



## Clients looking to extract profits from a business tax efficiently

Small business owners building up cash in their business have an opportunity cost of not utilising it. There may also be tax implications.

This example explains how a Venture Capital Trust (VCT) can be used to extract surplus money from a business tax efficiently.

## 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 Vijay, a small business owner

Vijay is an independent IT contractor. Because he works as a consultant for a number of different companies, he has established a limited company. Vijay chooses to pay himself with a combination of a salary of £12,570 (within his National Insurance Contribution threshold) and a dividend of £39,700. He owes £4,714 in tax, meaning after tax, he'll be left with £47,556 in available cash.

Vijay also pays into his pension and chooses to invest in some new technology for his business. However, even after this, he is still left with surplus money which is building up in his business. There's an opportunity cost of not better utilising this money, but there may also be other tax implications in the future if it continues to build within the business. Vijay is therefore keen to extract an additional dividend from his company but is wary about the additional tax he would owe.



### A tax planning solution from Octopus

Vijay 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 Vijay's goal of extracting surplus money tax efficiently, his adviser suggests that he pay himself an additional £50,000 dividend and invest it into a VCT, holding this investment for at least five years.

Since their introduction in 1995, VCTs have become increasingly popular with some investors, particularly those who already have personal pensions and Individual Savings Accounts (ISAs), and are comfortable with higher risk investments. They are proving even more popular with individuals like Vijay, following recent changes to dividend taxation.

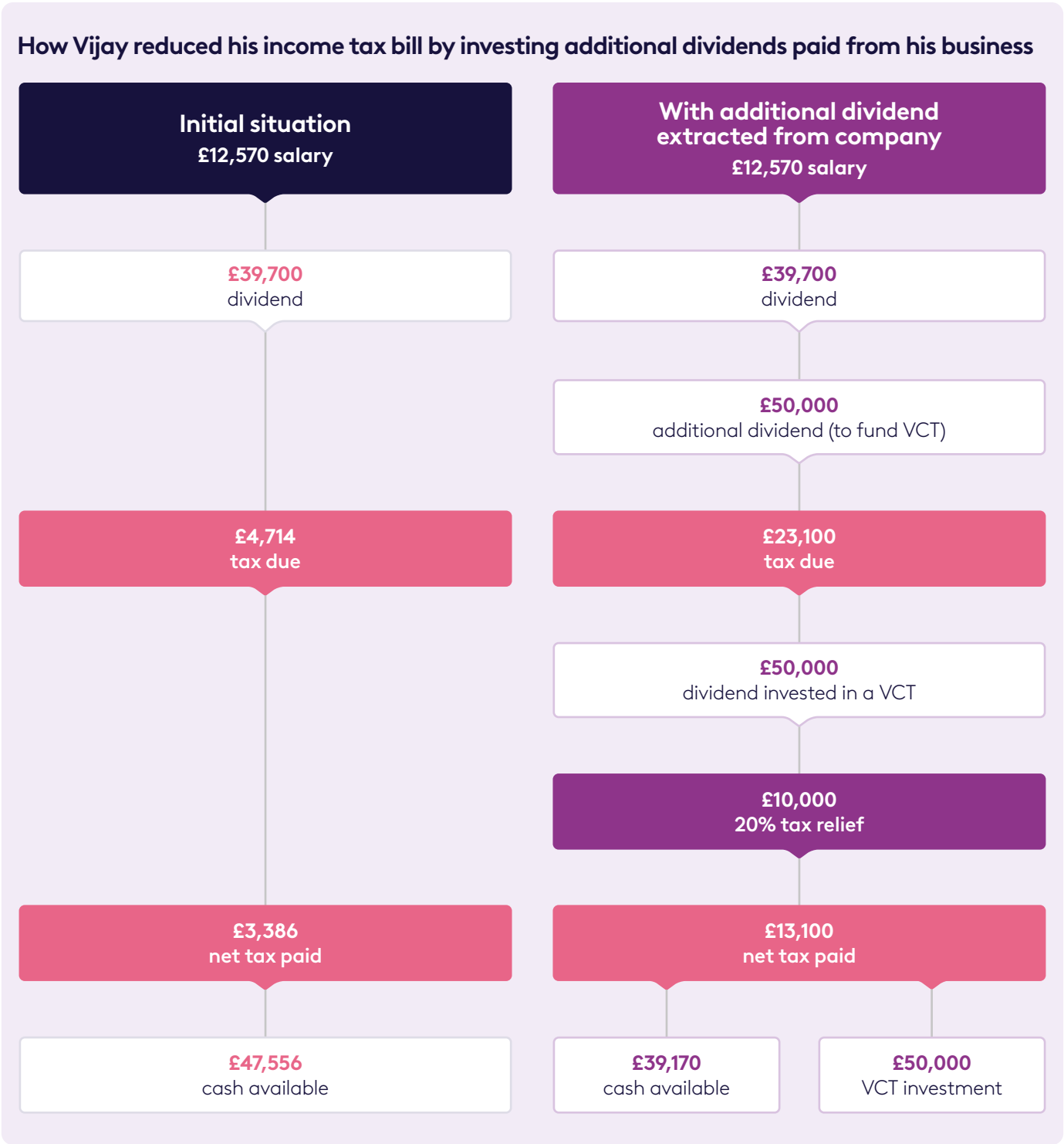
With a VCT, Vijay can claim up to 20% income tax relief on up to £200,000 invested in any single tax year, provided he holds his VCT shares for at least five years. Vijay can also benefit from tax-free dividends and no capital gains tax to pay when he sells the shares.

#### 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.

## The tax benefits of investing dividends in a VCT

This diagram shows how a small business owner can take advantage of the tax benefits associated with investing in a VCT to offset some of their dividend tax bill. VCTs are high risk and if an investor needs guaranteed income, cannot tolerate loss or is uncomfortable losing immediate access to their money, then a VCT will not be suitable. Clearly everyone’s circumstances are different, and VCTs won’t be suitable for all, but the attractive tax benefits mean that VCTs could be considered as part of a portfolio for some people.



**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](mailto:support@octopusinvestments.com) or visit [octopusinvestments.com](https://octopusinvestments.com)



For information on our other scenarios, please visit: [octopusinvestments.com](https://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](https://octopusinvestments.com).

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