

Making VCT investments for income tax relief

John is a 48-year-old software engineer who earns £80,000 per year. He has a pension and some savings but he wants to reduce his tax bill and invest in private companies to improve his diversification.

After assessing John's attitude to risk, investment goals and capacity for risk, John's financial adviser suggest a VCT investment to manage his income tax liability

VCTs offer various tax benefits to John, such as:

- Income tax relief of 30% on the amount invested, up to £200,000 per tax year
- Tax-free dividends from the VCT
- No capital gains tax on the disposal of the VCT shares

The sale of portfolio companies provides capital back to VCTs, which can either be reinvested or distributed as dividends. Over a ten year period Northern VCTs average dividend is 6.8%, which is one of the best in the market.



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However, for simplicity recommends a single VCT investment of £71,666 funded from savings in Northern VCT before 30th November 2024. This strategy will remove John from paying any income tax in 2024/2025, he will then benefit from annual dividends of £4,873 per year.

Over the first five year and three month holding period John receives £26,802 in tax free dividends, based on a 6.8% 10 year average dividend. These dividends are not subject to income tax.

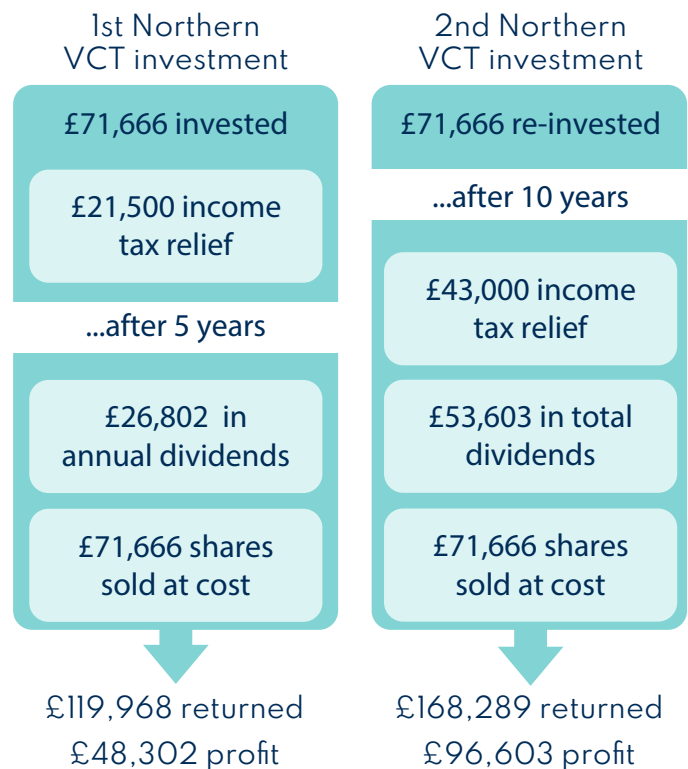
In February 2030, John sells the VCT at cost. This assumption is realistic, as the discount to NAV for buy backs is 5%, and NAV growth over the period of 5% is conservative, but subject to market fluctuations.

Due to the strong performance and simplicity, John chooses to reinvest the £71,666 into a different Northern other VCTs, and benefit from another £21,500 income tax reliefs.

By switching VCTs every five years, John maximises his income tax relief and diversifies his portfolio across different sectors and companies.

After investing £71,666 originally, after ten years and six months and including two VCT switches, he will have received £43,000 in income tax reliefs, £53,603 in tax-free dividends and have a holding (assuming no capital growth) valued at the original cost (£71,666). Therefore, John has made a profit of £96,603 in the period, which is 120% of his annual salary (tax free) and still has his original capital.

John is pleased with the outcome of his investments and through reinvesting can build a valuable source of income over a number of years.



VCT Tax Planning with Mercia | how advisers can access attractive tax advantages for their clients

The Northern VCTs (Venture Capital Trusts) provide an opportunity to gain exposure to innovative UK businesses, with the benefit of up-front tax relief and tax-free dividend income.

The Northern VCTs invest across a range of innovative sectors from bioscience through to software and consumer goods providing investors access to unique opportunities. Whilst these do carry a degree of risk, as is the nature of all early-stage investment, they do also offer high rewards for those seeking a high-risk, high-reward profile.

Mercia acquired the contracts to manage Northern VCTs in 2019. The Northern VCTs comprises of three very similar funds, in the form of Northern Venture Trust (NVT), Northern 2 VCT (N2 VCT) and Northern 3 VCT (N3 VCT).

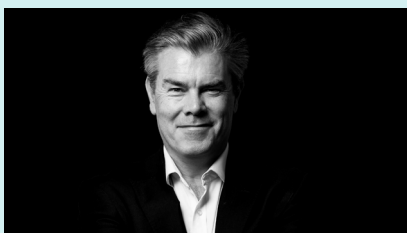
To simplify message, our collateral aggregates the three VCTs, as they invest alongside each other, but differences including their long term track records, are listed at mercia.co.uk/vct/northern-vcts.

Mercia also manages a market leading EIS fund, which invests at an earlier stage than Northern VCTs.

Tax incentives available

- **Income Tax Relief** - 30% income tax relief is available until the investor's income tax bill is reduced to zero.
- **Tax-free dividends** - if VCT shares are sold for more than was paid for them, any profits are free from capital gains

The Northern VCTs at a glance



Peter Dines, VCT Managing Director

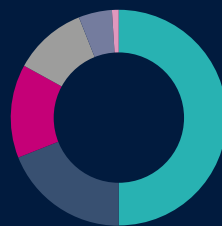
VCT Team's Expertise

Peter Dines spearheads the VCT investment team, bringing a successful entrepreneurial background, extensive investment expertise, and over two decades of experience in the Life Sciences domain. Supporting him is a VCT specialised investment team of 16, each possessing significant experience in the venture and VCT markets, collectively forming a formidable force in identifying and nurturing innovative ventures across the venture capital landscape

Where we invest

The Northern VCTs have an extensive national presence and a capability to identify and qualify a significant volume of opportunities within a variety of sectors.

We focus on businesses with reasonable valuations and modest capital needs, with the aim to achieve favourable investment returns. Our portfolio includes both early and later-stage UK companies, spanning diverse sectors including life sciences, software, and consumer goods.



Industry sector	Percentage
Software/electronics	50%
Healthcare/biotechnology	19%
Consumer	14%
Services	11%
Industrial/manufacturing	5%
Other	1%



*Information and valuations as at 31 March 2023, adjusted for additions and disposals since this date.
 **Includes unquoted investments and investments quoted on AIM.

Risk warnings

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. Investing in early-stage businesses involves risks such as illiquidity, lack of dividends, loss of investment, and dilution. Read the full risk warnings in the **Fund documentation** before applying. Tax treatment depends on the individual circumstances of each client and may be subject to change in future and depends on companies invested in maintaining qualifying statuses. Past performance does not predict future results. Mercia cannot offer financial advice and this should not be construed as advice. Investments in non-Sterling currencies may be affected by exchange rate changes. Mercia Fund Management Limited, a subsidiary of Mercia Asset Management PLC, is the manager of the Northern VCTs and authorised and regulated by the FCA (FRN: 524856).

Take 2 minutes to learn more.

