Client planning scenario

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

Clients in the medical profession looking at alternative ways to invest for their retirement

High-earning National Health Service (NHS) professionals are increasingly finding themselves unable to contribute further to their generous salary-linked NHS pension schemes. With relatively high and steady incomes, many are now looking for alternative ways to invest for the future.

This tax-planning scenario explains how a Venture Capital Trust (VCT) could be used to offset income tax on their various income streams.

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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 Andrea, an orthopaedic surgeon

Andrea, 59, is a successful surgeon and higher rate tax payer who is on the salary-linked NHS pension scheme. She has started to draw down some of her pension each year and, at the same time, is also earning a high salary. Since the addition of her pension income, her level of disposable income has increased significantly.

As she is restricted in what she can pay into her pension, she is looking for other tax-efficient options to invest this additional income. She would consider investing in UK smaller companies and is comfortable with the associated investment risk.

A tax-planning solution from Octopus

Andrea 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, her adviser suggests investing £50,000 of her annual income in a VCT.

In order to keep the upfront income tax relief claimed, VCT shares must be held for at least five years (should Andrea sell the shares before then, she'd have to repay the tax relief to HMRC). However, after five years, Andrea could sell her first VCT investment, then reinvest the proceeds in another VCT and use the additional income tax relief to reduce her year six income tax bill. Similarly, Andrea's year two VCT investment could be sold and reinvested in another VCT in year seven, giving her additional income tax relief, and so on.

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.

Invest £50,000 and get £15,000 income tax relief

This diagram shows how Andrea can claim income tax relief from each VCT investment she makes across several consecutive tax years. We've used six years as an example but in practice she could use this method to keep claiming income tax relief indefinitely. This is, of course, subject to certain conditions including the requirement to hold VCT shares for at least five years in order to retain the 30% upfront tax relief. VCTs are high risk and are not suitable for everyone. If an investor needs guaranteed income, cannot tolerate loss or is uncomfortable losing immediate access to their money, then VCTs are not suitable. It is also worth noting that 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. Andrea makes a **£50,000** investment in year one which allows her to claim **£15,000** in tax relief.

2. She continues to invest an additional **£50,000** into a VCT in years two, three, four and five, claiming income tax relief of **£15,000** in each tax year.

Year 1	Year 2	Year 3	Year 4	Year 5
Invest **£50k** in a VCT	Invest **£50k** in a VCT	Invest **£50k** in a VCT	Invest **£50k** in a VCT	Invest **£50k** in a VCT
£15k income tax relief	**£15k** income tax relief	**£15k** income tax relief	**£15k** income tax relief	**£15k** income tax relief

3. In year six, Andrea can choose to sell her first year's VCT investment, tax-free. By investing the proceeds of the sale into another VCT, she is able to use her first year's investment to claim further income tax relief. After six years, Andrea could have claimed **£90,000** in income tax relief from a **£250,000** investment.

By reinvesting in subsequent years, Andrea could continue to use this cyclical approach to claim up to £15,000 tax relief each year, without having to invest more than her initial £250,000 stake of £50,000 per year over the first five years.

Note: This example is for illustration purposes only. It assumes no loss or gain on the investment, although fluctuations will apply in practice. It also doesn't take into account the initial and ongoing fees and charges investors would pay, both at outset and when reinvesting.

When clients choose to sell their VCT shares, they are often sold at a small discount to the value of their underlying net asset value, the impact of this should also be considered when assessing any specific products.

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 £8.6 billion in funds under management (source: Octopus, June 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).

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

- Clients likely to exceed the lifetime pension allowance
- Clients who have sold a business in the last three years
- Clients who are additional rate tax payers
- Clients with Power of Attorney over someone's affairs
- Clients looking to extract profits from their business tax efficiently

For a copy, or to find out more about Octopus and what we do:

Call our Business Development Managers on **0800 316 2067**
or visit **octopusinvestments.com/clientscenarios**