Client planning scenario

For the use of professional advisers only and not to be relied upon by retail clients.

Clients likely to exceed the lifetime pension allowance

With regular contributions and decades of compounded growth, even people with modest sums in their pensions today could find themselves exceeding the £1 million lifetime allowance (LTA) in years to come.

This example explains how a Venture Capital Trust (VCT) could be used to complement existing pension and retirement planning strategies.

octopus investments

A brighter way

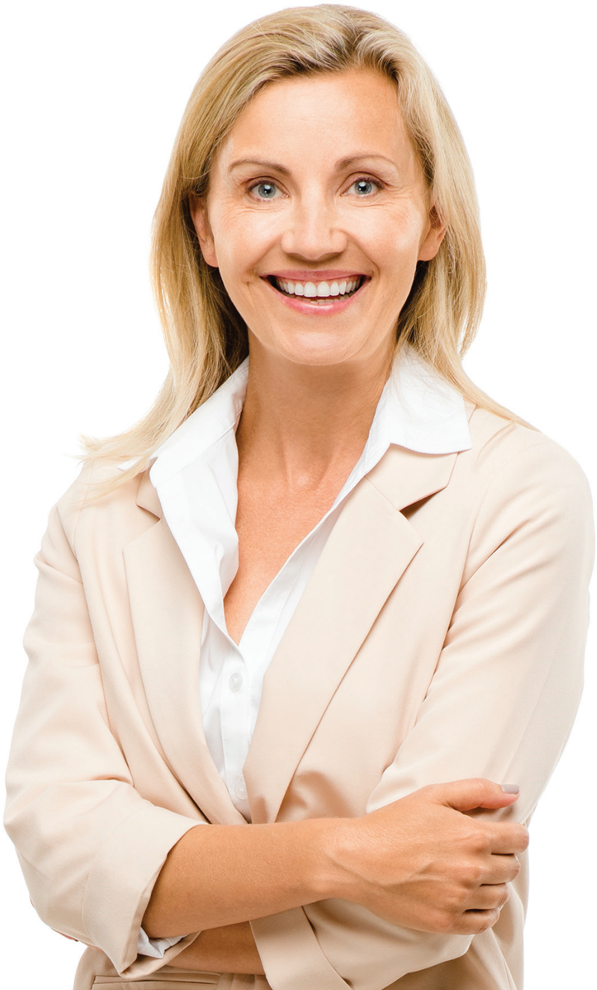
About this scenario

This tax-planning scenario is designed to help advisers develop appropriate planning strategies for their clients. Advisers should consider, among other things, the eligibility and timings of tax reclaims and tax liabilities depicted. They will also need to consider the impact of charges (including initial fees and ongoing fees, such as administration fees and annual management charges) relevant to the products represented and/or any specific product chosen. When clients choose to sell VCT shares, they are often sold at a small discount to the value of their underlying net asset value, so the impact of this should also be considered when assessing any specific products.

Nothing here should be viewed as advice. Any suitability decisions should be based on a comprehensive review of your client's objectives, needs and attitude towards risk. For more details, please see the relevant product literature.

Meet Sarah, who has been paying into her pension for years

Sarah has been paying into her pension since qualifying as a doctor some 20 years ago, and over the years she has built up a sizeable pension pot. Now that the LTA has been reduced to £1 million, Sarah is worried about exceeding this amount and incurring a tax charge of up to 55% on the excess. To make sure this doesn't happen, Sarah would like to find alternative ways to invest for retirement, preferably ways that still offer her a tax-efficient income.



A tax-planning solution from Octopus

Sarah talks to her financial adviser, who makes an assessment based on her risk profile, investment time horizon (of more than five years) and attitude towards smaller company investing. Given this, he suggests investing in a VCT.

In the two decades since they were first introduced, VCTs have become increasingly popular with some investors, particularly those who already have personal pensions and Individual Savings Accounts (ISAs), and are comfortable with higher risk investments. VCTs are now considered as a valuable tax-efficient investment wrapper with the potential to provide an income.

