



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.

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

About this scenario

We created this tax planning scenario to help advisers develop suitable planning strategies for clients. It does not provide advice on investments, taxation, legal matters, or anything else. As you know, tax-efficient investments aren't suitable for everyone. Any recommendation should be based on a holistic review of a client's financial situation, objectives and needs.

Before recommending an investment, you should also consider the impact of charges related to the product, such as initial fee, ongoing fees, and annual management charges.

Meet Anthony, director of a media company

Anthony earns a good salary and significant 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 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 and is comfortable 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 each year.

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 would have to repay the tax relief to HMRC). However, after five years, Anthony could sell his first VCT investment, then reinvest any sales 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 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.

Invest £50,000 and claim £10,000 income tax relief

This flow chart 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 20% 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.

How Anthony reduced his yearly income tax bill by £10,000

Anthony makes a **£50,000** investment in year one which allows him to claim **£10,000** 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 **£10,000** in each tax year.

YEAR 1

Invest
£50,000
in a VCT

£10,000 income
tax relief

YEAR 2

Invest
£50,000
in a VCT

£10,000 income
tax relief

YEAR 3

Invest
£50,000
in a VCT

£10,000 income
tax relief

YEAR 4

Invest
£50,000
in a VCT

£10,000 income
tax relief

YEAR 5

Invest
£50,000
in a VCT

£10,000 income
tax relief

YEAR 6

Re-invest
sales proceeds
from original
£50,000
VCT
investment

£10,000 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 the capital from his first year's investment to claim further income tax relief. In this example, Anthony claimed a total of **£60,000** in income tax relief, investing **£250,000** over five years and re-investing **£50,000** of the proceeds from selling his year one investment. By reinvesting sales proceeds in subsequent years, Anthony could continue to use this cyclical approach to claim up to **£10,000** 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: Tax rates and allowances are correct for the tax year 6 April 2026 - 5 April 2027. 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. VCTs are high risk and inherently different from pensions and 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.

About Octopus

Octopus Investments was founded in 2000 with the aim of being a financial services company that puts its customers first.

From the very beginning, Octopus has invested in people, ideas, and industries that aim to change the world and unlock a brighter tomorrow. The company has built expertise in sectors that make a real difference in financial planning, such as renewable energy, smaller companies, and healthcare.



Octopus is proud to be a **Certified B Corporation™**, meaning its social and environmental performance, accountability and transparency have been assessed and certified. Octopus believes there is no trade-off between 'doing good' and making money, and that business can pursue purpose as well as profit.



If you'd like to discuss how these planning scenarios apply to your clients, or to find out more about how Octopus can support you, call our Business Development Managers on **0800 316 2067**, email support@octopusinvestments.com or visit octopusinvestments.com



For information on our other scenarios, please visit: octopusinvestments.com



If you'd like to discuss how these planning scenarios apply to your clients, or to find out more about how Octopus can support you, call our Business Development Managers on **0800 316 2067**, email support@octopusinvestments.com or visit octopusinvestments.com.

VCTs are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. This communication does not constitute advice on investments, legal matters, taxation or any other matters. Before investing in a VCT, investors should read the product prospectus and Key Information Document (KID). These are available at octopusinvestments.com.

Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn London EC1N 2HT. Registered in England and Wales No. 03942880. We record telephone calls. Issued: April 2026. CAM013967-2604