Client planning scenario

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

Clients who want to reduce their income tax bill

Reducing a client's income tax liability has now become a mainstream part of financial planning for high net worth individuals.

In this tax-planning scenario, we explain how a Venture Capital Trust (VCT) could be used to reduce income tax.

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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 Anthony, director of a media company

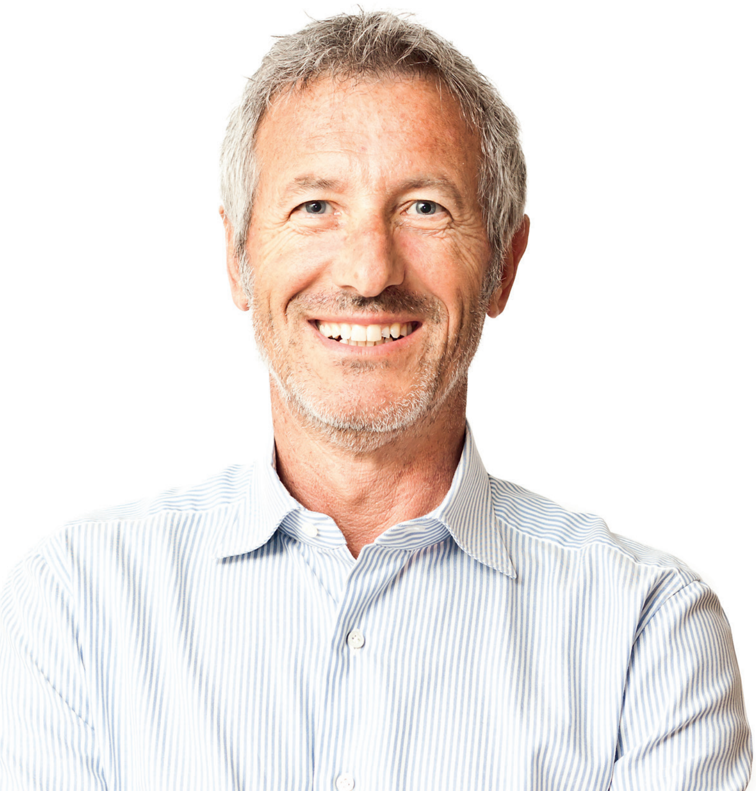
Anthony earns a large salary and good annual bonuses. He has accumulated significant Individual Savings Account (ISA) savings (more than £200,000) and pays large amounts into his SIPP each year.

With a high annual tax bill and substantial tax-efficient pension and ISA investments already, Anthony is interested in other government-endorsed ways to reduce the amount of income tax he pays. He would consider investing in UK smaller companies with the associated investment risk.

A tax-planning solution from Octopus

Anthony talks to his financial adviser, who makes an assessment based on his risk profile, investment time horizon (of more than five years) and attitude towards smaller company investing. Given this, his adviser suggests investing £50,000 of his 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 Anthony sell the shares before then, he'd have to repay the tax relief to HMRC). However, after five years, Anthony could sell his first VCT investment, then reinvest the proceeds in another VCT and use the additional income tax relief to reduce his year six income tax bill. Similarly, Anthony's year two VCT investment could be sold and reinvested in another VCT in year seven, giving him 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 Anthony can claim income tax relief from each VCT investment he makes across several consecutive tax years. We've used six years as an example but in practice he 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.

How Anthony reduced his yearly income tax bill by £15,000

Anthony places a **£50,000** investment in year one which allows him to claim **£15,000** in tax relief.

He 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	YEAR 6
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**	**Re-invest original 50K in a VCT**
£15k income tax relief	**£15k** income tax relief	**£15k** income tax relief	**£15k** income tax relief	**£15k** income tax relief	**£15k** income tax relief

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

By reinvesting in subsequent years, Anthony could continue to use this cyclical approach to claim up to **£15,000** tax relief each year, without having to invest more than his 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 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 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

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**.