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Take Aim at the taxman

The Alternative Investment Market offers a tax-efficient way to own shares, says **Emma Wall**

The Chancellor may be cracking down on tax avoidance, but being tax efficient is no crime. Unquoted shares are not counted as part of your estate when it comes to inheritance tax – this includes companies which are listed on the Alternative Investment Market (Aim).

The stocks must be owned for at least two years to qualify, but after this Aim stocks are IHT free. Certain Aim stocks can also qualify for a reduced rate of capital gains tax.

According to the London Stock Exchange, Aim is the most successful growth market in the world. Since its launch in 1995 with just 10 stocks, more than 3,000 companies from all over the world have joined.

Alex Ruffel, partner at Berkeley Law, private client wealth advisory law firm, said: "Aim shares can be a useful part of inheritance tax planning, particularly where a person wishes to tax-plan without giving away their assets or where they are elderly and may not survive the requisite seven years for gifts to fall out of inheritance tax. Holdings of Aim-listed shares qualify for 100pc business property relief from inheritance tax, assuming that the relevant criteria are met.

"The holding must have been owned for at least two years, the company must not be used solely as an investment vehicle and if the company holds assets that are not used in its business, their value may not qualify for the relief."

But Aim stocks are risky, hence the tax incentive. Companies on Aim are start-ups and buying individual shares is a process best left to experienced investors.

"Investors may also be attracted to the nimble characteristic of a smaller company, which means they are often quicker at identifying growth opportunities and acting on them than their larger counter parts," said The Share Centre's Sheridan Admans.

"However, investors should be aware that investing in smaller companies is a high-risk strategy and when the markets suffer, they usually see the biggest losses."

Despite these risks, Aim stocks are popular among investors. So far this tax year the top 20 purchased stocks through The Share Centre have included Aim-listed oil and gas producers Xcite Energy and Range Resources, alongside the more familiar megacaps.

Some Aim stocks that are listed on other stock markets can also be eligible to be held in an Isa wrapper. If they are listed on another market they are no longer eligible for relief from IHT, but as with all Isa investments, you will not pay CGT on the gains, or income tax on any dividends.

Paul Inkster of Barclays Stockbrokers said: "Aim stocks that are also listed on an exchange recognised by HM Revenue & Customs can be held within Isas. However, if the stock delists from Aim and is not listed on another UK exchange, the sterling denominated shares will no longer be traded and settled through the UK, and as a result the Aim shares would need to be sold before the delisting takes place."

Graham Spooner, investment research analyst at The Share Centre, picks three Aim stocks for investors.

MONITISE

As mobile technology plays an increasing part in people's daily lives, companies such as Monitise look to benefit.

Monitise allows users to make balance transfers, payments, report lost or stolen cards and also trade shares. The US market is huge for Monitise and more than 200 institutions have signed agreements. However, the jewel in the crown is the deal with Visa Inc, which gives Monitise access to Visa's 1.7billion cardholders.

We regard Monitise as high risk as up to the latest interim report, the company had no positive earnings and this is expected to continue for a couple of years. We are, however, still recommending it as a "buy" on the potential the technology offers, the rate the company is growing and the high calibre of partners attracted to harness its services.

ASOS

Asos is one of the biggest Aim companies, with a meteoric rise in the past 10 years which means it is now on a very high rating.

Looking ahead, we are very confident in the company's ability to grow its revenue and profits, as well as establish itself in the regions in which it operates. The slide in Asos's share price [from August 2011 and mid December 2011] is a healthy reminder that, despite growth potential, investors should be wary of companies trading on very high valuations. We continue to recommend a buy on Asos based on its growth potential.

HUTCHISON CHINA MEDITECH

Hutchison China Meditech is a Hong Kong-based company focused primarily on China. As the Chinese population becomes more affluent, there is a significant upturn in those signing up for medical insurance, and also by the government on national health care. The company made its first profits in March and is still paying no dividend.

This is a high-risk buy for investors who are looking for pure China-based growth and more people buying into the

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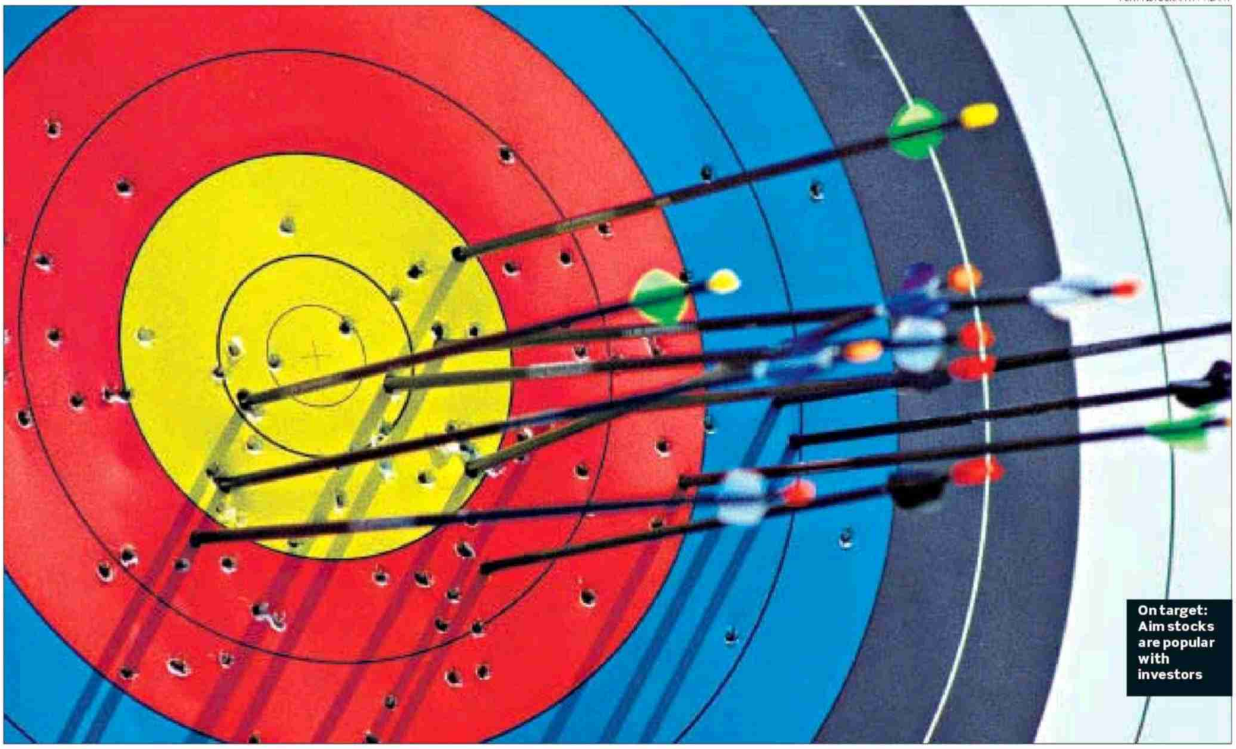

On target: Aim stocks are popular with investors

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