Client planning scenario

For professional advisers and paraplanners only. Not to be relied upon by retail investors.

Clients selling a buy-to-let property and targeting a tax-free income

Changes to legislation has put landlords under pressure. Many clients have decided to exit altogether and sell their investment.

This client planning scenario shows how investing in an Enterprise Investment Scheme (EIS) and a Venture Capital Trust (VCT) could help clients plan for a capital gain and target a tax-free income.

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A brighter way

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 Bobbie, a buy-to-let landlord

Bobbie currently has an additional property which she lets out to supplement her income. But she's finding that her income is being increasingly squeezed by legislation. On top of this, being a landlord has become more burdensome.

Until 2017, buy-to-let landlords could deduct their mortgage interest from their rental income and only pay tax on the net income. Bobbie now only receives a tax credit equivalent to the basic rate of tax. She no longer gets all the tax back on her mortgage interest payments. This has been made worse by interest rate rises making her mortgage more expensive.

Bobbie would like to sell her buy-to-let property. She's aware, though, that this will have implications, including tax implications. Bobbie purchased her property for £800,000 and given house price inflation in the UK, its market value today is £900,000. She would realise a sizeable gain if she sold her property. Bobbie would also miss the additional stream of rental income.

A tax planning solution from Octopus

Bobbie's adviser makes an assessment based on her risk profile, investment time horizon, and attitude to risk, and recommends she consider making a combination of two tax-efficient investments - the Enterprise Investment Scheme and a Venture Capital Trust.

First, her adviser explains that she could sell her property and invest the portion of the proceeds which represents a capital gain – an amount of £100,000 – in a portfolio of EIS-qualifying shares.

Bobbie could use her EIS investment to defer the gain she crystallised when selling her rental property.

Bobbie's adviser then explains that she could invest some or all the remaining capital from the sale of the property to target an income.

Her adviser suggests that investing £50,000 in a VCT would allow her to target a tax-free income (often targeting 5% of net asset value per annum), while diversifying her sources of income.

To compensate for some of the risks involved in investing in early-stage UK businesses, EIS and VCTs allow investors to claim generous tax reliefs. Among other tax reliefs, Bobbie can claim 30% up front income tax relief on her investments, capital gains free growth on the investments. And in the case of EIS in particular, loss relief against income and gains for any company that fails.

An important reminder about risks

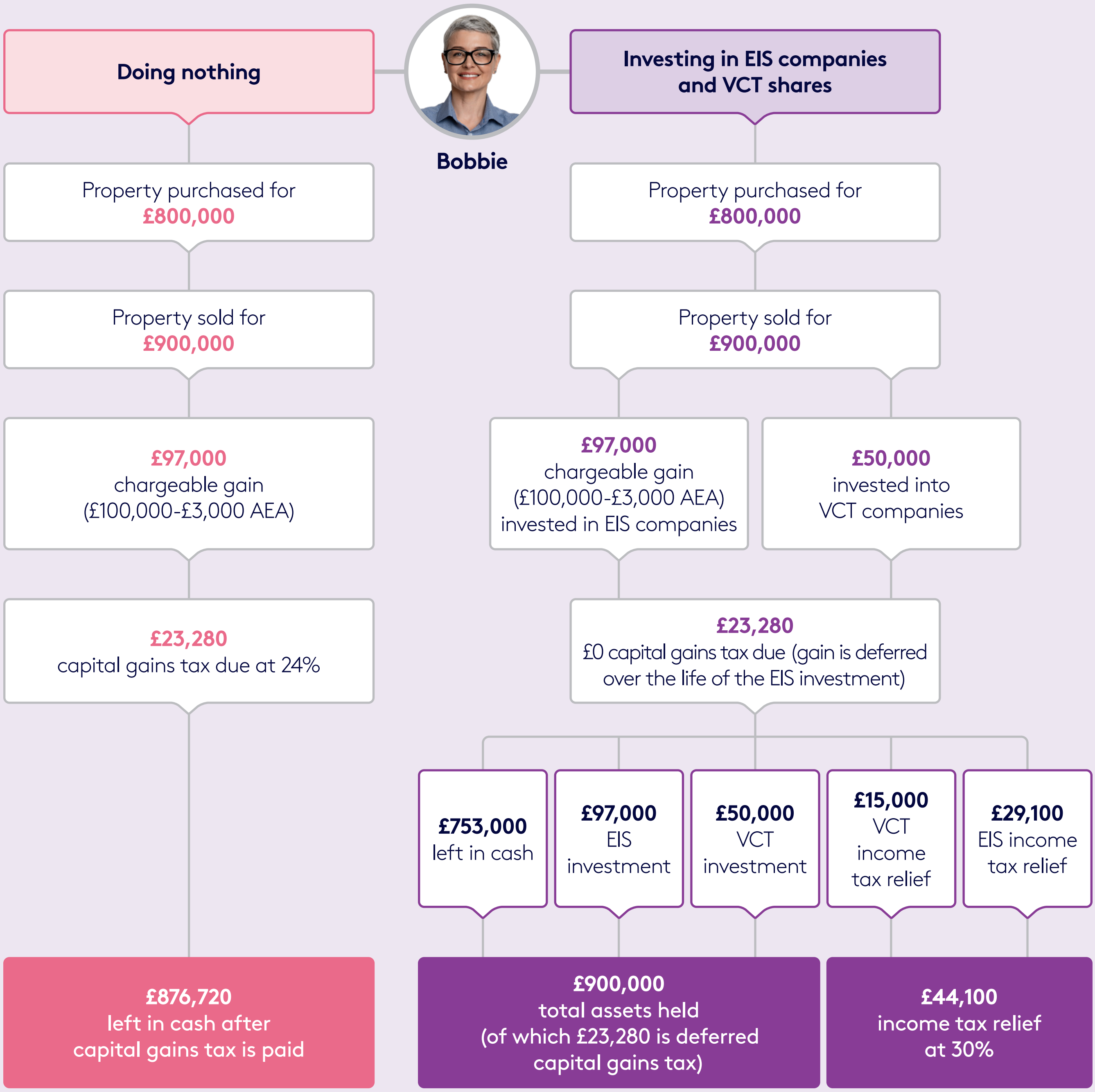
- **VCT and EIS investments are by their nature high risk and should be considered as long-term investments. The value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest.**
- **Tax treatment depends on individual circumstances and 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.**

The tax benefits of investing in EIS

This flow chart shows how a landlord selling a buy-to-let property can take advantage of the tax benefits associated with investing in an EIS or VCT.

Clearly, everyone's circumstances are different, VCT and EIS investment won't be suitable for all, but the attractive tax reliefs mean that they could be considered as part of some client portfolios.

How Bobbie reduced her income tax bill by investing the proceeds of her buy-to-let property



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 should be subject to capital gains tax at that time.

Tax rates and allowances are correct for the tax year 6 April 2025 - 5 April 2026. 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. 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.

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.

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 have reached the annual pension allowance	Clients with a well-diversified portfolio looking for longer term, higher risk investments	Clients who have recently sold a business
Clients looking to 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. 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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