



Ex-business owners investing for growth and planning for inheritance tax

When a client sells a business, they can face complex tax implications, including capital gains and inheritance tax concerns.

This tax planning scenario explains how the Enterprise Investment Scheme (EIS) and Business Relief-qualifying investments could support an ex-business owner to invest tax-efficiently for the future, while targeting growth.

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 Jin, an ex-business owner wanting to invest for growth tax-efficiently

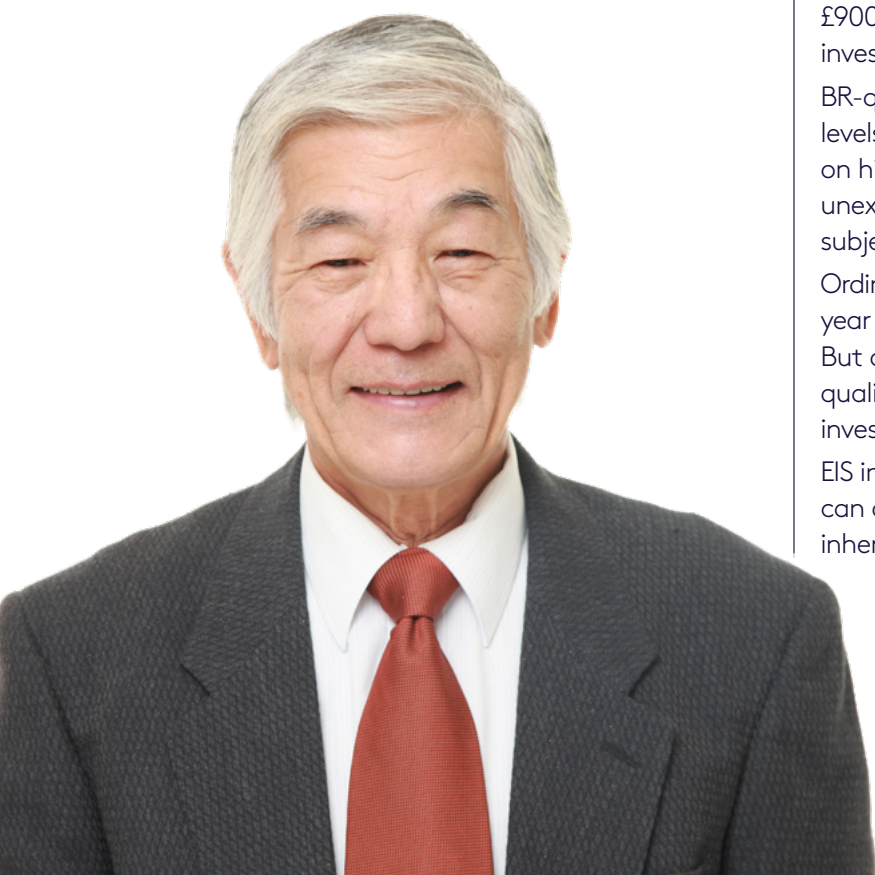
Jin is 75 and has recently sold his automotive business. He plans to enjoy his retirement before leaving his wealth to his children.

He's made a significant gain of £2 million from selling his business. The first £1 million of that gain benefits from Business Asset Disposal Relief (BADR), resulting in a reduced rate of capital gains tax at 10% (£100,000 tax due).

The remaining half of the gain, less his Annual Exempt Amount (£3,000), is subject to capital gains at 20% (£199,400 tax due). Jin has a total capital gains tax liability of £299,400.

There are also estate planning implications. Jin's business would have qualified for Business Relief (BR), an established relief from inheritance tax. But the cash proceeds from the sale won't benefit from any relief, meaning he has triggered a significant inheritance tax liability.

He would like to put plans in place that will allow him to leave more of his wealth to his children, while targeting growth.



A tax planning solution from Octopus

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

His adviser suggests using the proceeds from the sale of his business to invest in an EIS-qualifying portfolio and an investment expected to qualify for BR.

He recommends that Jin invests a portion of his wealth that he can afford to lock up in a portfolio of smaller companies over the long term. He suggests investing in a portfolio of EIS-qualifying companies so he can support fellow entrepreneurs and target high growth.

Jin could invest the portion of his capital gain that has not benefitted from BADR (£997,000) into an EIS portfolio.

Since capital gains deferral is available for EIS investments, he can choose to defer the gain, meaning a liability of £199,400 will not be immediately due. If Jin were to die holding his EIS investments, the capital gain deferred would be eliminated.

He could also claim income tax relief of up to £299,400 on any income earned. He could also claim relief on any losses, against gains or income, should an individual EIS-qualifying company in his portfolio fail.

Jin's adviser then suggests that he invests a further £900,000 of the proceeds into a BR-qualifying investment to complement his estate planning.

BR-qualifying companies could help Jin to target higher levels of growth or more predictable returns depending on his goals. His investment could also be sold if he unexpectedly needed access to this portion of wealth, subject to liquidity being available.

Ordinarily, a BR-qualifying investment would have a two-year holding period to become free from inheritance tax. But due to replacement relief, Jin's investment should qualify for relief immediately, provided his funds are invested within three years of the sale of his business.

EIS investments are also BR-qualifying, meaning they can also be left to his children immediately free from inheritance tax.

