size of investment made and individual circumstances. You should also know that tax reliefs depend on companies we identify maintaining their qualifying status.

The value of an investment may go down as well as up and investors may not get back what they originally put in.

Make sure you read and understand all sections of this Technical and Operational Guide in conjunction with the main Guide to the Soteria BR Trust Account before proceeding. The information below aims to tell you what happens after you've opened the account, it explains how you can increase or decrease the number of shares you hold, it explains what the initial and ongoing fee structures are, it helps you understand the liquidity risks involved, how a conflict of interest may arise, and if it does, how it will be dealt with, and finally how to apply for the relief from HMRC following the death of a shareholder.



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AFTER YOU'VE INVESTED

We understand that personal circumstances can change. That's why the Soteria BR Trust Account has been designed to be flexible enough to adapt to your changing needs.

You can add to your investment

Each additional investment must be at least £10,000. Don't forget, it will take two years for each separate investment to become eligible for relief from inheritance tax.

We will keep you informed

We'll keep you updated on your investment with regular reports each quarter. These will show any activity within the reporting period, along with information on the companies you hold investments in.

You can choose to sell shares

We can arrange to sell some, or all of your shares if you need to. The time it takes to do so is dependent on how the company is performing and the desire of investors to purchase its shares. In certain circumstances it could take 6 or even 12 months to find a willing buyer.

Please read about the key risks below

- To make regular share sales: just tell us how much you need, and how often you'd like the Trustee to sell shares on your behalf. You can choose from quarterly, half yearly or once a year.
- To make a one-off share sale: you need to sell shares worth at least £5,000, and you must have at least £10,000 remaining in your investment once you have done so.

Some important points on tax

As a reminder, selling shares will reduce the amount that you can expect to become inheritance tax-free. You should also remember that the proceeds of any sale will become part of your taxable estate again, unless you spend it before you die. After selling shares, you may have to pay tax on any growth achieved on that portion of your investment. This growth will normally be taxed as a capital gain, but it may be subject to income tax, if the companies you have invested in buy your shares back from you.

AFTER YOU DIE

We'll give your loved ones as much help as we can. Our Estates team will be on hand to help executors and beneficiaries with any information they might need when seeking confirmation of the relief. Your executors will need to complete form IHT 412 with details of your Soteria BR Trust Account and send it to HMRC as part of the probate process. Copies of the Soteria Trust Account certificate and the letter that shareholders receive, once they have held shares for a two year period, should also be submitted in order to expedite the process.



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Once probate is granted the Executors have three options:

1. They can ask the Trustee to sell the portfolio and pass the money to your beneficiaries.
2. They could keep the portfolio invested for beneficiaries (if it qualified for BR on your death, then it will also be outside beneficiaries' estates for inheritance tax).
3. They could ask the Trustee to use the portfolio to pay any inheritance tax which is due on other assets (such as your home) directly to HMRC.

We understand how difficult this time can be, and even though we can't give financial advice, our team of specialists can help answer any questions your beneficiaries may have.

UNDERSTANDING THE KEY RISKS

We want you to feel completely comfortable with this investment. Please take time to understand the key risks which are listed below, and discuss them with your financial adviser and loved ones.

You may lose money

The Soteria BR Trust Account is a Bare Trust arrangement which allows you to purchase shares in unquoted companies that are not listed on a stock exchange. The value of such companies can fall or rise more sharply than shares in larger, listed companies. The shares of unquoted companies can also be more difficult to sell. As with all investments, your shares could fall in value and when it's time to sell you may not get back the full amount invested.

Target returns are not guaranteed

The target returns that are used in Soteria BR Trust Account marketing materials are not guaranteed, and you should not consider the past performance of an investment to be a reliable indicator of future results. The performance of an individual's Soteria BR Trust Account is based entirely on the value of the underlying companies that it holds.

Tax rules can change

Rates of tax, tax benefits and tax allowances are based on current legislation, interpretation based on case law, and HMRC practice. We can't guarantee that tax rules won't change in the future. The value of tax reliefs depends on your own personal circumstances.

Requests to sell shares could take longer than anticipated

Selling shares held within your Soteria BR Trust Account is normally achieved by selling the shares you own to other investors and there is no guarantee that a buyer will be found immediately. If there are unusually large withdrawals, the companies you have invested in may need to carry out a share buyback, a process that could take up to three months. In exceptional circumstances (such as a change in tax rules) where the companies do not have sufficient available funds to carry out a share buyback, the process of returning proceeds of the share sale to you could



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take much longer. You should not invest unless you understand and accept that in exceptional circumstances, it could take a year or more to access your investment following a withdrawal request.

Your investment may be in only one company

Our service will only make available a small number of companies operating in what it considers to be each of the Business Relief qualifying sectors. Your investment could have less diversification than a traditionally allocated portfolio of investments which are spread across different sectors.

Business Relief is assessed on a case-by-case basis

We cannot guarantee that the investments you make will qualify for relief in every case. HMRC will only conduct an assessment after the death of a shareholder has been reported, and it is at that point they will confirm whether you and the companies invested into qualified for the relief. If you borrow money to invest in shares via a Soteria BR Trust Account, your investment is unlikely to qualify for relief from inheritance tax.