With a VCT, Sarah can claim up to 30% income tax relief on up to £200,000 invested in any single tax year, provided she holds her VCT shares for at least five years. Sarah can also benefit from tax-free dividends, and no capital gains tax to pay when she sells the shares.

An important reminder about key risks

VCTs are high risk and should be considered as long-term investments. The value of an investment, and any income from it, can fall or rise. Investors may not get back the full amount they invest.

Tax treatment depends on individual circumstances and can change in the future. Tax reliefs also depend on the VCT maintaining its qualifying status. Tax relief is available on investments of up to £200,000 per year.

VCT shares could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

These products are not suitable for everyone.

The tax benefits of investing in VCTs

This diagram shows how an investor can take advantage of the tax benefits associated with investing in a VCT. It's worth pointing out that VCTs are high risk and inherently different to pensions and ISAs and shouldn't be compared on tax benefits alone. If an investor needs guaranteed income, cannot tolerate loss or is uncomfortable losing immediate access to their money, then a VCT is not likely to be suitable. Clearly everyone's circumstances are different and VCTs won't be suitable for all, but the attractive tax benefits mean that VCTs could be considered as part of a portfolio for some people, alongside their pensions and ISAs.

Tax benefits of an ISA, pension and a VCT

	ISA	Pension	VCT
Upfront income tax relief on initial investment	None	20-45%	30%
Annual personal limits	£20,000	£10,000-£40,000	£200,000
Lifetime personal limits	None	£1 million	None
Minimum holding periods	N/A	No access until 55+[1]	Five years
Ongoing tax benefits	Tax-free growth and dividends	25% tax free, the rest is taxed	Tax-free growth and dividends

As well as delivering upfront tax relief on investments, having access to the money invested in a VCT after only five years can be attractive for those who may want to access it before they retire or for those who may want to re-invest the money in another VCT for additional upfront tax relief after the initial five years.

Note: For illustration purposes only. VCTs are likely to have a higher risk profile than either pensions or ISAs. When clients choose to sell VCT shares, they are often sold at a small discount to the value of their underlying net asset value, so the impact of this should also be considered when assessing any specific products. Please note, after selling shares in a VCT, it is not possible to claim tax relief on new shares bought in the same VCT within six months of the initial sale.

[1]From 2028, the age at which people are allowed to withdraw private pension savings will increase to 57. Following that, the minimum pension age will continue to be ten years below the state pension age, which is due to increase in line with life expectancy rises. Those under the age of 42 could therefore see the date at which they can access their funds pushed back further.

Octopus can help your clients

Octopus is the UK's largest provider of VCTs.* For more information on our range of tax-planning investments, call **0800 316 2067** or visit **octopusinvestments.com**.

*Source: The Association of Investment Companies, April 2019.

Octopus: an investment company with a difference

When we launched Octopus in 2000, our ambition was to create a different type of financial services company. We wanted to be known for putting our customers first.

Today, Octopus is an investment company with more than 750 employees and more than £8 billion in funds under management (source: Octopus, March 2019). We work with tens of thousands of clients, and we've built market-leading positions in tax-efficient investment, smaller company financing, renewable energy and healthcare. But no matter how big we get, our aim is to keep doing the simple things well and to look after each of our customers, day in, day out.

Our products are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. We do not offer investment or tax advice, but we recommend investors seek professional advice. Before investing in a VCT, investors should read the product prospectus and Key Information Document (KID). These are available at octopusinvestments.com.

Why not look through some of our other tax-planning scenarios?

- Clients looking to extract profits from a business tax-efficiently
- Clients with Power of Attorney over someone's affairs
- Clients looking to set up a trust
- Clients who are additional rate tax payers
- Clients who want to reduce their income tax bill

Find out more

For copies, or to find out more about Octopus and what we do, call our Business Development Managers on **0800 316 2067** or visit our planning scenarios page on **octopusinvestments.com/clientscenarios**.