How to Reduce Your Income Tax Bill as a High Earner

INVESTOR RESOURCE

Discover some of the UK's most effective tax-efficient investment options, including the EIS, SEIS and VCTs

GCV

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Income tax: the growing impact on high earners

With the additional rate of income tax currently standing at 45% in the UK and multiple thresholds being reduced and frozen, it is important for high earners to ensure they are fully aware of opportunities to reduce their income tax bills.

In the 2023/24 tax year, the threshold at which an individual begins to pay additional rate income tax (45%) in the UK was reduced from **£150,000** to **£125,140**.

As a result of this reduction, combined with rate freezes and other thresholds being frozen until 2028, not only is it estimated that **2 million more people** will become higher rate (40%) taxpayers and **400,000** more individuals will become additional rate taxpayers, but existing additional rate taxpayers are now subject to pay 45% tax on a further £24,860 of their income.

That is, unless they take action to reduce their income tax liabilities.

"2.6 million more people will pay higher rate tax as a result of threshold freezes."

– Office for Budget Responsibility

It is important to note that the growing tax burden is not exclusive to income tax. The CGT allowance has been reduced from £12,300 to £6,000, the dividend allowance has been halved to £1,000, and the £325,000 inheritance tax threshold has been frozen until 2028.

This combination means that high earners, in particular, could benefit significantly from tax-efficient investments in 2023/24 and following years.

Important to note: Different changes have been introduced in Scotland, with top rate taxpayers facing a **47%** bill on annual taxable income of £125,140 and above.

Ultimately, the benefits associated with tax efficient investment opportunities can be twofold:

- You can reduce your income tax liability and retain more of your capital
- You can maximise the potential return on your investments

The optimum strategy to minimise your income tax bill will depend on individual circumstances. However, for high earners aiming to reduce their income tax liabilities, the following tax-efficient routes can be useful for minimising income tax liabilities in the UK:

1. Understanding relevant annual tax allowances
2. Investing via tax efficient investment schemes
3. Contributing to pension schemes and ISAs

Take note of tax allowances

Annual allowances are an important initial consideration when looking to reduce an income tax bill. There are four key areas to understand: the Personal Allowance, Marriage Allowance, Personal Savings Allowance and Dividend Allowance.

1. Personal Allowance

Any individual in the UK with an annual income below £100,000 is entitled to a personal annual income tax allowance of **£12,570**. Any income received within this allowance will be free of income tax.

If you earn above £100,000, including bonuses, you will lose your Personal Allowance – either partially or fully. This is because it operates according to a system of taper relief: your Personal Allowance reduces by £1 for every £2 that your adjusted net income exceeds £100,000.

This means that the allowance is zero if an individual's income is £125,140 or more.

Important to note: Income isn't solely classed as the earnings from your main employment. It also includes pension income, rental income, interest on savings and some redundancy payments.

2. Marriage Allowance

If you are married or in a civil partnership, you can transfer up to 10% of your personal income tax allowance (**£1,260**) to your spouse or civil partner.

To benefit as a couple, you the lower earner must normally earn an annual income less than the Personal Allowance (**£12,570**).

It is also possible to backdate your claim to include any tax year since 5th April 2018 that you were eligible for the Marriage Allowance.

Important to note: UK taxpayers are also entitled to a £6,000 annual capital gains tax allowance. However, whilst capital gains are taxed separate to income, they are based on income tax bands. Learn more in GCV's Guide to Reducing Capital Gains Tax.

Take note of tax allowances

3. Personal Savings Allowance

For additional rate income taxpayers (those paying 45%), any interest earned on savings (outside of an ISA) is taxable. In other words, no Personal Savings Allowance is available.

For higher-rate (40%) taxpayers, the Personal Savings Allowance is **£500** per year, and for non- or basic-rate (20%) taxpayers, up to **£1,000** per year in savings interest is tax-free.