Investment horizon

Companies offered for investment via Soteria BR Trust Account are not intended to be short-term investments, and the typical holding period for our investors is more than three years, of which the first two years for an investment is required in order to qualify for Business Relief. This two-year period will begin once your money is invested in companies within your account. You need to continue holding the investment until you die if you would like your estate to benefit from inheritance tax relief.

It is important to keep your will up to date

This is particularly relevant after you've made significant changes to your estate, for example after choosing to invest via the Soteria BR Trust Account. Investors should seek professional advice to make sure their will is drafted to ensure their estate benefits from available inheritance reliefs, such as the nil-rate band, exempt gifts and Business Relief. For example, where an individual intends to leave exempt gifts in their will, it can be beneficial to bequeath BR qualifying investments as a specific gift, rather than as part of the residue of their estate.

Financial Services Compensation Scheme

None of the Soteria range of products are part of the Financial Services Compensation Scheme (FSCS). The FSCS is the compensation fund of last resort for customers of financial services organisations. If an organisation goes out of business, investors can make a claim to the FSCS for any losses resulting from the organisation's bad investment advice, negligence or miss-selling. It is important to understand that the FSCS does not protect against, or compensate for, losses from poor performance, such as when shares in a company have reduced in value.



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CONFLICTS OF INTEREST

Conflicts could arise between our interests and yours, so it's important that you understand what these conflicts are, and why they exist.

The Soteria BR Trust Account has been designed so that you can invest in companies that are run independently from Business Class Group. On occasions it may be that we promote companies that Business Class Group have an interest in and while this can be beneficial, it can also potentially create conflicts between the interests of BCG and those of investors who own shares. This section explains the types of conflicts that can arise, as well as the controls we have put in place to prevent or manage these conflicts appropriately.

Why is this beneficial?

Taking stakes in businesses allows us to undertake extensive research and gives other external portfolio managers confidence that they can continue to access quality trading opportunities as they grow. When BCG supports another business, it sometimes gets a seat on the board of directors. This can give BCG more oversight, helping to ensure that the companies operate in ways that help meet the aims of the Service.

Managing conflicts of interest

We endeavour to make sure that the interests of our customers are always looked after. So we have a number of controls in place to prevent to manage conflicts of interest.

An appropriate governance structure and committee process

Our Investment Committee reviews any new investment opportunities. It's their job to make sure every investment made on behalf of investors is in their best interests. Proposals likely to raise a significant conflict of interest are reviewed by Compliance. Compliance is independent of the Investment Committee and decides whether, given the risk of conflict, the investment proposal is being handled in an appropriate way.

Keeping relationships at 'arm's length'

Whenever we've identified a potential conflict of interest between businesses managed, owned or controlled by BCG, we use external benchmarks where available. These benchmarks are taken from similar transactions taking place elsewhere in the wider market and are used to make sure that the terms and prices for each transaction are set independently. We may also use third parties for independent advice.

Independent Directors

As with any company, the board of directors of a company we invest in has ultimate responsibility for ensuring it is managed in the best interests of its shareholders, who are all investors via a Soteria BR Trust Account. These board members are all experienced business professionals and the majority are independent of BCG.



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THE CHARGES

A few points to keep in mind

The Soteria BR Trust Account does not have any account charges in the first two years for initial investments of £50,000 or above. The only time you will encounter charges during this period is if you decide to sell any shares that you own. This fee is referred to as a dealing fee and is 1% of the value of the shares which are sold. The illustrations that you see in our marketing material use a targeted growth rate of 4% per annum. This is based on the amount you invest. For amounts less than 50K standard Trustee fees apply (a Trust and Administration fee of £750 per annum, deducted annually in advance and an annual management fee which is 0.5% of the value of your account subject to a minimum of £250 per year).

When do I have to pay annual fees?

There are no Trustee or management fees deducted by us in the first two years. If you decide to keep your Soteria BR Trust Account open beyond this two year period then certain fees apply. From year three onwards a Trust and Administration fee of £750 per annum is deducted annually in advance. In addition, we charge an annual management fee which is 0.5% of the value of your account subject to a minimum of £250 per year, which is deducted half yearly in arrears.

Paying adviser charges

If you agree to pay ongoing charges to your intermediary, you can do so by asking us to pay these by selling a proportion of the shares you hold within your Soteria BR Trust Account. These fees will be collected in line with our annual management fees and collected half yearly in arrears. Please note that the sale of shares will incur fees and will reduce your overall return.

HOW TO INVEST

Talk to a financial adviser in the first instance

We expect you to have taken financial advice prior to opening an account and deciding to invest. A financial adviser will be able to help you decide whether this investment is suitable for you, and they can also help you to complete your application. If your adviser has any questions, they can reach us at enquiries@soteriatrusters.com

If you are investing directly

You can request a call from our Customer Service team by e-mailing us at customerservice@soteriatrusters.com. Please remember that we can't offer investment or tax advice, but we'll be happy to talk you through the application process and help you with anything else we can.



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DISCLAIMER

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Neither the Trustee, Business Class Group, nor any of its affiliates accept responsibility for the performance of assets held within the Trust. Potential applicants should seek professional tax and investment advice before opening an account. Soteria Trusts is a brand operated by Business Class Group Limited.

Soteria Trusts are operated by the Business Class Group.

In Greek mythology Soteria was the goddess of safety and security and we believe that these are two essential elements in the structuring of your Trust account.