Client planning scenario

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

Clients looking to extract money from their pension tax efficiently

However your clients are choosing to access their pension, they are likely to have an income tax liability. Retired clients that do not need immediate access to the money held within their pension may be looking for ways to extract it in an even more tax-efficient manner.

In this tax-planning scenario, we explain how a Venture Capital Trust (VCT) could be used to make the most out of money extracted from a pension.

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 Kate, a retiree who wants to extract money using new pension freedoms

Kate has saved up a sizeable pension pot after having paid into her defined contribution pension for many years. She has been retired for five years and is financially comfortable in her retirement.

Her daughter has recently had her second child and, following the new pension freedoms, Kate would like to take some money out of her pension to put towards the future education of her grandchildren. Despite the grandchildren not reaching school age for several years, she is keen to plan ahead and is investigating options to take money out of her pension in the most tax-efficient manner.

A tax-planning solution from Octopus

Kate 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 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. They are proving even more popular with individuals like Kate, who are looking to take advantage of the recent pension freedoms to access some of the money in their pension.

With a VCT, Kate 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. Kate 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.

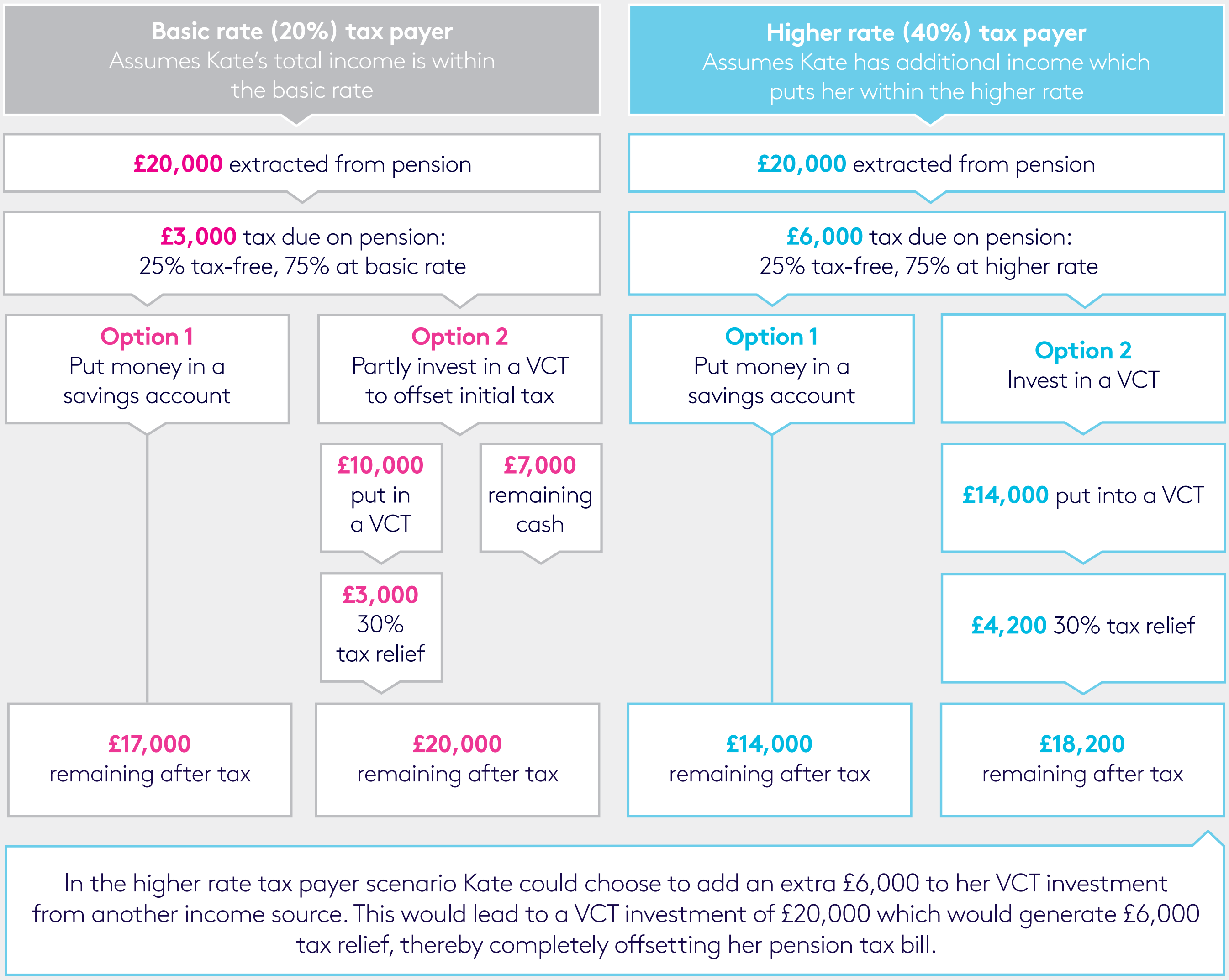
VCT shares could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

These products are not suitable for everyone.

The tax benefits of investing money extracted from a pension in VCTs

The flow chart below shows how Kate could take advantage of the tax benefits associated with investing in a VCT to offset or partly offset her pension income tax bill. There are two scenarios, depending on whether Kate is a basic rate tax payer or a higher rate tax payer. The latter scenario assumes that she has additional income streams on top of her pension. VCTs are high risk and inherently different to pensions and ISAs. 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 tax benefits mean that VCTs could be considered as an attractive option for some retirees.

How Kate reduced her income tax bill by investing money extracted from her pension



Note: For purposes of this illustrative example, we have assumed no gain or loss on investments, and it does not take into account any initial fees or ongoing charges that will be incurred. 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.

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**.