

Client Planning Scenario



Extracting business profits tax-efficiently

Building deeper connections with your clients.

For illustrative purposes only

Our Venture Capital Trust (VCT) planning scenarios are based on situations advisers often encounter, making them a great starting point for discussions with your own clients.

To be tax-efficient, limited company owners often pay themselves a salary up to the tax-free personal allowance of £12,570, and then top up their earnings by paying company dividends. But it's very likely your business-owning clients have found that paying themselves dividends has become much less tax-efficient down the years. However, there is a way for business owners to reclaim income tax paid on dividends.

Meet Raj

In this client planning example, Raj is a design consultant with his own limited company. To be tax-efficient, Raj pays himself a £12,570 salary plus an annual dividend of £50,000. Here's how his dividend is taxed:

- Raj claims the first £500 of dividends tax-free.
- The next £37,200 is taxed at 8.75%.
- The remaining £12,300 is taxed at 33.75%.

This means that paying himself a dividend of £50,000 from his limited company on top of his salary of £12,570 results in an income tax bill of £7,406, leaving him with £55,164 after tax.

Using a VCT to extract business profits

Raj's financial adviser suggests he consider the tax incentives available through a VCT. After talking through the benefits and the risks, his adviser explains that if he invested £24,687 from his savings into a VCT, he could claim 30% upfront income tax relief on his investment. This equates to £7,406, provided Raj holds his VCT shares for a minimum of five years.

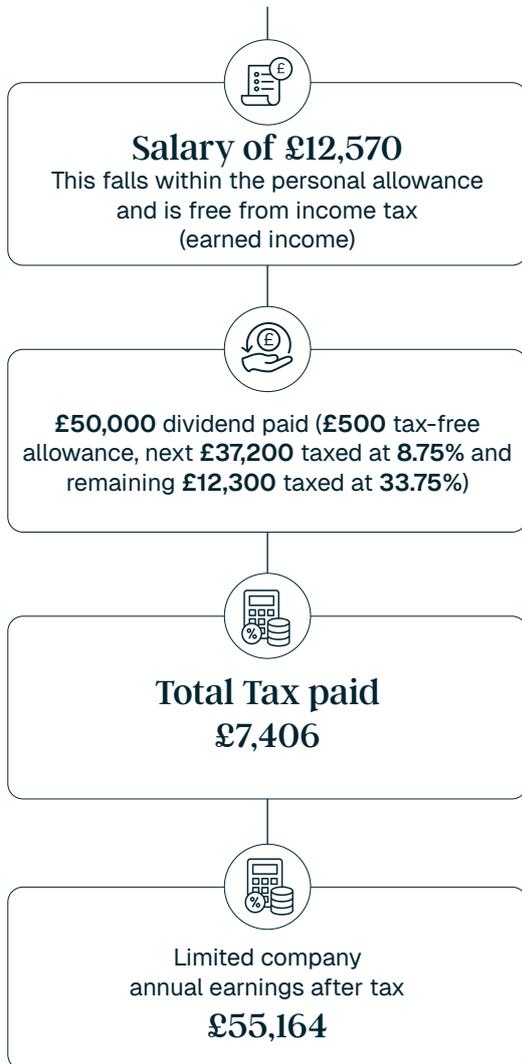
As a result of his investment, Raj effectively wipes out his income tax liability, increasing his annual income to £62,570. Also, as most VCTs have an annual dividend target, Raj can also expect to receive an annual tax-free income from his investment. And there's no HMRC requirement for Raj to declare VCT dividends on his tax return.

“For business owners, extracting earnings from a limited company has grown more taxing as the dividend allowance has shrunk. So it's not surprising that every year, limited company owners turn to VCTs to reduce their tax bill and plan for their financial future.”

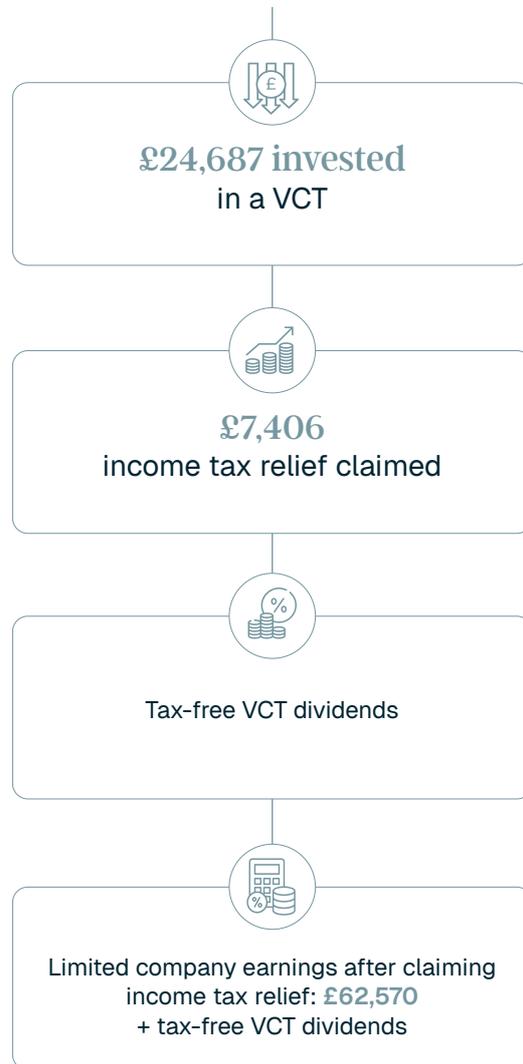
Jack Rose, Triple Point Head of Distribution

VCT Investing

Without VCT



With VCT



Visit [our website](#) to explore more client planning scenarios.

Investor's capital is at risk. This illustration does not take into account investment growth or charges for the investment. It is based on tax rules and personal allowances at April 2025, which could be subject to change and depend on individual circumstances. Tax reliefs depend on a VCT maintaining its qualifying status and target returns may not be guaranteed.

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