For financial professionals only,
not to be read as tax advice.

PUMA INVESTMENTS

PRODUCT CASE STUDY: PUMA VCTs

Planning for clients who have exceeded or who might exceed their lifetime pension allowance

OVERVIEW

First launched in 1995, Venture Capital Trusts (VCTs) are investment companies that are listed on the London Stock Exchange, specifically designed to provide funding to some of the country's most promising smaller companies.

To encourage support for these businesses the Government offers generous tax benefits to VCT investors. This also reflects the higher-risk nature of the companies they invest in.

This case study explains how a VCT could be used to complement existing pension and retirement planning strategies.

Please note: Tax reliefs depend on individuals' personal circumstances, minimum holding periods and may be subject to change.

PROBLEM

The Lifetime Allowance

The opportunity to save tax efficiently for retirement can be complex with a succession of changes to the pension rules in recent years. With regular contributions and decades of compounded growth, even people with modest sums in their pensions today could find themselves exceeding the current £1.07 million lifetime allowance (LTA) in years to come.

Amina is a GP and has been paying into her pension for the last 25 years. As she has progressed through the ranks and become practice partner, her earnings have risen accordingly and she is now at risk of exceeding her lifetime allowance.

Amina is worried about exceeding this amount and incurring a tax charge of up to 55% on any pension savings above this threshold. She is therefore investigating alternative options to save for her retirement tax efficiently.

THE SOLUTION

Amina contacts her financial adviser, who conducts a suitability assessment for investing based on her risk profile and tolerance as well as her target investment horizon. Based on this, she recommends that Amina invests in a VCT.

A VCT could enable Amina to claim up to 30% income tax relief on investments up to £200,000 in each tax year. Other tax benefits include tax free dividends, which could provide an additional source of income to Amina, as well as no capital gains tax to pay when she sells the shares.

Because Amina still has a number of years left before retirement, she has no problem holding her investment in the VCT for the minimum five year period required to qualify for the available tax benefits.

During their discussion, Amina's financial adviser explains how a VCT could also help support her broader financial planning needs.

THE BENEFITS OF INVESTING IN A VCT

VCTs offer several tax benefits to encourage investment into early stage companies. These tax benefits make VCTs popular amongst people looking to reduce their income tax liabilities.

30%

INCOME TAX RELIEF

Up to 30% Income Tax relief on investments of up to £200,000 provided the investor's tax bill is no greater than the amount of relief they are eligible to reclaim.

TAX FREE DIVIDENDS

Dividends from VCT shares are free from income tax.

NO CAPITAL GAINS TAX

Investors do not have to pay Capital Gains Tax when they sell VCT shares.

VCTs are high risk and should be considered as long-term investments. The value of an investment, and any income from it, can fall or rise. Investors may not get back the full amount they invest. Tax reliefs depend on the VCT maintaining its qualifying status. Income tax relief is available on investments of up to £200,000 per year. VCT shares could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell. Tax reliefs depend on individuals' personal circumstances, a minimum 5 year holding period, and are not guaranteed.

TAX BENEFITS OF AN ISA, PENSION AND A VCT

Amina's financial adviser, explains that a VCT investment is not without risk. Set up by the UK government in 1995 to provide funding to some of the country's most promising small and medium sizes companies, an investment in a VCT should be considered high risk. She outlines the key risks below but explains that if Amina decides to proceed on the basis of the recommendation, she would need to read the prospectus in full first.

This diagram shows how an investor can take advantage of the tax benefits associated with investing in a VCT. VCTs could be considered as part of a portfolio for some people, alongside their pensions and ISAs.

	ISA	Pension	VCT
Upfront income tax relief on initial investment	None	20-45%	30%
Annual personal limits	£20,000	£4,000-£40,000	£200,000
Lifetime personal limits	None	£1.07 million	None
Minimum holding periods	None	No access until 55+[1]	5 years
Ongoing tax benefits	Tax-free growth and dividends	25% tax-free, the rest is taxed	Tax-free growth and dividends

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[1]The government has confirmed plans to increase the minimum pension age from 55 to 57 from 2028. From then on, the minimum pension age will stay ten years below the state pension age, which is due to increase in line with the expected increase in life expectancy.

Please don't hesitate to contact us on 020 7408 4070, or advisersupport@pumainvestments.co.uk, or visit www.pumainvestments.co.uk.

Key risks

Tax reliefs: Tax reliefs are not guaranteed, depend on individuals' personal circumstances and a five-year minimum holding period, and may be subject to change.

General: Past performance of Puma Investments in relation to its other VCTs is no indication of future results. The payment of dividends is not guaranteed. Investors have no direct right of action against Puma Investments.

The Financial Ombudsman Service/the Financial Services Compensation Scheme are not available.

Liquidity: It is unlikely there will be a liquid market in the ordinary shares of Puma VCTs and it may prove difficult for investors to realise their investment immediately or in full.

Capital at risk: An investment in Puma VCTs involves a high degree of risk. You may lose all of some of the capital invested.

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