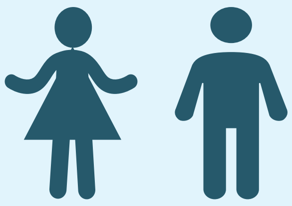
Landlords looking for a tax-efficient income stream

With major changes in buy-to-let rules in 2017, it is now more important than ever for landlords to consider the tax implications of their property investments. Below we study how landlords can use a Venture Capital Trust (VCT) to provide a tax-efficient income stream.

Client Scenario:



Marie & Mike

- Married couple Mike and Marie and planning their retirement for 10 years time.
- Mike is a high rate taxpayer and has adequate pension provisions
- Marie has invested in property to help fund her retirement. She earns £30,000 of rental income (after costs) and has other income up to her personal allowance.
- Marie expects to pay £6,000 income tax
- Mike and Marie would like to enjoy tax-efficient income during their retirement without the need of selling Marie's properties and incurring a large capital gains tax bill.

Solution:

- Marie can invest £20,000 of her annual rental income in a VCT, putting the remaining £10,000 in an ISA.
- The income tax relief from her VCT investment (£6,000) would offset her annual income tax from the property rental income
- VCT shares must be held for at least five years in order to keep the upfront income tax relief claimed (if Marie sells the shares before then, she'd have to repay the tax relief to HMRC)
- After 5 years Marie can sell her first VCT investment, then reinvest the proceeds in another VCT to use the additional income tax relief to reduce her year six income tax bill

VCT

LightTower Partners

Marie

1 Marie invests £20,000 in year one, which allows her to claim £6,000 in tax relief

2 She continues to invest an additional £20,000 in a VCT in years two, three, four and five, claiming income tax relief of £6,000 each tax year

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Invest £20,000 in a VCT	Invest £20,000 in a VCT	Invest £20,000 in a VCT	Invest £20,000 in a VCT	Invest £20,000 in a VCT	Invest £20,000 in a VCT
£6,000 income tax relief	£6,000 income tax relief	£6,000 income tax relief	£6,000 income tax relief	£6,000 income tax relief	£6,000 income tax relief

3 In year six, Marie can choose to sell her first year's VCT investment, tax-free. By investing the proceeds of the sale into another VCT, she can use her first year's investment to claim further income tax relief. After six years, Helen could have claimed £36,000 in income tax relief from £100,000 investment. By reinvesting in subsequent years, Helen could continue to use this cyclical approach to claim up to £6,000 tax relief each year, without having to invest more than her initial £100,000 stake of £20,000 per year over the first five years.

Venture Capital Trusts services are relatively complex products with significant performance and liquidity risks. Your capital is at risk and you may lose some or all of your money invested.

For more information about how our tax products can help with this scenario, please contact our tax team using the details below.

Important Information

Venture Capital Trusts, Enterprise Investment Schemes and IHT services are relatively complex products with significant performance and liquidity risks. Your capital is at risk if you invest in a Venture Capital Trust, Enterprise Investment Scheme or IHT service and you may lose some or all of your money invested. Tax treatment depends on your individual circumstances and may be subject to change. The availability of tax reliefs depends upon the companies invested in maintaining a qualifying status with the HMRC.

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