INVESTOR GUIDE

OCTOBER 2021

Tax-Efficient Investing

Unlock up to

64% Tax Relief*

*Tax benefits depend on personal circumstances and tax rules can change.

6 ways to invest in a **tax-efficient manner**

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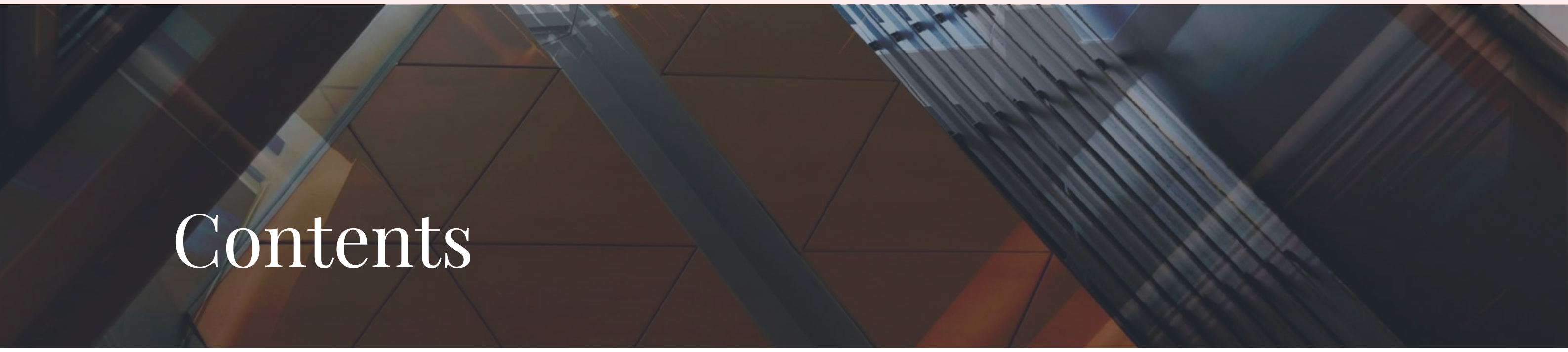

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Introduction

As an experienced investor or high earner, you may feel that your capital is being eroded. With cuts to pension allowances and many forms of tax relief, understanding how to invest tax-efficiently is crucial to maximise your returns and minimise risk.

Over the years, a range of tax incentives have been made available to investors, from the **Individual Savings Account (ISA)**, to the **Enterprise Investment Scheme (EIS)** and **Seed Enterprise Investment Scheme (SEIS)** - the two most generous tax incentives for experienced investors investing into high-growth, early-stage businesses.

In this guide, you will receive detailed information about the aforementioned tax incentives, as well as an in-depth look at **Venture Capital Trusts (VCTs)**, **Self-Invested Personal Pensions (SIPPs)** and **Small Self Administered Schemes (SSASs)**.

You will find out how you could potentially:

- Receive income tax relief of up to 50%
- Pay no income tax on dividends
- Pass on your investment free of Inheritance tax
- Enjoy tax-free growth

Developed by Growth Capital Ventures, this guide offers an insight into tax-efficient investing for sophisticated, high-net-worth and professional investors; investors who are experienced with varying investment opportunities and the risk–return profiles of less traditional asset classes.

This guide provides information on the various tax incentives available, but professional advice should be sought before determining which product, or combination of products, best suits your needs.

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Enterprise Investment Scheme (EIS)

Established by the UK Government in 1994, the Enterprise Investment Scheme (EIS) offers tax reliefs that help investors into unlisted, early-stage businesses offset the higher risks associated with this kind of investment.

This can maximise potential returns, making investment into high-growth small and medium-sized businesses an important, tax-efficient consideration for investors.

The tax reliefs available through the EIS include the opportunity to:

- Claim back up to 30% of the value of your investment
- Dispose of shares without paying capital gains tax
- Defer the payment of capital gains tax
- Claim loss relief if the investee business fails
- Pass on your investment free of inheritance tax

> “Claim back up to **30%** of the value of your investment.

For investors interested in supporting the next wave of British businesses that help to drive the economy, as well as having the potential to deliver strong financial returns, EIS investments often enable investors to invest for impact - particularly now, during the current Coronavirus pandemic.

In 2019, SMEs accounted for three fifths of the employment and approximately half of the turnover of the private sector in the UK, proving that they will be crucial to the bounce-back of the economy post-COVID-19.

