REVISITING AIM AND INHERITANCE TAX

We've had a few requests to revisit the rules around how you can qualify for inheritance tax (IHT) relief by owning certain AIM shares.

If you invest money in AIM shares that meet certain criteria set by the taxman for at least two years, that money can be passed on to third parties such as your husband or wife upon your death without that windfall being taxed. Making sure you've picked the right stock is still important. Why invest in something that could lose a lot of value, when your goal is to pass on that wealth?

Many investors often pile into AIM stocks in the belief that every company will qualify for the tax benefit. To qualify for the IHT relief, the AIM stocks needed to meet HMRC's Business Property Relief (BPR) qualification criteria. Sadly the taxman doesn't produce a list of eligible stocks – neither does the London Stock Exchange.

Lord Naseby posed a question on 28 October to the House of Lords asking the Government if it would publish annually a list of AIM companies that qualify for inheritance tax relief. The reply wasn't very helpful.

In the words of Lord O'Neill of Gatley: 'HM Revenue and Customs (HMRC) do not have a list of Alternative Investment Market companies that qualify for Business Property Relief.

'The claim to the relief will depend on the circumstances of each case. Shares in a company might no longer qualify for Business Property Relief if the company went into liquidation or moved to a full listing on the UK Stock Exchange after publication. Any information provided by HMRC about a company may become out of date quickly raising the risk that relief is claimed incorrectly.'

LOSING QUALIFICATION

Even once you have bought a stock that appears to qualify at the time of purchase, it can subsequently not qualify. The eligibility of each AIM stock is determined by what the company's activities were on the date of a person's death. The big issue is the source of profits.

For example, any money the company earns relating to property, such as doing a sale and leaseback of their headquarters, can affect how much of your investment is eligible for the tax relief.

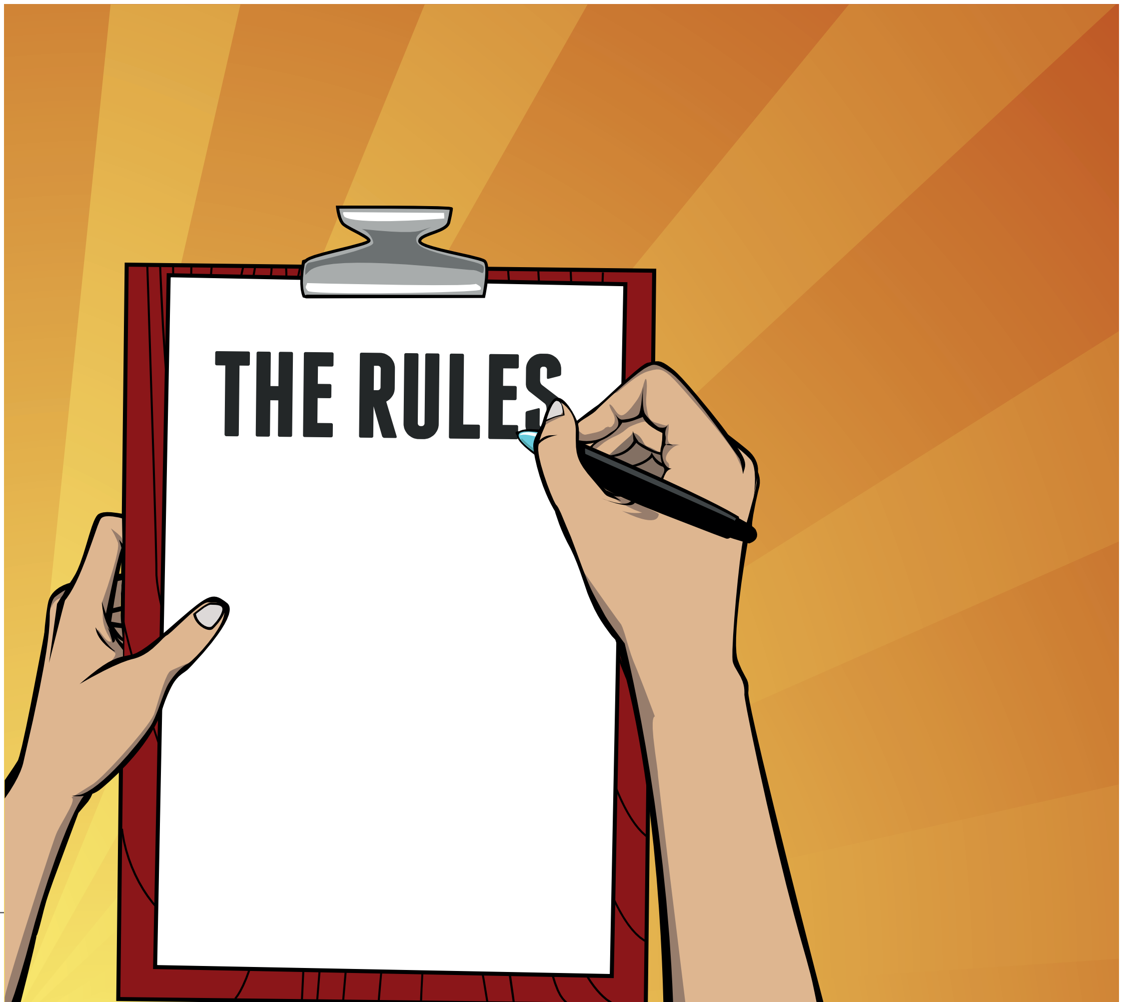
A topical example is **Pure Wafer (PUR:AIM)**. The proposed disposal of a subsidiary business will turn the plc group into an investing company and therefore impact shareholders owning the stock for IHT planning purposes. The corporate changes would make Pure Wafer ineligible for IHT tax relief and make a shareholder's estate potentially subject to 40% tax on the value of the shares.

