

# *Using a Venture Capital Trust to Avoid Exceeding the Lifetime Allowance on a Pension*

## **Scenario**

With many clients at risk of exceeding the current £1,073,100 lifetime allowance (LTA) on their pension, there's a need for other routes to retirement planning. This is the case for Samantha, a doctor in her late sixties who plans to retire in her early seventies.

Samantha is approaching the LTA limit and is looking to avoid the tax implications of exceeding it. She discusses the options with her adviser. She's been contributing £25,000 a year into her pension and would like to continue saving for her future.

## **Solution**

Samantha's adviser suggests that she could instead start investing the £25,000 annually into a Venture Capital Trust (VCT). He highlights VCT tax benefits, including 30% income tax relief, and the potential for tax free income and growth. These can help to offset the risk of investing in small, growing firms.

They can also be used by Samantha to save tax-efficiently while she's still working, and to potentially see income in retirement. Samantha notes that any annual dividend payment would be tax-free, as will any growth in the value of the original investment.

The minimum holding period for a VCT investment is five years. This gives time for planning ahead of retirement, to help ensure that HMRC doesn't reclaim the Income Tax relief.

## Steps

**Stop pension contributions:** Samantha restricts pension contributions to try and remain within the LTA, especially as the limit has now been frozen until 2026

**Select and invest in a VCT:** With her adviser's help, Samantha selects and invests in a VCT from an established provider

**Invest annually and claim 30% Income Tax relief:** In years 1-5 Samantha invests £25,000 annually, claiming £7,500 in each tax year

**Tax free returns:** Potential for tax free regular dividends and growth as she builds her VCT portfolio over time

**Use savings and dividends in retirement:** When Samantha retires the dividend income will complement her pension

## Solutions for Investors and Support for Advisers

Blackfinch is a tax-efficient investment specialist working in partnership with advisers to meet clients' requirements.

To find out more please speak to one of our team on **01452 717070** or email **enquiries@blackfinch.com**.

### **IMPORTANT INFORMATION**

Capital at risk. Please refer to the product literature for all risk warnings applicable to the Blackfinch Spring VCT. This article is issued by Blackfinch Investments Limited (Blackfinch), which is authorised and regulated by the Financial Conduct Authority (FCA number 153860). Registered address: 1350-1360 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH. Registered in England and Wales company number 02705948. This article is for intermediary information only and does not form any offer or invitation to invest. All information correct at May 2021.