



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

Scenario

With many clients at risk of exceeding the current tax-free £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 prospect of dividends if the VCT is profitable. 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. It targets dividends of 5% p.a. from investments in technology-enabled companies at the growth stage of development.

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

Potentially start to see dividends: In year 5, as companies become profitable, dividends start being paid out at 5%, creating a retirement income stream

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

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