If you hold savings jointly with your spouse or civil partner, you can combine your allowances and potentially take your total annual tax-free savings allowance to **£2,000**.

4. Dividend Allowance

Individuals in the UK are entitled to receive up to **£1,000** of dividends annually, tax-free (previously £2,000 in the 2022/23 tax year).

This allowance can be particularly useful if you own shares in dividend-paying stocks or are a company director.

However, the allowance is set to halve again to **£500** in April 2024, meaning those who rely on dividends as a form of income could be liable to pay even more tax in the near future.

Important to note: Some income tax mitigation strategies involve managing your income levels to fall into a lower tax band (where reasonable). In turn, this can also help to reduce any capital gains tax (CGT) due, as the rate of CGT you pay (generally 20% for higher- and additional-rate taxpayers and 10% for basic-rate taxpayers) is determined directly by your income tax band.

Income tax efficient investments: EIS, SEIS and VCTs

The following tax-efficient investment routes can provide investors not only with the opportunity to mitigate income tax liabilities, but also target superior investment returns.

By investing into certain eligible startup companies via UK Government-introduced Venture Capital Schemes such as the EIS and SEIS, high-net-worth individuals (HNWIs) and sophisticated investors can access a highly-effective route to significantly reduce their income tax liabilities.

1. The Enterprise Investment Scheme (EIS)

The EIS facilitates private investment into early-stage, high target growth UK companies. For high earners in the UK, EIS investments can be a useful way to reduce income tax liabilities.

To encourage investment, the scheme offers investors a range of tax reliefs, including **30% income tax relief** on a maximum annual investment of £1m, or £2m, should any capital above £1m be allocated to Knowledge Intensive Companies (also known as KICs; companies that are primarily devoted to conducting research and development).

In addition to income tax relief, the EIS also offers investors capital gains tax exemption on shares, capital gains tax deferral, 100% inheritance tax exemption and loss relief.

For example: You invest £500k, allocated equally across five EIS-eligible startup companies in the 2023/24 tax year. After three years, you can claim 30% of the total sum (**£150k**) back in income tax relief, provided that you still hold the EIS shares. Ultimately, this reduces your capital exposure from £500k to £350k, ultimately minimising risk and maximising the potential return on your EIS investments.

30% income tax relief

Effective investor spend of 70p in every £1.

Capital gains tax exemption

Zero CGT to pay when shares are realised (usually 20%).

Capital gains tax deferral relief

Ability to defer the payment of an existing CGT bill.

Inheritance tax relief

Zero IHT to pay on shares upon passing (usually 40%).

Loss relief

Offset any future losses against income tax or CGT.

Income tax efficient investments: EIS, SEIS and VCTs

2. Seed Enterprise Investment Scheme (SEIS)

The SEIS is the sibling scheme of the EIS and is designed to attract investment into even earlier-stage startups. In return for the added risk of investing in seed-stage companies, the SEIS offers investors a more generous range of tax reliefs, including **50% income tax relief** on a maximum annual investment of £200,000, CGT exemption and reinvestment relief, 100% inheritance tax exemption on SEIS shares, and loss relief.

The table below illustrates three potential outcomes of a **£50,000** SEIS investment for an additional rate taxpayer, in which the hypothetical company fails, breaks even and triples in value. This table displays a breakdown of how the tax reliefs would operate individually and also combine to further minimise losses and maximise return potential.

	Company triples in value	Company breaks even	Company fails
SEIS investment	£50,000	£50,000	£50,000
Income tax relief	- £25,000	- £25,000	- £25,000
Net investment	£25,000	£25,000	£25,000
Proceeds on disposal	£150,000	£50,000	£0
Income tax loss relief	-	-	- £11,250
CGT payable	-	Nil	Nil
Net profit/loss including income tax relief	+ £175,000	+ £25,000	- £13,750

3. Venture Capital Trusts (VCTs)

Unlike the EIS and SEIS, VCTs are listed investment vehicles that invest into a portfolio of private early-stage companies on the investor's behalf – charging fees for this management service.

