New Share Classes

Purpose

For reducing an individual's IHT liability whilst retaining an income stream, where an individual owns a company that holds non-BPR qualifying assets, or other assets that do not qualify for BPR.

Summary

If assets are held in a company, new classes of shares could be created, some of which would only allow for receipt of a dividend and voting rights, but no rights to capital. These shares are retained by the shareholder, whilst the other assets are gifted. If the assets are not held in a company, they could be placed in one first.

Method

Firstly, the Articles of Association would need to be considered and amended if necessary to ensure that they allow for the issue of new types of shares. The new shares would then be created, each with different rights; these would be issued to the client by way of a bonus issue. Finally, the client would retain the shares that gave a right to income, whilst transferring the rest to other family members and/or a trust for children or grandchildren.

Case Study

Gerry and Dave own a large company, Summer House Ltd, that holds several properties. The company is valued at around £2m and produces income of £100,000. They would like to reduce their IHT exposure, but retain around £30,000 of income from Summer House Ltd.

New share classes are created: 'A' shares, that give rights to a dividend of no more than £30,000 per annum, voting rights, but no rights on a winding up; and 'C' shares that give rights to income and capital, but no voting rights; the existing shares are renamed 'B' shares. There is a bonus issue of A and C shares.

Gerry and Dave then give the B shares to their children, whilst settling C shares into a trust for their grandchildren. Consequently, their IHT estate is reduced by the value of the B and C shares, whilst they retain a right to £30,000 income.