



Clients looking for high growth investment opportunities

This planning scenario explains how the Octopus Ventures EIS Service could help clients diversify their investment portfolio, whilst benefitting from a range of valuable tax reliefs.

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 value of tax reliefs for their client. You will also need to consider the impact of charges (including initial fee and ongoing fees, such as annual management charges) relevant to the products represented and/or any specific product you have chosen.

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 and information about the associated risks, please see the relevant product literature available at octopusinvestments.com.

Meet David, who wishes to diversify his investment portfolio into high growth opportunities.

David, 50, is a director in his firm, and a high earner with a salary of £170,000 a year – on top of which he receives a bonus. This year, the bonus is £120,000. Normally, he invests part of his bonus in long-term investments. Every year he utilises his annual pension allowance, and has previously invested twice in Octopus Titan VCT – the largest venture capital trust in the UK¹.

This year he would like to use part of his bonus to diversify his long-term investments, and is looking for something that feels more exciting with the potential for high growth. He understands that investments with significant growth potential are typically high-risk.

In addition to targeting significant returns, David is also passionate about helping small businesses succeed. So, he is keen to use this money to help fund some innovative companies, whilst being part of their growth story.



¹Association of Investment Companies, 30 September 2020.



An EIS solution from Octopus.

David talks to his financial adviser, who makes an assessment based on David's objectives, risk appetite and attitude towards small company investing, and recommends the Octopus Ventures EIS Service.

The adviser explains that this investment will provide David with shares in 10-15 exciting, early-stage businesses, each selected for their potential to grow by ten times over the next five to ten years.

David knows Octopus from his previous investments in Titan VCT, and that Octopus has backed, supported and exited some extraordinary rising stars which are now household names (including Zoopla, Graze, Secret Escapes and Tails.com).

His adviser explains that investing in companies aiming for such high-growth is high-risk, and not all early-stage companies succeed. However, to provide an incentive for the risk involved, there are valuable tax reliefs that David could receive.

David is able to claim 30% tax relief on his investment, which is available to offset against his income tax, such as the tax on his bonus. Where a company in David's portfolio achieves the high growth targeted, it will be free from capital gains tax. His adviser explains that where a company fails, David would be able to claim

loss relief against income tax or capital gains – even if his portfolio has increased in value overall. As David is an additional rate taxpayer, he could claim loss relief at his marginal rate of tax of 45%.

His adviser explains that this can mean that an EIS portfolio is a very attractive way to make high-risk investments in smaller companies in the pursuit of growth.

David chooses to invest £100,000.

An important reminder about key risks

- The service is high-risk and should be considered as a long-term investment. 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 may 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.

How David's investment in Octopus Ventures EIS Service works.

Income tax relief on investment

- After Octopus' initial fee and an initial dealing fee have been paid, David will invest £97,030.
- For simplicity, we have assumed David's money is invested into five EIS-qualifying companies, each of equal weighting in his portfolio. In reality Octopus Ventures EIS Service portfolios are expected to contain 10-15 companies and the amount invested into each company may vary.
- He claims 30% income tax relief totalling £29,110 (£5,822 per company).
- David is entitled to claim this relief in the year the investment is made into each EIS company, or could choose to carry it back to the previous tax year.
- As Octopus will invest into early-stage opportunities as they arise, all of David's investments may not be made in the tax year in which he subscribes to the portfolio.
- He chooses to set this against his income tax bill for the current year. This reduces the £54,000 tax bill on David's £120,000 bonus to £24,890.

David's investment journey

- Some of the companies in David's portfolio benefit from strong performance over the next eight years, with two delivering very attractive growth when they are sold. One company never achieves success and simply returns the amount David invested when it is sold, and two fail completely, losing all of David's capital. Overall, David's £100,000 investment in the service returns £271,684 of proceeds when each company is sold.



Capital gains tax-free growth on the “winners”

- Of the two companies in David’s portfolio that perform very well, one grew by three times the amount David invested and one grew by ten times. This means that of £38,812 invested in these companies, David receives £137,762 after paying Octopus fees.
- The gains made on the sale of these shares are tax-free. Had the shares not been EIS-qualifying he would have owed a total of £42,111 in capital gains tax at his marginal rate of 20%.

