

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



# Clients looking to reduce their income tax bill using their ISA

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

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

## 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 and ongoing fees, such as administration fees and annual management charges) relevant to the Octopus Titan VCT ISA. When clients choose to sell Octopus Titan VCT shares, they are often brought at a small discount to the net asset value (NAV), so the impact of this should also be considered when assessing the product.

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 Deepika, a committed ISA investor

Deepika earns a salary of £120,000 per year. She makes regular contributions to her pension and has accumulated a portfolio of ISAs totalling £500,000 over her lifetime. Deepika has limited cash available and wants to find an innovative solution to help her pay for her daughter's secondary school fees using her existing assets if possible.

Deepika has a high annual tax bill. She makes substantial pension contributions in addition to her existing ISA investments and is interested in other government-endorsed ways to reduce the amount of income tax she pays and free up some additional cash. She does not want to tie up her limited available cash. She would consider investing in UK smaller companies and is comfortable with the associated investment risk.

### A tax-planning solution from Octopus

Deepika 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 transferring money from her existing ISA into the Octopus Titan VCT ISA.

Deepika's adviser explains that she could transfer part of her existing ISA investments each year, helping to reduce her annual income tax bill while also diversifying her portfolio. With the Octopus Titan VCT ISA, Deepika can claim up to 30% income tax relief, provided she holds the shares for at least five years.



### 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.

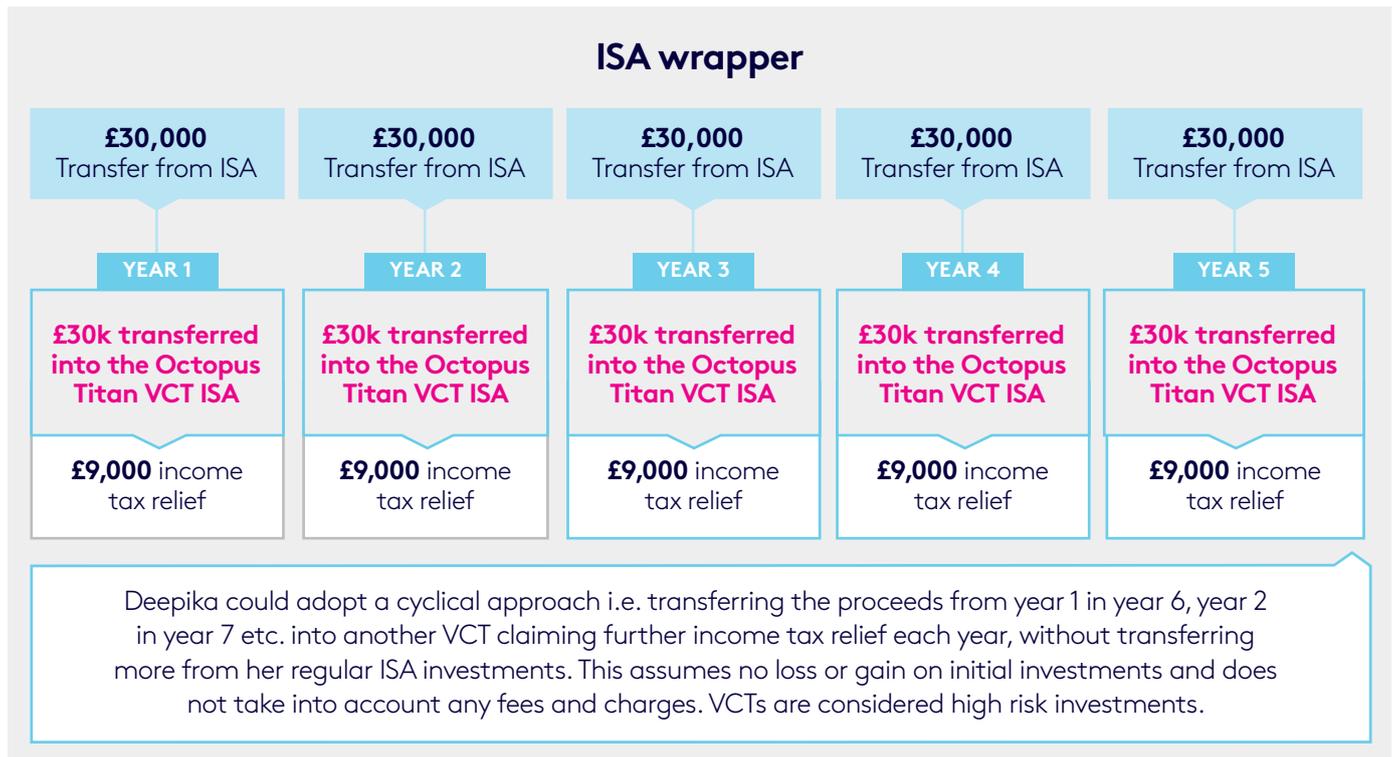
VCT shares could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

These products are not suitable for everyone.

## Transfer £30,000 per year and get £9,000 income tax relief each time

This diagram shows how Deepika can take advantage of the tax benefits associated with transferring money from her existing ISA investments into the Octopus Titan VCT ISA. It's worth pointing out that VCT ISAs are high risk and inherently different to pensions, stocks and shares and cash ISAs, and should not be compared on tax benefits alone. If an investor needs guaranteed income, cannot tolerate loss or is uncomfortable losing immediate access to their money, then this type of ISA is not suitable. Clearly everyone's circumstances are different and this investment won't be suitable for all, but the attractive tax benefits mean that it could be considered as part of a portfolio for some, alongside their pensions, regular stocks and shares or cash ISAs.

Deepika could claim up to £9,000 income tax relief per year to offset against her income tax due using her existing assets and without the need to tie up any of her regular income.



**Note:** For illustration purposes only. The Octopus Titan VCT ISA is likely to have a higher risk profile than either pensions or ISAs. 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. Please note, 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.



### 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](https://www.octopusinvestments.com).

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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](https://www.octopusinvestments.com/clientscenarios).