A PARAPLANNER'S GUIDE TO

# Tax-Advantaged Investments

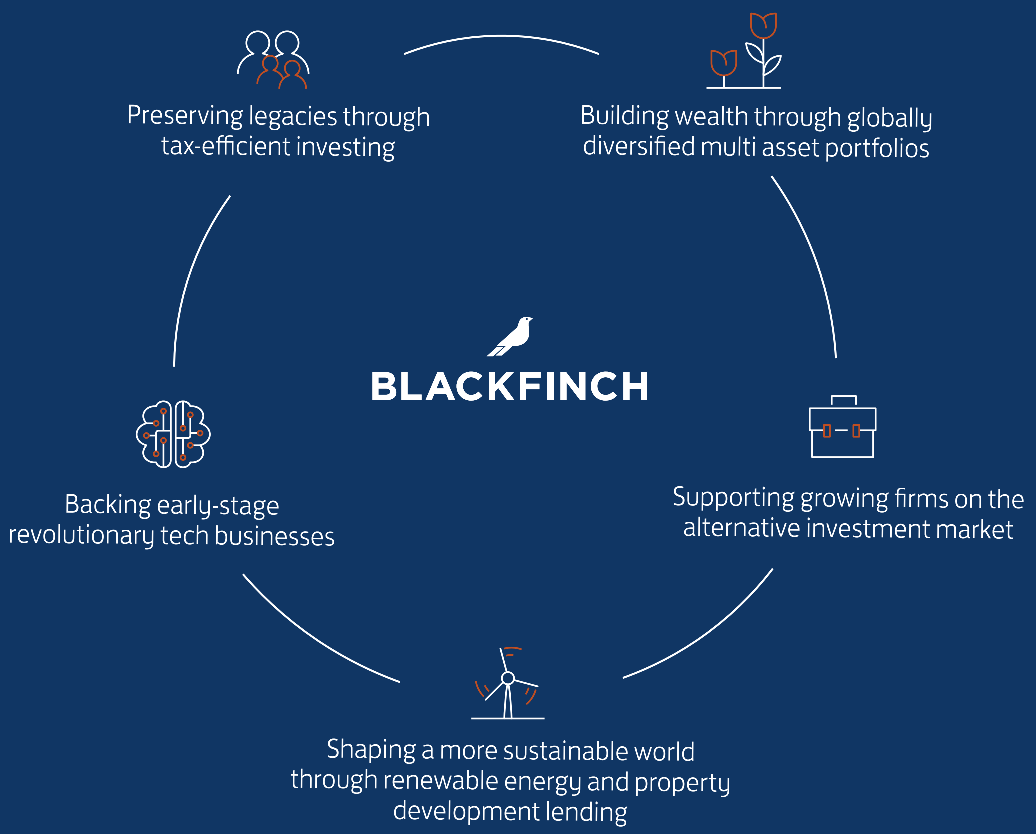
BLACKFINCH

**Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong.** Take 2 minutes to learn more on page 17

# A **lifetime** investment partner

Blackfinch offers a number of investment solutions, to address a range of client objectives.

No matter where they are in their investment journey, from starting out in building their wealth, through to managing their estate to ensure they pass on as much as possible to the next generation, we are here to help you achieve their goals.






Although many tax-advantaged investments come with a high risk label, it's important to consider those risks in context. This starts with a clear understanding of what tax-advantaged investments offer clients and how they can suit a client's overall objectives and attitude to risk.

## In this guide

# What are tax-advantaged investments?

To put it simply, a tax-advantaged investment is a government-approved scheme that offers tax reliefs to encourage people to invest in either qualifying companies or particular investment vehicles.

Pensions and individual savings accounts (ISAs) are the most well-known tax-advantaged investment vehicles. Both offer tax reliefs to encourage more people to save for the long term. For example, everyone in the UK over the age of 18 has an annual ISA allowance, and when they put money into their ISA, there's no tax to pay on either the income or the growth arising from the investment.

Pensions can be even more tax-efficient, as anyone paying into their pension can claim tax relief on the amounts they pay in, with the amount of tax relief claimable linked to the amount of income tax they normally pay. There's also no capital gains tax to be paid on the overall pension pot. However, there's a limit to the amount a person can contribute to their pension each year and still receive tax relief.

