Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 5

BLACKFINCH

CLIENT PLANNING SCENARIO

USING ISA ASSETS TO FUND A VCT ALONGSIDE PENSION WITHDRAWALS AND GIFTING

Changes to the Inheritance Tax treatment of unused pension funds are prompting more clients to think carefully about how they use pension wealth during their lifetime.

For clients who don't need all their pension income to support their usual standard of living, taking additional withdrawals could create opportunities to make regular gifts to family. But higher pension withdrawals can also increase their Income Tax liability.

So how could an adviser bring different parts of a client's financial plan together?

By considering pension income, Individual Savings Account (ISA) assets and Venture Capital Trust (VCT) investing alongside one another, advisers can explore ways to support a client's gifting objectives while also addressing the additional Income Tax created by pension withdrawals.

This client planning scenario looks at how that approach could work in practice, using separate assets for separate objectives while keeping the client's wider circumstances, needs and attitude to risk firmly in view.

SNAPSHOT OF THE CLIENT PLANNING SCENARIO

THE CLIENT

Mr Hoskin, with significant pension and ISA assets, who wants to use surplus pension income to support his children.

THE SITUATION

He wants to make regular gifts to his children, but taking additional pension income will increase his Income Tax liability.

THE OBJECTIVE

Explore using existing ISA assets to invest in a VCT **within the ISA wrapper***, with the aim of reducing his Income Tax liability while preserving surplus pension income for gifting.

***Applicable for ISAs that can hold VCT shares.**

MEET THE CLIENT

Mr Hoskin has built up significant pension and Individual Savings Account (ISA) assets over his lifetime.

He's now considering taking a regular income from his pension. With most unused pension funds due to fall within the scope of Inheritance Tax (IHT) from 6th April 2027, he also wants to consider how he uses his pension during his lifetime.

Mr Hoskin doesn't need all the pension income to maintain his lifestyle. He would like to use some of this surplus income to support his children. But taking more income from his pension will increase his Income Tax liability. So how could his adviser bring together his pension, ISA and investment planning to support his wider gifting objective?

THE PLANNING OPPORTUNITY

Mr Hoskin could establish a regular pattern of pension withdrawals and use surplus income to make gifts to his children.

Where the conditions for the normal expenditure out of income exemption are met, gifts can be immediately exempt from IHT rather than being subject to the usual seven-year potentially exempt transfer rules.

To qualify, the gifts must form part of Mr Hoskin's normal expenditure, be made from income and leave him with enough income to maintain his usual standard of living.

ADDRESSING THE INCOME TAX LIABILITY

Taking additional pension income will increase Mr Hoskin's Income Tax liability however.

One option could be to use some of the pension withdrawal to subscribe for new Venture Capital Trust (VCT) shares. The associated VCT Income Tax relief would then reduce his overall Income Tax liability.

But this would mean directing some of the pension income away from his original objective: making gifts to his family. Instead, his adviser could look across his other assets.

USING ISA ASSETS TO FUND THE VCT

Rather than funding the VCT subscription from his pension withdrawal, Mr Hoskin could use capital already held within his ISA.

This separates the two objectives:

Pension income > available to support regular gifting

ISA assets > used to fund the VCT investment

For qualifying new VCT shares issued from 6th April 2026, Mr Hoskin can claim Income Tax relief equal to 20% of the amount invested, subject to the £200,000 annual investment limit and sufficient Income Tax liability.

The relief reduces his overall Income Tax liability for the year. This can include tax arising from additional pension income.

Any VCT investment would need to be suitable for Mr Hoskin's individual circumstances. His adviser would need to consider factors including his objectives, investment time horizon, capacity for loss and attitude to risk. VCTs are higher-risk, less liquid investments, and using ISA assets in this way would also need to remain appropriate within his wider financial plan.