TIME MATTERS

There are more rules to consider for shares that do qualify for the IHT tax relief. Strict timelines apply on how long you should have owned the stock to qualify for the tax benefits. The headline figure is at least two years.

If you subsequently sell the shares, you then need to be reinvested in qualifying stocks within the following three years. If you are not reinvested in qualifying stocks at the time of death and are in that three-year period post selling the original AIM stocks, your estate is unlikely to qualify for the relevant IHT relief.

Qualification is subjective and there is varying opinion among financial services providers as to which ones do and do not fit the bill. We've enlisted the help of Christopher Boxall from Fundamental Asset Management to pinpoint a selection of stocks that look as if they qualify for IHT relief. Keep reading to discover his views on the subject. (DC)



THE STATE OF PLAY WITH AIM AND IHT

AIM IS EVOLVING into a higher quality and less speculative market. This makes the inheritance tax planning attractions look more compelling than ever, writes Christopher Boxall, chief executive of Fundamental Asset Management and small cap website Investor's Champion.

Research by Investor's Champion concludes that 744 companies on AIM fully qualify for the inheritance tax reliefs, representing just over 70% of the market. A further 95 companies partially qualify or present the sort of attributes where it is hard to determine whether they fully qualify or not.

It is particularly difficult to categorically determine the qualifying status of companies with significant joint venture activities. Fruit and vegetable seller **Total Produce PLC (TOT:AIM)** is a relevant example in this situation.

The business could be viewed by many as a fairly safe holding for an inheritance tax planning portfolio. It is dual listed on the ESM, the secondary market of the Irish Stock Exchange, which would not disqualify it for inheritance tax purposes.

The group's interim results for the six months ending 30 June 2015 show total revenue of €1.7 billion but then give group revenue of €1.43 billion. A sub note reveals that 'Total revenue includes the group's share of the revenue of its joint ventures and associates.'

The group share of the profit of joint ventures and associates of €4.9 million is quite meaningful (18%) relative to overall group operating profit of €27 million. The balance sheet also reveals investment property of €7.8 million and investments in joint ventures and associates of €71 million, being 23% of group net assets.

Total Produce would appear to qualify for inheritance tax planning purposes. The significance of 'investment' in joint ventures makes it very hard to categorically state this is true, even though the economic/commercial reality suggests full qualification.

Total's joint venture investments are all in businesses related to the core activity of fresh produce distribution, which would support full qualification. Furthermore, the majority of the joint venture investments appear to be related to overseas activities (rather than Eire or UK). This suggests the joint ventures could be a means of facilitating business in these countries.

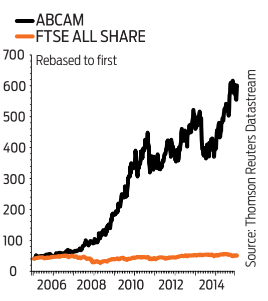
Investors wanting more information on the possible IHT qualification should contact AIM companies directly or speak to a tax expert. There is also online service called AIMsearch (http://aimsearch.investorschampion.com) which is run by Investor's Champion.

We now look at six stocks generally considered to be eligible for inclusion in an IHT/AIM portfolio.

ABCAM (ABC:AIM) 591.5P

CAMBRIDGE-BASED ABCAM is a producer and marketer of high quality protein research tools and one of AIM's huge success stories. The group's tools enable life scientists to analyse components of living cells at the molecular level which is essential in a wide range of fields including drug discovery, diagnostics, and basic research.