However, there are other investment vehicles, such as Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS), that paraplanners need to be aware of, as well as tax reliefs such as Business Relief that can also be claimed. We'll look at each of those in more depth shortly, but first, **why does the government offer tax reliefs on these investments?**

Well, just as the government uses tax relief to encourage more people to put money into their pensions and ISAs, it also wants to see more investment in certain areas of the economy, like early-stage unlisted companies. Offering tax reliefs can make these investments considerably more attractive, increasing the amount of money flowing into these companies – leading to innovation and job growth – and ultimately boosting the UK economy.



# Why are tax-advantaged investments important for clients?

In today's higher tax environment – where more people are paying tax at higher thresholds than ever before – recommending investments that offer tax reliefs as part of clients' long-term financial plans has become increasingly important. Investors can use the available tax reliefs to enhance their financial planning by reducing income tax liabilities, generating tax-free income streams, or planning for inheritance tax. However, it's important to remember that the tax reliefs made available through different investment vehicles are not solely there to help people pay less tax.

As well as helping to solve a range of different tax planning issues, an EIS or VCT investment also provides investors with access to a portfolio of early-stage businesses, adding a further level of diversification to help manage the risk associated with this type of asset class. The inclusion of additional asset classes can also further increase the risk-adjusted returns of a client's overall portfolio over the longer term. Let's start by taking a look at VCTs.

# VCTs
## explained

Introduced in 1995, VCTs are well-established and popular with investors. A VCT invests in a portfolio of early-stage companies that meet the qualifying criteria for VCT funding.

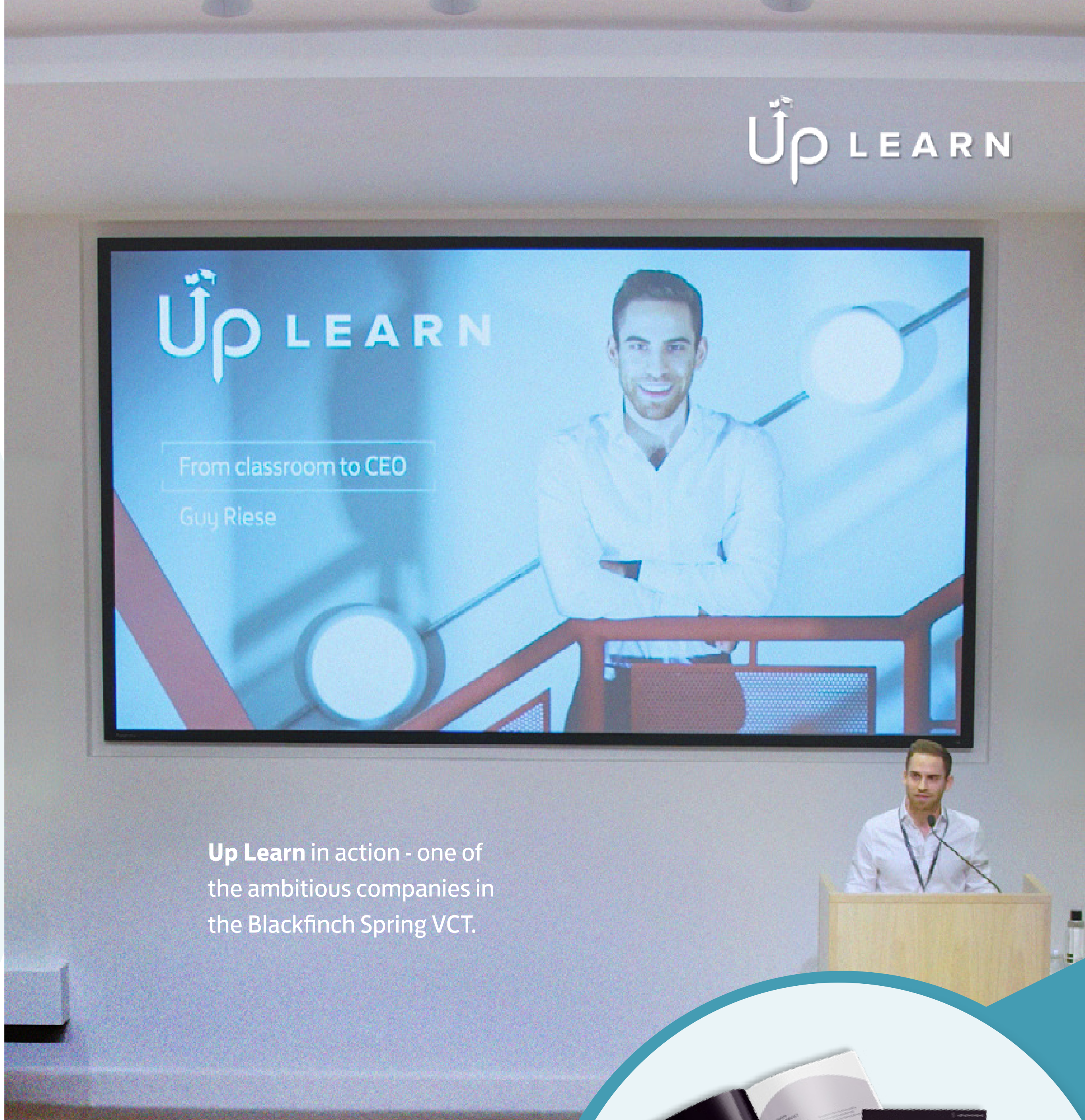
With a VCT, the client owns shares in the VCT itself. It's a company listed on the London Stock Exchange. As a result, they benefit from owning a **diverse portfolio of ambitious young companies** with the potential for future success. However, not every company in a VCT portfolio will succeed, and indeed some will fail. Therefore, an investment in the VCT should be viewed as a higher-risk, longer-term investment.