With EIS, you can invest directly into an EIS-eligible company, or you can invest into an EIS fund whereby a fund manager builds a portfolio for you.

To become EIS-eligible, businesses must be unquoted, have less than 250 full-time employees, have gross assets of less than £15 million, and be within seven years of their first commercial sale.

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Seed Enterprise Investment Scheme (SEIS)

The Seed Enterprise Investment Scheme (SEIS) is the younger sibling to the EIS, introduced in 2012.

Focusing on high-growth startups, whereby investors are investing at the very beginning of the business' life – which offers the potential for maximum growth, with which, naturally, comes higher risks – the SEIS offers investors even more generous tax reliefs than the EIS.

These include:

- Income tax relief of up to 50%
- 50% capital gains reinvestment relief
- No capital gains tax on profits
- Inheritance tax relief
- Loss relief

> "The SEIS offers investors even more generous tax reliefs that the EIS.

These tax breaks are designed to help mitigate risk and enhance potential returns.

Like the EIS, the SEIS can also allow investors to invest for impact, supporting startups and, in turn, boosting the UK's economy.

You can choose to invest directly into an SEIS-eligible company, or you can invest into an SEIS fund whereby a fund manager builds a portfolio for you.

To become SEIS-eligible, businesses must be unquoted, less than two years old, have less than 25 full-time employees, and have gross assets of less than £200,000.

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Venture Capital Trust (VCT)

Venture Capital Trusts (VCTs) are companies listed on the London Stock Exchange (LSE). They were launched in 1995 to invest in small UK businesses.

When you invest into a VCT, you acquire shares in the trust, rather than the individual companies. This means that you get exposure to a whole, diverse portfolio.

The tax reliefs available when investing into a VCT include:

- Income tax relief of up to 30%
- Tax-free dividends
- Tax-free growth

A VCT must invest a minimum of 80% of its assets into companies that are either unlisted, or listed on the Alternative Investment Market (AIM).

> “When you invest into a VCT, you acquire **shares in the trust**, rather than the individual companies.

A company can qualify for VCT investment if it has gross assets of £15 million or less, it is less than seven years old, and it has less than 250 full-time employees.

Four classifications of VCT exist:

- **Generalist VCTs** represent c75% of the VCT market, and adopt a diverse portfolio of investments, occasionally exhibiting a modest preference towards newer technology businesses.
- **Fixed-Term (or Planned Exit) VCTs** meet the needs of investors who wish to divest themselves of their investment at a particular point in time.
- **AIM VCTs** invest exclusively in companies whose shares are listed and traded on the AIM.
- **Specialist VCTs** focus on a particular sector, offering investors the opportunity to forego the benefits of diversification if they feel that a particular sector offers strong growth prospects.

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How the Venture Capital schemes compare for income tax relief

Scheme	Maximum annual investment eligible for tax relief	Percentage of investment on which you can claim	Tax relief on income from dividends
EIS	£1 million (£2 million if at least £1 million is invested into a knowledge-intensive company)	30%	No
SEIS	£100,000	50%	No
VCT	£200,000	30%	Yes

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Individual Savings Account (ISA)

Since its introduction in 1999, the ISA and its tax wrapper - which means all capital invested in an ISA is exempt from income tax and capital gains tax - has become a household name.

Over the years, the ISA family has grown, now boasting four main types.

These are:

- Cash ISA
- Stocks and Shares ISA
- Innovative Finance ISA (IFISA)
- Lifetime ISA

All capital invested in an ISA is exempt from **income tax** and **capital gains tax.**

Each tax year, savers and investors benefit from an annual ISA allowance - as of 2020/21, this is £20,000, but is subject to change.

One of the latest additions to the family, the IFISA, was established in 2016 as a means of strengthening and accelerating the UK's booming alternative finance market.

The account enables investors to hold peer-to-peer loans and debt-based securities under the generous ISA tax wrapper for the first time ever, with a number of underlying assets eligible, including:

1. Property
2. Green energy projects
3. SME loans
4. Consumer loans

The IFISA has a high risk profile, but asset-backed options (such as the property-backed IFISA) can offer additional security.

Potential returns from an IFISA depend on the underlying asset, but they're typically between 4% and 8%.

ISA comparison

ISA Type	Annual Subscription Limit	Risk Profile	Potential Returns
Cash ISA	£20,000	Low	<2%
Stocks and Shares ISA	£20,000	Medium–High	Dependent upon the performance of the stock market and individual portfolios
IFISA	£20,000	High	4% - 8% (Targeted)
Lifetime ISA	£4,000	Low	<2%

Important note: The Cash ISA and Lifetime ISA are savings products covered by the Financial Services Compensation Scheme (FSCS) for up to £85,000.