An important reminder about risks

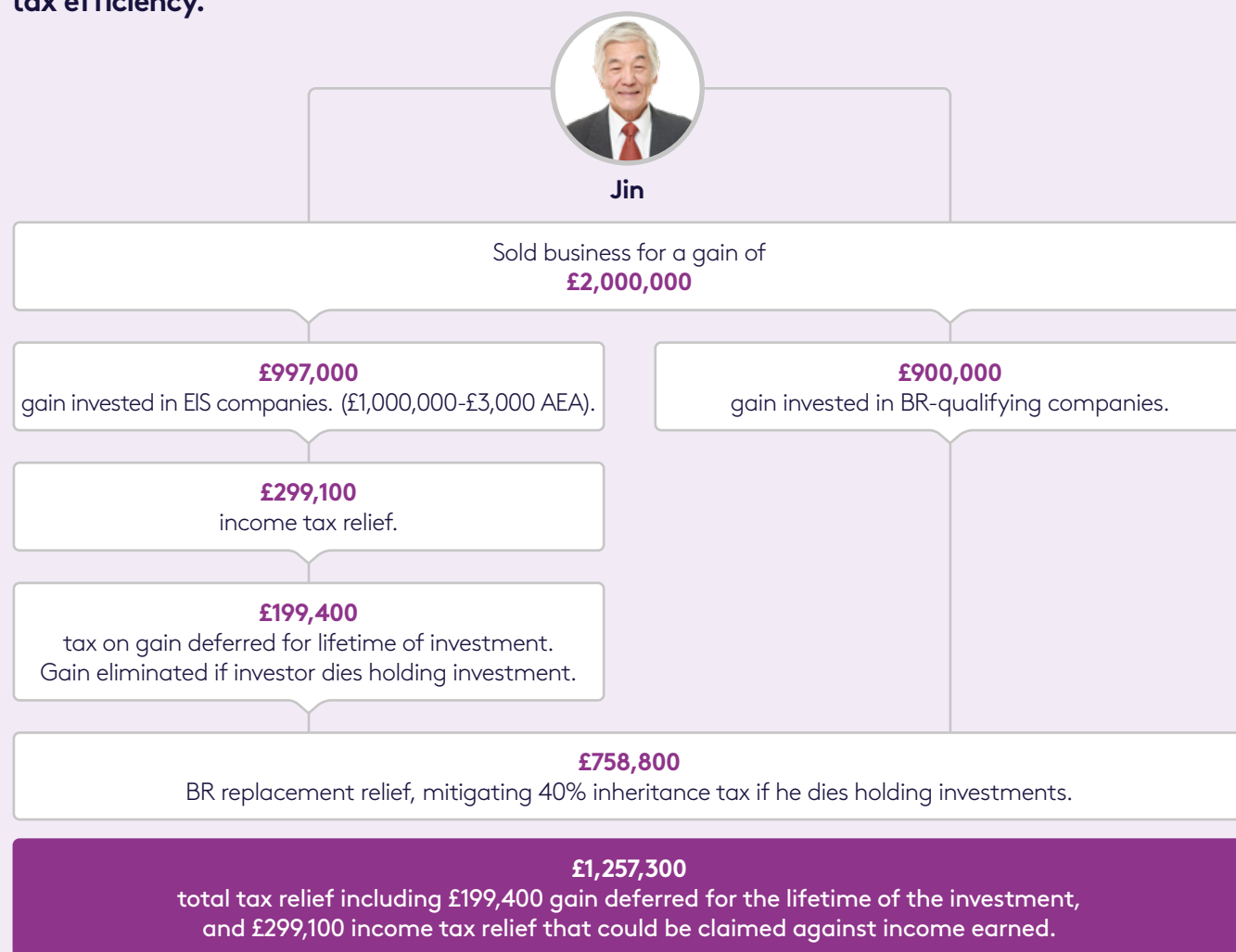
- EIS and BR-qualifying investments are high-risk and should be considered long-term investments. The value of an investment can fall or rise. Investors may not get back the full amount they invest.
- Tax treatment depends on individual circumstances and could change in the future. Tax reliefs depend on the portfolio companies maintaining their qualifying status.
- The shares of smaller and unquoted 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.

A combination of EIS and BR could be an attractive way to invest for growth and inheritance tax efficiency

This flow chart shows how entrepreneurs who have sold their business can take advantage of the tax benefits associated with investing in EIS and BR-qualifying companies.

Clearly, everyone's circumstances are different, and these won't be suitable for all, but the attractive tax benefits mean that EIS and BR-qualifying investments could be considered as part of client portfolios.

How Jin used the proceeds from selling his business to target growth and inheritance tax efficiency.



Please note that the capital gain is deferred during the lifetime of the EIS investment. It will come back into charge when EIS companies are sold and subject to CGT at that time.

Tax rates and allowances are correct for the tax year 6 April 2024 - 5 April 2025. For illustrative purposes only. This example assumes no 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 with a well-diversified portfolio looking for longer term, higher risk investments	Clients who have reached the annual pension allowance
Clients looking to diversify 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. This communication does not constitute advice on investments, legal matters, taxation or any other matters. Investors should read the product brochure before deciding to invest - this can be found at octopusinvestments.com.

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