Case Study: Using Income Tax Relief to settle a CGT bill

Deferring Capital Gains Tax (CGT) using EIS can be unattractive as it may mean paying the bill before reclaiming the tax.

The timing of exit can be unclear, and the CGT bill will crystalise on exit.

The income tax relief from a VCT could be used to meet the CGT charge

This has the advantage of generating relief in time to pay the bill, a clearer investment time horizon and no tax to pay on exit.

After investing £200k in a share portfolio, Miss Sherwood has made a £125k gain. After utilising her CGT allowance, this gives rise to a £25k CGT bill.

By investing £83,333 into a VCT, Miss Sherwood would:

GENERATE INCOME TAX RELIEF OF £25K

Which she could use to pay her CGT bill provided she has an income tax liability of £25k+ in the tax year she sold her share portfolio

BENEFIT FROM TAX FREE GROWTH AND INCOME

On her VCT investment

REALISE £241,667

With no further tax to pay

In five years, Miss Sherwood will be able to realise her VCT investment with no further tax to pay.

For further information, please contact your Business Development Manager or the Sales Team

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Important Information

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The opportunities described in this document are NOT suitable for all investors. Key risks are explained in the Information Memoranda/Investor Guides and should be carefully considered before submitting an application to invest.

Foresight cannot provide legal, tax, financial or investment advice. Foresight has taken all reasonable care to ensure that all the facts stated in this document are true and accurate in all material respects. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any forward-looking statements or projections are based on a number or assumptions as to market conditions and there can be no guarantee that any projected results will be achieved.

Tax reliefs are dependent on the VCT maintaining its qualifying status and on investors' individual circumstances. If a VCT loses its qualifying status, tax advantages will be withdrawn from that point. VCTs usually trade at a discount to their net asset value. It may be difficult to exit VCTs and they should be considered as long-term investments.

Investments will be made in small unquoted companies, which carry a higher risk than many other forms of investment. The VCT investments are likely to be illiquid and difficult to realise. The value of shares and income from them may go down as well as up, and past performance is not a reliable indicator of future performance and may not be repeated. Your capital is at risk and you may lose all the money you invest.

If you are in any doubt about the content of this document and/or what action you should take, you should seek advice from an independent financial adviser authorised under FSMA who specialises in advising on opportunities of this type.

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