



Clients looking to invest in a diversified portfolio of early-stage companies

Investments in early-stage, unlisted businesses can be an attractive way to target high growth. They can also be an effective diversifier when added to a suitable client's portfolio.

Venture Capital Trusts (VCTs) are a well-known and tax-efficient way clients can gain access to a large and diversified portfolio of early-stage companies. But clients have another option to access venture capital tax-efficiently and can target high growth through EIS.

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'll likely 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 Michael, an experienced investor looking to target high growth

Michael is a partner at his accountancy firm. Several years ago, he expressed an interest in using a portion of his wealth to diversify his income stream.

At the time, his financial adviser explained that a VCT would give him access to a ready-made portfolio of early-stage companies. This could complement and diversify his existing portfolio of investments while supporting his tax planning. He could claim up to 30% income tax relief on his investment and target a tax-free income from his investment.

Each year since, Michael has invested between £10,000 and £50,000 in a VCT.

But over the past two years, Michael's accountancy firm has grown rapidly. He now has a much larger pot of money to invest on an annual basis. He's now able to allocate closer to £100,000 each year to venture capital.

At his annual client review, Michael and his adviser discuss his current investment strategy and what might suit his needs going forward.

When the topic of venture capital comes up, Michael's adviser has an idea.



A tax planning solution from Octopus

Michael's adviser makes an assessment based on his risk profile, investment time horizon, and attitude to risk.

He explains that given the increased level of capital he has available to invest each year, he could structure his annual investment in early-stage companies differently. By doing so he could increase the growth potential on his investment.

Michael could participate in multiple fundraising rounds of an Enterprise Investment Scheme (EIS) portfolio.

An EIS portfolio is managed by a specialist venture capital manager, and typically invests in 10-20 early-stage companies, meaning the investment is more concentrated than a VCT and investors hold shares directly in each young business.

EIS-qualifying companies have high growth potential because they are at the beginning of their growth journeys. Of course, with this growth potential comes higher risk. To compensate for some of the risk of investing in early-stage businesses, EIS-qualifying investments allow investors to claim several tax reliefs. As with a VCT, Michael should be able to claim 30% upfront income tax relief.

EIS-qualifying investments do not typically pay dividends, instead returns come from growth when the company is sold, with gains being tax free. Given the potential for high growth, this is a valuable relief because gains would otherwise be taxed at 20%.

Along with high growth potential comes high risk of failure. In fact, a typical EIS portfolio should be expected to see several losses, with overall returns being driven by a small number of companies in a portfolio. This is why the ability to claim up to 45% loss relief on a per-company basis is valuable. Should a company return a loss, Michael could claim loss relief against income or capital gains, reducing the impact of the loss, no matter how well his portfolio is performing overall.

