CASE STUDY

Planning for clients who would like to enhance their retirement fund

PUMA INVESTMENTS

OVERVIEW

First launched in 1995, Venture Capital Trusts (VCTs) are investment companies that are listed on the London Stock Exchange, specifically designed to encourage investment into Britain's most promising smaller companies.

To encourage support for these businesses the government offers generous tax benefits to VCT investors. This also reflects the higher-risk nature of the companies they invest in.

Some high earners are increasingly finding themselves unable to contribute further to their pension schemes and are looking for alternative ways to invest for the future. This case study explains how a VCT could be used to enhance a retirement fund.

For investment professionals only, not to be read as tax advice.

Meet Robert

Aged 48

The problem

Robert is a high earning dentist. He has accumulated significant ISA savings and pays large amounts into his Self-Invested Personal Pension (SIPP) each year and can pay into his pension, he is looking for other tax-efficient options to invest his income.

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

The solution

Robert talks to his financial adviser, who makes an assessment based on his risk profile, attitude towards investing in smaller companies and his target investment time horizon. His adviser suggests investing £25,000 of his annual income in a VCT.

With a VCT investment Robert can claim up to 30% income tax relief on investments up to £200,000 in each tax year provided he holds the VCT shares for at least five years. After five years and subject to the liquidity of the VCT shares, Robert could sell his first VCT investment, then reinvest any sales proceeds in another VCT[1] and use the additional income tax relief to reduce his year six income tax bill. Similarly, Robert'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.

Other tax benefits of investing in a VCT include tax free dividends, which could provide an additional source of income, as well as no capital gains tax to pay when he sells the shares.

The tax refund can be claimed as soon as he receives his Income Tax certificate from the VCT's share registrar.

[1] Robert cannot claim tax relief on his new shares bought in the same VCT within six months of the sale date.

How Robert plans to reduce his income tax bill by investing in a VCT

Below we show how Robert plans to claim income tax relief from each VCT investment he makes across consecutive tax years. We have used seven years as an example but 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 the VCT shares for at least five years in order to retain the 30% upfront tax relief and subject to being able to sell VCT shares which can be illiquid.

Please note that when selling shares in a VCT, Robert cannot claim tax relief on his new shares bought in the same VCT within six months of the sale date.

Using Venture Capital Trusts to reduce income tax

In year six, Robert plans to sell his first year's VCT investment which would not incur any tax liability. By investing the proceeds of the sale into another VCT, he will be able to use the capital from his first year's investment to claim further income tax relief. Robert plans to sell the second year's VCT investment in year seven. By reinvesting sales proceeds again in year seven and in subsequent years, Robert could continue to use this cyclical approach to claim 30% income tax relief on his new investment each year, without having to invest more than his initial allocation of £25,000 per year over the first five years.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
VCT investment	£25,000	£25,000	£25,000	£25,000	£25,000	Re-invest sales proceeds from the original £25,000 VCT investment made in year 1	The amount will vary depending on how much Robert can sell his shares for
30% income tax credit	£7,500	£7,500	£7,500	£7,500	£7,500	30% income tax credit	30% income tax credit

This scenario is for illustrative purposes and assumes no gains or losses on the original investments. In practice, VCT shares, and any income from them, could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. Investors may not get back the full amount they invest, and they may also be harder to sell. VCTs are high risk and should be considered as long-term investments. An adviser will need to consider the eligibility and timings of tax rebates and tax liabilities depicted, and the impact of charges as relevant to the offer represented and/or any specific offer chosen. Tax reliefs depend on the VCT maintaining its qualifying status. Tax relief is available on investments of up to £200,000 per tax year. Tax reliefs depend on individuals' personal circumstances, minimum holding periods and may be subject to change.

Get in touch

We're here to help

Contact us on 020 7408 4070,
email advisersupport@pumainvestments.co.uk
or visit www.pumainvestments.co.uk

RISK FACTORS

An investment in Puma Alpha VCT or Puma VCT 13 carries significant risk and you should seek independent financial advice. You should only invest in a Puma VCT on the basis of the Prospectus, which details the risks of the investment. Below is a summary of the key risks:

General

Past performance of Puma Investments in relation to its other VCTs is no indication of future results. The payment of dividends is not guaranteed. Investors have no direct right of action against Puma Investments. The Financial Ombudsman Service / the Financial Services Compensation Scheme are not available.

Capital at risk

An investment in VCTs involves a high degree of risk. Investors' capital may be at risk. There is a possibility you may lose all of your capital invested.

Tax reliefs

Tax reliefs are not guaranteed, depend on individuals' personal circumstances and a five-year minimum holding period, and may be subject to change.

Liquidity

It is highly unlikely there will be a liquid market in the ordinary shares of a VCT, and it may prove difficult for investors to realise their investment immediately, in full or at all.

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