AN ILLUSTRATIVE EXAMPLE

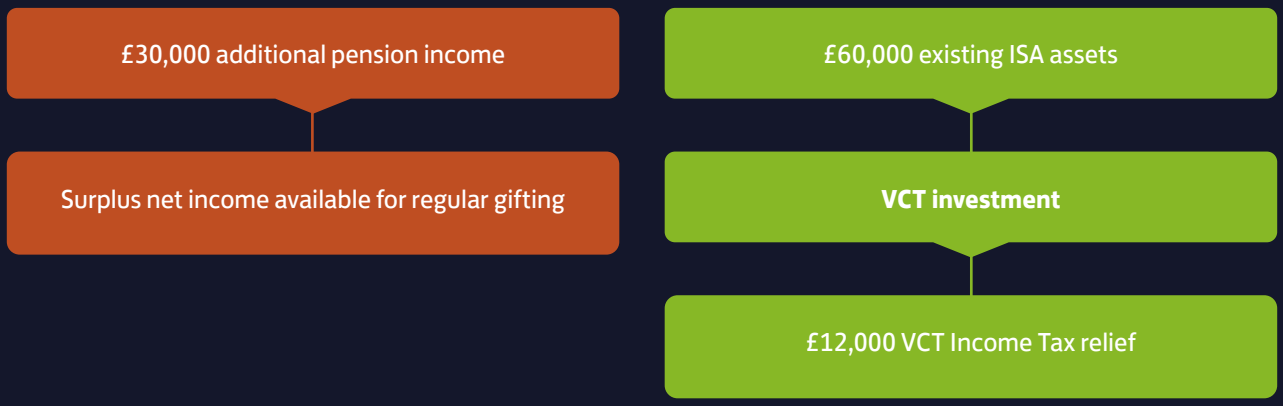
Mr Hoskin decides to take an additional £30,000 of taxable pension income each year. He intends to use his surplus net income to make regular gifts to his children.

For illustration, assume the entire additional withdrawal falls within his 40% Income Tax band. This could result in an additional £12,000 Income Tax liability.

Rather than using some of the £30,000 pension withdrawal to invest in a VCT, Mr Hoskin uses £60,000 of existing ISA assets to subscribe for qualifying new VCT shares.

At a 20% rate of VCT Income Tax relief, a qualifying £60,000 subscription would generate £12,000 of Income Tax relief, as Mr Hoskin will have sufficient Income Tax liability against which to claim it.

This creates two separate planning flows:



The VCT relief isn't specifically allocated against the tax due on the pension withdrawal. Instead, it reduces Mr Hoskin's overall Income Tax liability for the year.

In this illustration, however, the amount of VCT relief would be equivalent to the additional Income Tax generated by the pension withdrawal. The above illustration assumes the VCT investment takes place within the ISA wrapper.

CREATING A POTENTIAL FUTURE SOURCE OF INCOME

The planning could have another dimension.

VCT dividends are exempt from Income Tax, subject to the relevant VCT rules.

If Mr Hoskin's VCT investment subsequently pays dividends, these could provide another potential source of income from which he could make future gifts.

Whether those gifts qualify as normal expenditure out of income would depend on Mr Hoskin's circumstances and the relevant conditions being met.

BRINGING THE DIFFERENT ASSETS TOGETHER

The potential value of this approach isn't simply the VCT tax relief. It comes from considering Mr Hoskin's assets and objectives together.

Draw pension income > gift surplus income > fund a VCT from existing ISA assets > use VCT relief to reduce the overall Income Tax liability.

By looking across the pension, ISA and VCT rather than considering each in isolation, an adviser can explore how different assets could support a broader objective: passing wealth to the next generation during the client's lifetime while continuing to invest for the future.

SUPPORTING YOUR CLIENT PLANNING

Cases involving pensions, gifting, Inheritance Tax and tax-efficient investments can bring together several areas of financial planning.

Your regional Blackfinch Business Development Manager can provide support tailored to your firm or individual needs. This can include bespoke training, technical support with a specific case, and access to our wider range of client planning scenarios and insight articles.

HERE TO HELP

Markets change. Regulation evolves. And every client conversation is different. From practical resources to expert insights, we're here to give you the tools and support to make conversations with clients much more easier.

Guided by our values of **Adapt, Evolve and Thrive**, we're always looking ahead, responding to change, challenging convention and finding better ways forward. See how these values can help you approach different client needs and conversations with greater clarity and confidence.

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Practical support when you need it

- Client-friendly guides for clearer adviser conversations
- Practical case studies for real client scenarios
- Support with individual client planning needs
- Nationwide team available when extra help's needed

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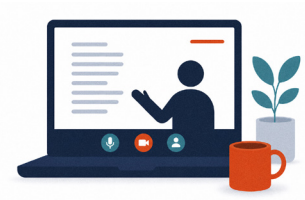

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LET'S WORK TOGETHER

Whether you're exploring an opportunity for a client, looking for a practical resource or want to build your team's knowledge, we're here to help.

Get in touch → Find your BDM →

RISKS

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest

If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong

Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker. (https://www.fscs.org.uk/check/investment-protection-checker)

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection. (https://www.financial-ombudsman.org.uk/consumers)

3 - You won't get your money back quickly

Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early. The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these. (https://www.financial-ombudsman.org.uk/consumers)

4 - Don't put all your eggs in one basket

Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments. (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest)

5 - The value of your investment can be reduced

The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website. (https://www.fca.org.uk/investsmart)

IMPORTANT INFORMATION

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