

Stripping IHT relief from AIM would cause a 'mini-Woodford'

JOHN SHAFFER

JSCHAFFER@CITYWIRE.CO.UK

An independent review of inheritance tax (IHT) has questioned whether investment in AIM shares is within the spirit of IHT legislation. But would removal of this tax relief trigger a large sell-off in the junior market, and a liquidity squeeze?

A manager of a large AIM IHT product, who wishes to remain anonymous, believes his portfolio would shrink 'between 20% and 30%' if the stocks no longer qualified for IHT relief as investors ditch the fund following the loss of its primary attraction.

According to Investor's Champion, a service which screens for stocks that qualify for IHT relief, around a third of all money invested in AIM is for tax planning purposes. The popularity of using AIM for tax avoidance has boomed since 2013, when the rules changed to allow AIM shares to be held within an ISA.

Matthew Pitcher, managing partner at Altor Wealth Management, said he 'can't see any reason why money would stay in AIM' if the tax relief is removed.

'Most IHT portfolio investors will be older and more cautious investors. Their only reason for being in AIM is the tax break, so they'd come out quickly, and in volume.'

'You'd have a market with more sellers than buyers, with potential liquidity issues. There would be a mini-Woodford situation where people are trapped in stocks they can't get out of.'

Luke Barnett, an associate in the investment research team at MJ Hudson Allenbridge, added there are many 'common stocks' held across many providers' AIM IHT portfolios, which could further exacerbate liquidity issues. However, he suggested any dip in AIM would only be a short-term correction, and would 'not be catastrophic' as the market would return back to fundamentals in time.

SAFE (FOR NOW)

The Office of Tax Simplification (OTS), which carried out the review, said AIM qualification for Business Property Relief (BPR) is 'not necessary' to prevent family businesses from being broken up, which



Most IHT portfolio investors will be more cautious investors. Their only reason for being in AIM is the tax break, so they'd come out quickly, and in volume

Matthew Pitcher

was the rationale for BPR being introduced in 1976.

The review questioned whether third-party investors should qualify for IHT relief by investing in AIM shares 'in particular where they are no longer held by the family or individuals originally owning the business'.

However, the report also referenced the 2017 Patient Capital Review (PCR) in which the government endorsed AIM's role in 'supporting family-owned businesses and growth investment'. Ultimately, the OTS did not make a formal recommendation for the removal of tax relief from AIM shares.

In Barnett's view it is very unlikely the government will remove tax relief on

AIM shares and he points to widespread 'scaremongering' since the publication of the OTS report. If the relief were to be withdrawn, there would be a long process before any changes were made, he added.

Pitcher noted that although the OTS did not recommend changing the legislation, a Jeremy Corbyn-led government may take a different view. 'We're in interesting political times. If another regime came in, they could disqualify AIM shares. That's potentially a huge issue.'

The criticism of AIM's inclusion as an IHT play are not new. Last year the Association of Accounting Technicians (AAT) called for the exemption to be axed, arguing that BPR was not originally designed as a tax avoidance measure.

APPLYING THE RULES RETROSPECTIVELY

Citywire AAA-rated James Baker, manager of Chelverton Asset Management's UK Equity Growth fund, said the extent of any AIM outflows would depend on whether the legislation was retrospective.

'Investors might have capital gains on their IHT holdings, so it would be wrong to assume a major sell-down,' he said.

'It's quite possible such a change in rules could prompt a number of AIM stocks (particularly the larger ones) to review a move onto the main market, which would trigger index fund buying.'

Although withdrawal of tax relief seems unlikely in the near future, other elements of the OTS report could dent the attractiveness of AIM portfolios. One of its core recommendations is to reduce the time a lifetime gift would take to be IHT-free from seven years down to five.

The shorter time restriction on gifts could make the case for investing in AIM shares far less compelling, as the incentive to take the risk on a growth market becomes less obvious.

TURNING A BLIND EYE

The OTS review did not scrutinise unlisted BPR investments, which can also qualify for IHT relief. According to Intelligent Partnership's 2019 Business Relief report, the split between AIM portfolios and unlisted portfolios available in the market is almost equal. Of the unlisted portfolios currently available, 45% target a strategy of 'capital preservation'.

In the 2017 Budget, the chancellor reduced the scope of investments into EIS (Enterprise Investment Scheme) and VCTs (Venture Capital Trusts), on the basis that investee companies were targeting capital preservation strategies and not acting within the spirit of the legislation.

'If we're honest, unlisted BPR investments don't support small businesses,' said Pitcher. 'They're the silent anomaly in the system.' •