The Stocks and Shares ISA and IFISA are investment products whereby your capital is at risk and returns are not guaranteed.

The Stocks and Shares ISA is covered by the FSCS for up to £85,000 in the event that the provider of the ISA fails, it is not covered for poorly performing investments.

The IFISA is not covered by the FSCS.

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Self-Invested Personal Pension (SIPP)

With a lifetime allowance of £1,073,100 and tax relief on contributions, pensions are one of the most tax-efficient methods of saving for retirement.

A SIPP is, basically, a do-it-yourself pension whereby you choose what investments you put your savings into, and can easily manage them on an online platform.

You must be under the age of 75 to open a SIPP, and you are not able to access your pension pot until you are 55.

With a SIPP, you can get up to 45% tax relief on contributions, depending on your marginal rate of tax.

Your investments also grow free from income tax and capital gains tax, and you are usually able to withdraw up to 25% of your SIPP fund tax-free.

> "With a SIPP, you can get up to **45% tax relief** on contributions, depending on your marginal rate of tax.

Your SIPP provider will ultimately decide what assets you can hold in your SIPP, and each individual provider will have their own rules.

However, most SIPPs can invest in:

- Stocks and shares
- Investment trusts listed on any stock exchange
- UK Government bonds
- Open ended investment companies recognised by the FCA
- Gilts and bonds
- Exchange traded funds traded on the LSE or other European markets
- Bank deposit accounts
- Commercial property
- Real estate investment trusts listed on any stock exchange

Small Self Administered Scheme (SSAS)

For small and family-run business owners in particular, the SSAS is a pension scheme that benefits from the usual pension tax reliefs – such as up to 45% tax relief on contributions, depending on your marginal rate of tax – while offering additional advantages.

A SSAS is an employer-sponsored, defined contribution workplace pension scheme designed to be independently managed by a company for 11 members or less.

They are typically set up by the director of a business in order to gain more control over how their pension contributions are invested.

Members of a SSAS can be company directors, employees and relatives of employees.

Used to its maximum, a SSAS can invest in a wide range of investment opportunities that have the potential to deliver higher returns than more mainstream investment products.

“ A SSAS can be a great vehicle for business growth, as they can be used to grant a secured loan to the sponsoring company.

A SSAS can be a great vehicle for business growth, as they can be used to grant a secured loan to the sponsoring company - of up to 50% of the fund value of the SSAS - or to purchase shares in the business.

Each SSAS provider will have their own rules regarding which investments you can hold, but a SSAS pension has the ability to invest in a much wider range of investments than more traditional pension schemes. These include:

- Commercial property and land
- Industrial/retail units
- Agricultural land
- Loans back to the sponsoring employer
- Unit trusts or other regulated collective investments
- Investment trusts
- Direct quoted equities
- Trustee investment plans
- Shares in unquoted private companies

About the Author

Norm Peterson

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Connect with Norm:

Norm Peterson, Growth Capital Ventures' (GCV) Chief Executive Officer, has over 30 years experience in alternative finance.

Norm has held senior positions in startups, mid-sized SMEs and PLCs operating across a variety of sectors, including finance, telecoms, infrastructure and property.

Throughout his career, Norm has been involved in raising finance to support business growth and large scale infrastructure projects.

His experience includes raising seed capital for startups, securing expansion capital (£60M) for an Internet Service Provider (ISP) and development capital for infrastructure projects. Norm is an Approved Person with the Financial Conduct Authority (FCA).

He holds the RICS Postgraduate Diploma in Project Management, he studied his MBA at Bradford and completed the Oxford Private Equity Programme, Saïd Business School, University of Oxford.

Norm is also an active angel investor, with a portfolio spanning banking, fintech, HR tech and property and house building.

Growth Capital Ventures

GCV is an FCA authorised investment firm that operates a private investor network (G-Ventures). G-Ventures brings together an online and offline investor network of experienced private investors and institutional investors to access and co-invest in growth focussed investment opportunities.

We provide access to tax-efficient and growth focused investment opportunities that have the potential to deliver better returns than more mainstream investment products.

We facilitate investment across three asset classes; Venture Capital, Private Equity and Property, targeting an internal rate of return (IRR) of 25% for our investors.

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