A number of EIS tax reliefs rely on companies maintaining their qualifying status and the investor holding their shares for at least three years. Tax treatment depends on individual circumstances. Investors’ capital is at risk.

Loss relief against income compensates for the “losers”

- Over the years, two of the companies in David’s portfolio fail to prosper, and all of the capital that David invested into them is lost.
- David is entitled to claim loss relief in respect of his effective loss, which is the amount he invested into each company (£19,406), plus the dealing fee (£194), less the income tax relief claimed (£5,822). This amounts to £13,778 on each failed company.
- David chooses to offset the effective losses of £27,556 against his income in the tax year each loss occurred. As an additional rate tax-payer, he obtains relief at 45% totalling £12,400.
- Importantly David is entitled to claim this relief despite his overall portfolio generating positive returns.
- Also, because Octopus’ AMC and performance fees are only paid where a company is sold for more than the amount invested, David does not pay a performance fee or any of the AMC that has accrued on these companies.

Octopus can help your clients

Octopus is the UK’s largest manager of EIS investments¹. For more information on our range of tax-planning solutions, call 0800 316 2067 or visit octopusinvestments.com.

¹Tax Efficient Review, April 2020.

The below table provides an overview of David's investment results and tax reliefs.

	Total	Performance of a portfolio of five EIS companies				
		10x	3x	1x	0x (loses all value)	0x (loses all value)
Amount invested	£100,000					
Octopus initial fee (2%)	(£2,000)					
Dealing fee (1%)	(£970)	(£194)	(£194)	(£194)	(£194)	(£194)
Amount invested in EIS companies	£97,030	£19,406	£19,406	£19,406	£19,406	£19,406
Proceeds from sales	£271,684	£194,060	£58,218	£19,406	–	–
AMC (2%+ VAT) accrued for 8 years	(£21,561)	(£14,739)	(£6,822)	–	–	–
Performance fee ¹ (20%+ VAT)	(£51,232)	(£41,917)	(£9,315)	–	–	–
Dealing fee (1%)	(£2,717)	(£1,941)	(£582)	(£194)	–	–
Gain or (loss) on each EIS company		£115,863	£21,899	(£388)	(£19,600)	(£19,600)
Gain or (loss) on investment	£96,174					

EIS tax reliefs on David's portfolio

All growth of the companies in David's portfolio is free from capital gains tax. Had they not been EIS-qualifying he would have owed a total of £42,111 at a rate of 20%.

Income tax relief (30%)	£29,110	£5,822	£5,822	£5,822	£5,822	£5,822
Loss relief against income tax (45%)	£12,400	–	–	–	£6,200	£6,200
Total tax reliefs	£41,510	£5,822	£5,822	£5,822	£12,022	£12,022

Investing in EIS-qualifying companies is high risk and capital is at risk.

¹Performance fee is calculated based on the difference between the proceeds from sales and the amount invested into each company. For full details on the fees and charges, please read the [Octopus Ventures EIS Service brochure](#). This illustrative example should be used for reference only to show the impact of fees and charges on, and the potential tax treatment of, an investment in the service. There is no target for this service so this illustration is based on our experience of investing in smaller companies and an investment in the service may return more or less than this example. The example shows the impact of charges paid to Octopus but it does not include any charges paid to an adviser.

In an illustrative scenario where of five EIS companies, two return the initial amount invested and three lose all value, loss on investment would amount to £61,576, returning £38,424 of the initial amount invested. Income tax and loss reliefs could total £47,710 (if claimed by an additional rate tax payer).



Tax reliefs are shown for illustrative purposes only as each investor's tax situation may be different. Tax benefits shown assume investments maintain their qualifying status and that the relevant legislation does not change.



Three tax solutions, one expert provider.

Find out more by visiting octopusinvestments.com

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 £9 billion in funds under management (source: Octopus, June 2020). 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.



For a copy of our product brochure,
or to find out more about Octopus
and what we do:

Call our Business Development Managers on 0800 316 2067
or visit octopusinvestments.com/resources.



EIS-qualifying investments are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. Investors should read the product brochure before deciding to invest, this can be found at octopusinvestments.com. We do not offer investment or tax advice. 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: March 2021.

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