**VCTs offer several tax incentives to offset the risk of investing in early-stage UK-based companies. These are:**

- Up to 30% income tax relief on the amount invested in the current tax year (provided the VCT shares are held for at least five years)
- No income tax to pay on VCT dividends
- Gains made by the VCT are exempt from Capital Gains Tax (CGT)

Clients can invest up to £200,000 in VCTs every tax year, but they can't claim more income tax relief than they owe.

For more information see blackfinch.investments/vct




**Up Learn** in action - one of the ambitious companies in the Blackfinch Spring VCT.

If you're keen to know about how VCTs can be used at different life stages, download our whole-of-life investments paper today.

# The EIS explained

The UK government launched the Enterprise Investment Scheme in 1994 to encourage investment in start-ups and early-stage companies. However, what makes the EIS markedly different from owning a VCT is the structure of the investment. With a VCT, the client owns shares in the VCT itself, whereas with the EIS, they get to own shares in EIS-qualifying companies.

An EIS investment is generally considered higher risk due to the concentration of individual companies owned by the investor. Success, therefore, relies heavily on those specific companies performing well. For context, the Blackfinch EIS Portfolios usually feature around **10 companies**, while the Blackfinch Spring VCT will usually feature a portfolio of **45 companies**.

To compensate for the higher risk involved, the number of tax incentives available through the EIS is greater:

- Up to 30% income tax relief on the amount invested which can be offset against tax paid in the current or previous tax year (provided the EIS shares are held for a minimum of three years)
- Income tax relief can be carried back to the previous tax year
- Up to 100% Inheritance Tax (IHT) exemption on qualifying investments after two years (and if held at time of death)
- Investment gains are exempt from CGT (if income tax relief has been claimed)
- CGT deferral relief (up to three years prior to investment and up to one year in advance)
- After an EIS-qualifying company is sold at a loss, clients can claim loss relief of up to 45% (subject to income tax relief having been claimed and dependent on their marginal income tax rate at the time of loss).

For more information see blackfinch.investments/eis

New Business Relief rates will apply from April 2026.
Please refer to the Guide to Business Relief for further information.



tended

**Tended** in action - one of the early-stage companies in the Blackfinch Ventures EIS Portfolio.



If you're interested to know more about EISs and the importance of Loss Relief, download our Guide to Loss Relief today.

# Business Relief
## explained

Business Relief isn't a type of investment vehicle. Instead, it's a tax relief that is available to certain companies. When a business owner passes away, the value of the business is typically included in their estate for IHT purposes. However, when the government introduced Business Relief in 1976, it was specifically designed to help ensure shares in a qualifying business wouldn't be liable for Inheritance Tax.

In other words, shares in a business that qualifies for Business Relief are up to 100% exempt from IHT.

**The tax reliefs associated with Business Relief-qualifying companies are:**

- An investment or shares in a company that qualifies for Business Relief can be up to 100% free from IHT after being held for just two years (and provided the shares are still owned at the time of the owner's death).
- When an investor sells a Business Relief-qualifying asset, they can reinvest the proceeds in a new Business Relief investment within three years and it will immediately reinstate the Business Relief qualification on the investment.
- Where the two-year milestone has been passed, this qualification period for Business Relief doesn't reset when the shares are acquired by beneficiaries following the death of the client.