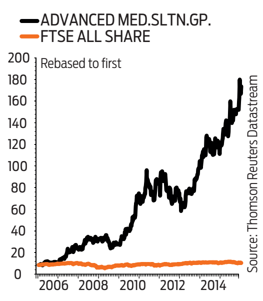
The company was founded in 1998 and arrived on AIM in November 2005 at a share price of 167p and a market capitalisation of only £57.5 million; the current market capitalisation has grown to £1.19 billion with some dividends along the way. Full year results to 30 June 2015 showed revenue up 16.6% to £135.4 million and reported earnings per share up 9.2%. Abcam ended the year with cash of £58.7 million.



ADVANCED MEDICAL SOLUTIONS (AMS:AIM) 172.25P

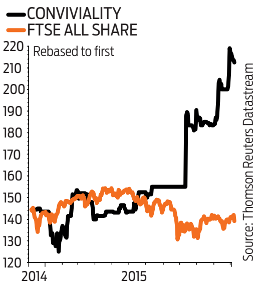
THIS IS ANOTHER healthcare business which has thrived on AIM. It is an independent developer and manufacturer of innovative and technologically-advanced products for the global surgical, wound care and wound closure markets.

A recent announcement that the US Food & Drug Administration had approved two new product claims for the group's product gives it a competitive advantage in the topical skin adhesive market. The valuation now looks quite rich on some measures but this business addresses a huge market and has delivered handsomely to investors over the past few years. It has a growing market position, attractive cash generation and a strong balance sheet suggests it is well placed to continue to grow.



CONVIVIALITY (CVR:AIM) 212.5P

CONVIVIALITY'S FOCUS WAS until recently as the owner of the UK's largest franchised off-licence and convenience chain. Its focus has now expanded following the acquisition of the much larger Matthew Clark, a provider of drinks to the on-trade market.

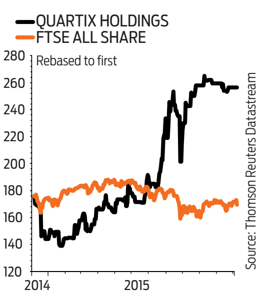


The acquisition is expected to be earnings enhancing from the first full year of ownership with the potential for significant synergies to be realised from the combination of the two businesses. The acquisition was well received driving the shares of this relative AIM newcomer substantially higher. A forecast yield of over 4% supported by excellent growth prospects suggest it could be one to watch.

QUARTIX (QTX:AIM) 256.5P

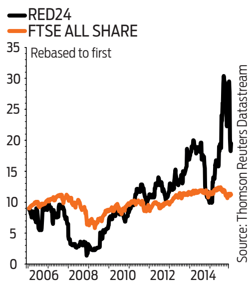
THIS IS A LEADING supplier of subscription-based vehicle tracking systems, software and services which was founded in 2001 and arrived on AIM in November 2014.

The group provides an integrated tracking and telematics data analysis solution for fleets of commercial vehicles and 'pay as you drive' motor insurance providers. The solution is designed to improve productivity and lower costs by capturing, analysing and reporting vehicle and driver data. The shares are up over 100% since admission boosted by soaring revenues, earnings and cash generation, supported by a very efficient balance sheet.



RED24 (REDT:AIM) 19.5P

THE £10 MILLION cap is highly topical as a result of the tragic events in Egypt and indications that the plane crash near Sharm el-Sheikh was caused by a bomb, stranding many travellers in this popular tourist destination. Red24 is a crisis assistance company that provides a range of security and business support services, offering preventative and reactive advice to help organisations and individuals to avoid or manage security and business risks to themselves, their families and their businesses.

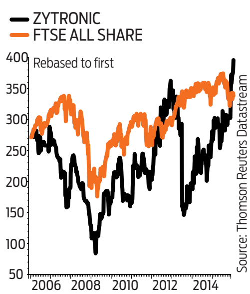


The group has attractive visibility of earnings, operating margins and cash generation. The 3% dividend yield is supported by a strong cash position, equivalent to more than 25% of the current market capitalisation.

ZYTRONIC (ZYT:AIM) 396P

THE GROUP HAS been on AIM since 2000. It is a developer and manufacturer of projected capacitive technology interactive touch sensors for applications specific to industrialised and public access and service equipment. This covers a broad range of applications such as financial, vending, gaming, digital signage, control and ticketing. The group recently announced that pre-tax profit for the year ending 30 September 2015 would 'be materially ahead of market expectations'.

The business has experienced a few slip ups in the past and sales visibility is limited. Yet its products appear to be attracting a growing number of applications (larger format interactive display, ATMs, table top games and displays). It offers compelling fundamentals delivering very high operating margins, returns on equity and cash generation. The 3% dividend yield supported by a strong cash position is also encouraging.



DISCLOSURE: Fundamental Asset Management's AIM portfolio service holds shares in companies mentioned in this article.