BLACKFINCH INVESTMENTS

ISAs, IHT and APS:
What does it all mean?

Please note:

Benefits of tax-efficient investments are subject to change and personal circumstances.

Business Relief rules are changing in April 2026. See the Guide to Business Relief for more information.

Many clients use the arrival of a new tax year to make their annual Individual Savings Account (ISA) investment, and build their wealth in a tax-efficient manner across several years. But people often overlook the fact that the ISA itself will be included within their estate for Inheritance Tax (IHT) when they die. For most people, this is not an issue, but if your client's estate exceeds their Nil-Rate Band/ Residence Nil-Rate Band allowances (combined allowances if married) their ISA could be subject to a potential IHT liability of up to 40% of its total value.

How can advisers help?

If you expect your client's estate could be subject to IHT, you should discuss the possibility of IHT mitigation. This could take the form of an investment service that specifically invests in companies expected to qualify for Business Relief (BR), which can deliver up to 100% IHT relief after two years (provided the investment is still held at time of death).

Using an ISA for IHT exemption

Should your client wish to continue using their annual ISA allowance to grow their wealth, one potential solution could be to invest in BR-qualifying businesses listed on the Alternative Investment Market (AIM), as AIM-listed shares can be held in an ISA wrapper. This will provide a way to conserve tax-free savings and reduce a future potential IHT liability.

If the client's estate is already subject to a potential IHT liability and they have a significant ISA pot, you could discuss a partial transfer to an AIM ISA which specifically focuses on investing in BR-qualifying AIM-listed companies. This will retain the benefits of the ISA wrapper but, after a two-year period, the investment would receive 50% IHT relief provided the investment is still held at death.

The Additional Permitted Subscription

Before April 2015, ISAs could be passed on to beneficiaries named in a will, but the investments automatically lost the tax-efficient wrapper they benefitted from during the deceased's life. That meant, for example, that if a spouse wanted to reinvest the savings their partner had built up, they could only do so up to their personal maximum ISA allowance for that year.

However, since 2015, if the person who dies is married, their spouse can inherit their ISAs via an inherited ISA allowance. Also known as an 'additional permitted subscription' (APS), this gives the spouse a one-off additional ISA allowance equivalent to the full value of the deceased partner's ISA when they died. In other words, using the APS ensures all of the tax benefits accrued over the lifetime of the ISA can be carried over to its new owner. To give people time to sort out the deceased's affairs, the APS can be applied for up to three years after the date of death, or if longer, 180 days after the estate has been administered.

Ensuring IHT relief for the next generation

From a client planning perspective, the challenge with the APS is that it doesn't remove the potential IHT liability on the value of the original ISA investments. Instead, it just transfers the liability to the surviving spouse. In this scenario, it might be worth discussing whether the client would consider transferring their accumulated ISAs into an AIM ISA that looks to achieve IHT relief after two years. On their death, the portfolio of AIM stocks can be passed on to named beneficiaries benefitting from 50% IHT relief, who can choose to either liquidate the portfolio or remain invested and benefit from the long-term growth potential of the AIM portfolio.

IMPORTANT INFORMATION