For more information see blackfinch.investments/iht

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Please refer to the Guide to Business Relief for further information.



Gain exposure to renewable energy sites like **Ferneylea**, pictured here, through the Blackfinch Adapt IHT Service.


If you're interested to know more about BR, download our Guide to Business Relief today.

# What role does Consumer Duty play in recommending tax-advantaged investments?

As you will no doubt be aware, Consumer Duty has four outcome areas involving products and services, price and value, consumer understanding and consumer support.

**Therefore, it's important to consider how tax-advantaged investments could help your advisory business uphold Consumer Duty principles and achieve good outcomes for a significant proportion of your client bank.**

Of course, the advice process starts with having a good understanding of the needs of the client and the most appropriate investment product or service to suit their needs. At Blackfinch, we offer a range of client planning scenarios that explain how investments made in VCTs and the EIS, as well as investments that make use of Business Relief could help solve different issues faced by clients. We also provide Target Market Assessments and draft suitability letters for all of our tax-efficient investments to further help the advice process.

View our range of Client Planning Scenarios



# Placing high-risk tax-advantaged investments into context

It looks like tax-advantaged investments could prove useful for lots more clients in the future, particular those who, due to personal tax allowance freezes, are faced with a higher tax burden than previously.

**Research from the House of Commons Library, commissioned by the Liberal Democrats and published in May 2024, shows that a further 1.2m pensioners will be paying income tax in the 2024/25 tax year, and without any changes to current tax thresholds, that will rising to 1.6 million pensioners by 2027-28[1].**

Applying a tax-based investment approach is likely to become integral to the advice process.

However, it is important to acknowledge the potential risks of tax-advantaged investments. For instance, the asset classes/products we have mentioned are rightly considered to be high-risk in nature, and that capital is at risk for all tax-advantaged investments. But not all investments are the same. While liquidity for investments in unlisted assets can be a challenge, again this liquidity risk varies from vehicle to vehicle. Therefore, carrying out detailed due diligence before choosing the one most suited to the client's needs can mitigate these risks as much as possible.

Beyond the investment risks, advisers will also have other factors to consider. For instance, writing tax-advantaged businesses may change professional indemnity (PI) insurance costs. This should be investigated on an adviser-specific basis.

In many circumstances, advisory businesses that already have a rigorous process of advice and product selection should see no material impact on their premiums.

And while tax-advantaged investments may not be available on standard investment platforms, the increasing use of technology and back-office systems means paraplanners should be able to aggregate information related to tax-advantaged investments, and their providers, more easily.

**Therefore, paraplanners shouldn't dismiss tax-advantaged investments out of hand, particularly where they suit their clients' specific needs.**

This is not about recommending an investment because of the tax benefits, but about incorporating tax-advantaged assets as part of a diversified portfolio within an overall financial planning framework. A well-constructed financial plan should then allow clients to benefit from these assets and important tax reliefs, without the 'tax tail wagging the investment dog'.

**Instead, making use of tax-advantaged investments should give clients the best of both worlds: a diversified portfolio with added tax reliefs on top.**

[1] www.ftadviser.com/pensions/2024/04/05/some-1-6mn-more-pensioners-to-pay-income-tax-by-2027-28/



# Paraplanner support from Blackfinch

Blackfinch is proud to be a champion of financial advisers and paraplanners, and for over a decade has been providing tax-advantaged investments and globally diversified wealth management solutions to UK advisory firms.

We have a team of Business Development Managers all over the UK who will be happy to visit your offices, explain our products and even deliver training sessions for your team.

Working alongside each external Business Development Manager, there is also an internal Business Development Manager. The internal team helps make sure you have a day-to-day contact, who can help you with a wide range of tasks such as:

- **External due diligence reports**
- **Completing suitability letters**
- **Questions about the investments we provide and much more**

**Find your local Business Development Manager**

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Hear directly from our investment team

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Breaking down client planning scenarios

**Go to our Resources →**

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Access a range of CPD-qualifying events

**Visit our Events page →**

## Contact Us

Please do get in touch if we can help. We'd love to hear from you.

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# Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

**What are the FCA key risks?**

**1 - You could lose all the money you invest**

If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

**2 - You are unlikely to be protected if something goes wrong**

Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

**3 - You won't get your money back quickly**

Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

**4 - Don't put all your eggs in one basket**

Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

**5 - The value of your investment can be reduced**

The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).

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V2 11.2024