

Extracting Profit From a Business Tax Efficiently

Client Scenario:



Lorna

Lorna has an income of £210,000 per year. Meaning that £60,000 of her income is taxed at the additional rate of 45%.

Due to the tapered annual allowance introduced in 2017, her pension contributions are now restricted to £10,000 per year as she has reached the upper limit.

Lorna is worried that she may not be able to continue earning at this level until retirement, and with new restrictions on her pension contributions, she is concerned that she will not have enough money put aside for the retirement that she wants.

Solution:



With a VCT, Lorna can claim up to 30% income tax relief on up to £2000,000 invested in any single year, provided she holds the VCT shares for at least five years.

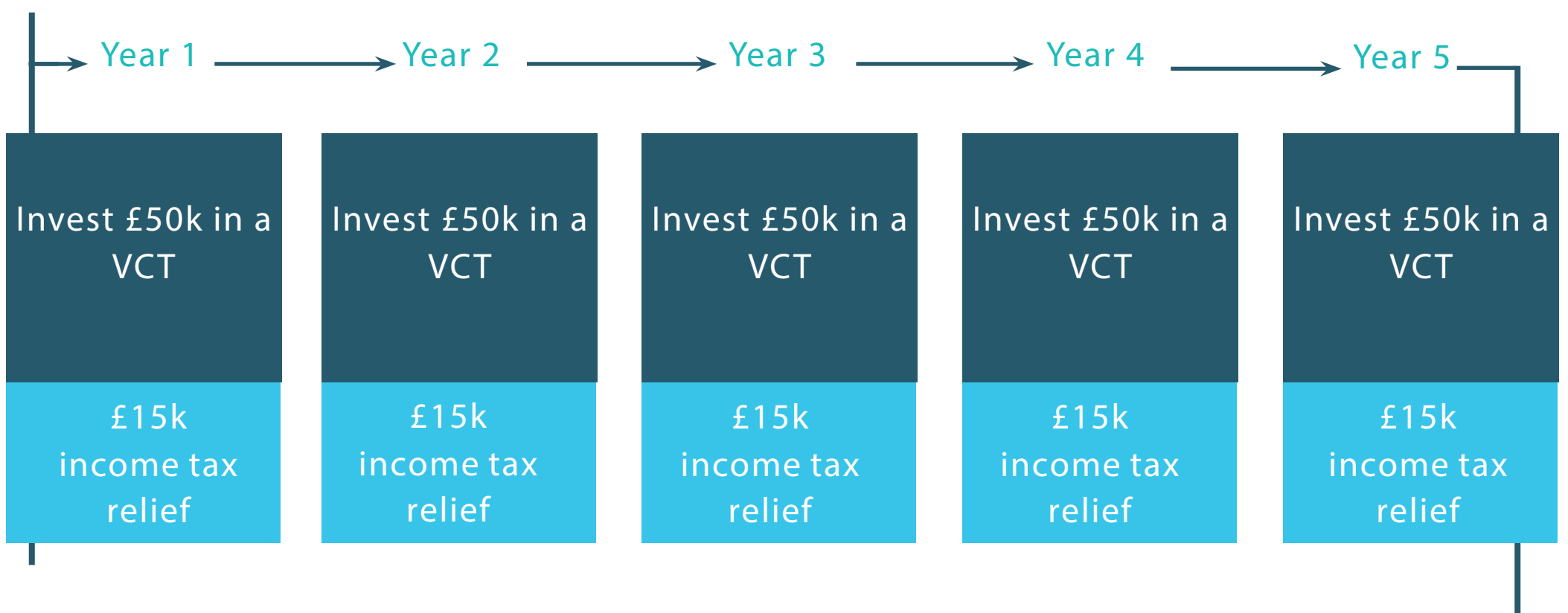
She can also benefit from tax-free dividends and no capital gains tax to pay when she sells the shares.



James

James places a £50,000 investment in year one which allows him to claim £15,000 in tax relief

He continues to invest an additional £50,000 into a VCT in the following years, claiming income tax relief of £15,000 in each tax year



In the sixth year, James can choose to sell his first year's VCT investment, tax-free. By investing the proceeds of the sale into another VCT, he can use his first years' investment to claim further income tax relief. After six years, James could have claimed £90,000 in income tax relief from a £250,000 investment.

By reinvesting in subsequent years, James can continue to use this cyclical approach to claim up to £15,000 tax relief each year, without having to invest more than his initial £250,000 stake of £50,000 per year over the first five years.

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