



# VCTs as an alternative to pensions – exploring the annual allowance and tapering

Each year, individuals can contribute to their pensions and receive tax relief, up to the ceiling of their annual allowance. For the majority of the population, the annual allowance is £60,000. For high earners, however, their annual allowance is tapered down according to their income and impacts the amount they can tax-efficiently invest each year. The minimum annual allowance is capped at £10,000 for those earning £360,000 per year or above.

**Benefits of tax-efficient investments are subject to change and personal circumstances.**





## Meet George

George is a 50 year old investor, with a significant income which has tapered his annual pension allowance down to £10,000. He feels frustrated that this is limiting his ability to build a substantial pension pot for retirement, so he reaches out to his advisor to discuss alternative ways to accumulate wealth in a tax-efficient manner.

George's adviser talks to him about his ability to absorb any losses if an investment was to fall in value. He also talks to him about his investment objectives, including how long he would like to hold his investment for. Whilst the immediate goal is for the five year's approaching retirement, George is also interested in possible solutions that may extend into his retirement period too.

The adviser identifies that George has a surplus of £20,000 to invest each year, after he has maximised his annual pension and ISA allowance. To help, the adviser shows George how a VCT differs from an ISA:

	ISA	VCT
Upfront income tax relief on initial investment	None	30%
Annual personal limits	£20,000	£200,000
Lifetime personal limits	None	None
Minimum holding periods	n/a	5 years
Ongoing tax benefits	Tax free growth and dividends	Tax free growth and dividends

*Clients must be advised that this example is for illustrative purposes only and ignores initial and annual charges - please refer to our product literature for further details.*

Having built his own wealth from being an entrepreneur, George is excited to use VCTs as a way of giving back to the founder community and help other small businesses achieve their growth ambitions. He decides to invest his £20,000 per year in a VCT.

### This is how the investment would look:

	Year 1	Year 2	Year 3	Year 4	Year 5
VCT investment	£20k	£20k	£20k	£20k	<b>£20k</b>
Total investment value	£20k	£40k	£60k	£80k	<b>£100k</b>
30% income tax relief	£6k	£6k	£6k	£6k	<b>£6k</b>
Cumulative income tax relief	£6k	£12k	£18k	£24k	<b>£30k</b>
Tax-free dividends (assumes 5% p.a. from year 2 onwards)		£2k	£3k	£4k	<b>£5k</b>
Cumulative tax-free dividends			£5k	£9k	<b>£14k</b>

George and his adviser discuss options for the end of the 5 year investment window, which includes the option to reinvest the amount into another VCT to continue the accumulation of wealth.

George's adviser has explained how building a VCT portfolio can be a helpful way of diversifying his wider investment plans as he heads towards retirement. In addition to VCTs offering attractive tax relief on the amount being invested, he further understands that they will also enable him to meet his objectives in retirement with tax free growth and income, to complement his pensions, ISAs and other investments.

## The Benefits of a VCT

**VCTs offer a range of tax benefits to offset the risk of investing in early-stage firms. These currently are available on investments of up to £200,000 in a tax year.**

- ✓ **30% income tax relief (minimum holding period five years)**
- ✓ **Gains exempt from capital gains tax when clients sell their shares**
- ✓ **No income tax on any dividends from a VCT**

The UK Government introduced VCTs in 1995 to encourage investment in new businesses and support UK entrepreneurs. VCTs themselves are companies that can be publicly traded on a stock exchange.

### Uses of VCTs

VCTs are well established and popular with investors. Alongside tax mitigation, VCTs have many other uses. They can help to create a more diversified portfolio through exposure to different firms and sectors for investors. They can provide an income stream through dividends. Whichever way a client chooses to use a VCT, they can be a helpful and useful feature of financial planning.

## Here to help

For more help with tax-efficient strategies, please speak with your local Business Development Manager who will be happy to help.

[Send us an enquiry →](#)

[Find out more about VCTs →](#)



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