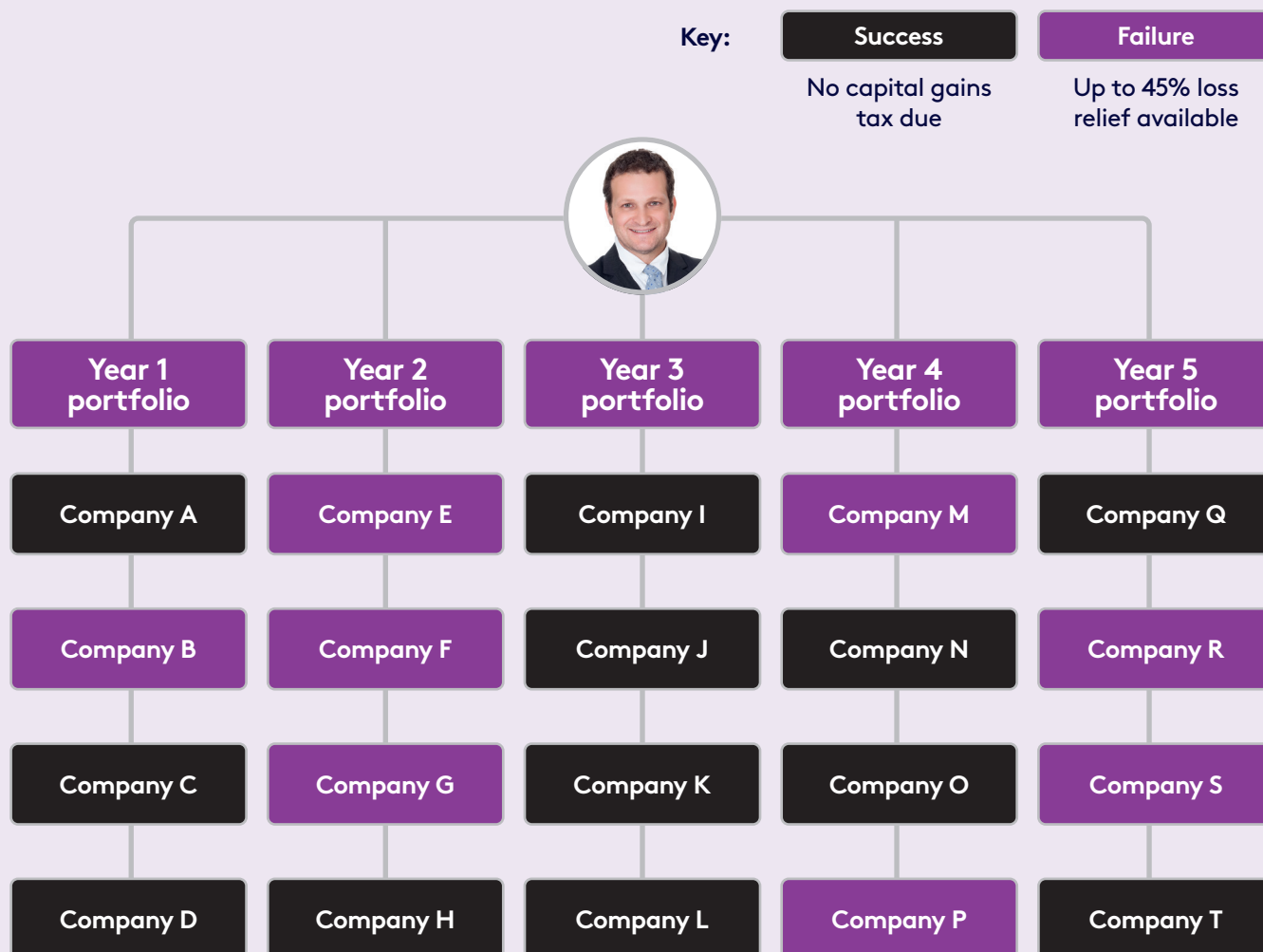
Tax-free growth and loss relief are a powerful combination of reliefs for a high-risk portfolio with the potential for high growth.

Michael's adviser explains that by making a succession of investments in EIS portfolios each year, Michael can build up a portfolio of around 30-60 early-stage businesses. He could also take advantage of the generous tax reliefs available through EIS, which are designed to support investors in both profitable and loss-making scenarios. The blended portfolio could be an attractive way for Michael to invest in smaller companies and target high growth while his VCT investments target an income.

An important reminder about risks

- VCT and EIS investments are by their nature high risk and should be considered as long-term investments. The value of an investment, and any income from it, can fall as well as 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 depend on the portfolio companies maintaining their qualifying status.
- The shares of smaller companies could fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

By investing every year Michael can build a large portfolio with tax free growth and loss relief



Tax rates and allowances are correct for the tax year 6 April 2025 - 5 April 2026. This example is for illustration purposes only. It assumes no specific loss or gain on any of the investments, although fluctuations will apply in practice. It also doesn't take into account the initial and ongoing fees and charges.

A different kind of investment company



Founded in 2000, Octopus Investments set out to be a financial services company with a difference, and one that put its customers first.

From the very beginning, we've invested in the people, ideas and industries that aim to change the world and unlock a brighter tomorrow. We built our expertise in spaces that make a real difference in financial planning. And we've designed investments that drive money into those sectors we truly believe in, such as renewable energy, smaller companies and healthcare.

Certified We're proud to be a Certified B Corporation™



Being a B Corp means our social and environmental performance, accountability and transparency have been assessed and certified. We strongly believe that there is no trade-off between 'doing good' and making money, and our business can pursue purpose as well as profit. We care about how we do business.

Planning opportunities in your client bank

Our investments can help clients in a range of situations meet their financial goals and make use of available tax reliefs. These are some potential planning ideas you might want to consider.

Clients who are selling a second home	Clients who have reached the annual pension allowance	Clients who have recently sold a business
Change to Clients looking for diversification through private markets	Clients who are experienced investors, looking to leave a legacy	Experienced clients looking to invest into a smaller portfolio of early-stage companies with high growth potential

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.

EIS investments are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs investment or tax advice, and we recommend investors seek professional advice. Before investing in an EIS, investors should read the product prospectus and Key Information Document (KID). These are available at octopusinvestments.com.

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