Individuals can contribute up to £200k per year into VCTs and subsequently receive **30% income tax relief** on the capital invested.

Any dividends received are also tax-free, and there is no CGT to pay on any profits, provided that shares are held for at least **five** years. Though VCTs can offer tax relief and exemption, they do not offer investors the IHT exemption, CGT deferral/reinvestment relief, and loss relief offered by the EIS and SEIS.

Pensions and ISAs

Investment routes that can assist with reducing your income tax bill – outside of the Venture Capital Schemes – include ISAs, as well as pension schemes such as SIPPs and SSASs.

ISA contributions

An ISA (Individual Savings Account) is a tax-efficient wrapper that can hold assets, usually cash or stocks and shares, and enable any returns to be received free of income tax, capital gains tax and dividends tax.

Everyone has an annual ISA allowance of **£20,000**, which can be distributed across multiple ISAs (such as a Stocks and Shares ISA, Innovative Finance ISA [IFISA], Cash ISA and Lifetime ISA) or allocated into one single ISA.

Pension contributions

Funds held inside a pension can grow free from income tax and capital gains tax, and upon the pension holder's passing, may be free from inheritance tax (IHT).

Up to the age of 75, you can contribute 100% of your annual earnings or **£60,000** (whichever is less) into a pension.

However, there are some restrictions for high earners, for example, in the form of the tapered pension annual allowance.

If an individual's adjusted income is above £260,000, the annual pension contribution allowance in the current tax year will be reduced by £1 for every £2 that the adjusted income exceeds £260,000. The minimum reduced annual allowance you can receive in the 2023/24 tax year is £10,000.

Pensions and ISAs

The following three types of pension scheme can each offer tax-efficient routes for high earners to mitigate their tax liabilities whilst contributing to savings for future years.

i) Self-Invested Personal Pension (SIPP)

A SIPP is a personal pension scheme that can provide individuals with greater control and flexibility over their pension investments, as well as a range of tax advantages, including income tax relief at the contributor's marginal rate.

An additional rate taxpayer can contribute **£60,000** to a SIPP in the 2023/34 tax year and subsequently receive **£27,000** in income tax relief. SIPP investments can also grow free from income tax and CGT.

Additionally, when the SIPP owner reaches retirement age, they can take up to 25% of the funds as a tax-free lump sum

ii) Small Self-Administered Scheme (SSAS)

A SSAS is a type of defined occupational pension scheme that enables a company or group (a maximum of 11 people) to set up a private pension plan for their employees or members. Subsequently, SSAS members can benefit from the same tax advantages as those offered by a SIPP.

However, unlike a SIPP, a SSAS is operated by a nominated scheme administrator and its trustees. The trustees are also usually members.

iii) Workplace Pension Schemes

Another popular scheme is the workplace pension. With this scheme, a percentage of your pay is automatically allocated to the scheme every payday and, in most cases, your employer also contributes to the scheme for you. In addition, you can receive tax relief from the Government which acts as a further external contribution to your pension and can assist with minimising tax liabilities.

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What we offer at GCV Invest

Focusing on the three alternative asset classes of venture capital, property and private equity, GCV Invest provides private investors with access to carefully selected tax-efficient investment opportunities to support investors in building their wealth with impact.

GCV Invest is an investment platform that brings together an online and offline network of more than 700 experienced private investors, institutional investors and high-net-worth individuals. Our core focus is to enable our investors to co-invest in growth-focused, impact-driven, tax-efficient investment opportunities

At GCV Invest, we offer our network a select portfolio of venture capital, property and private equity investment opportunities each year.

Wherever possible, we ensure the opportunities we provide can be accessed via tax-efficient schemes, such as the EIS and SEIS. This enables our investors to minimise the associated capital risk and maximise the return potential of their investments.

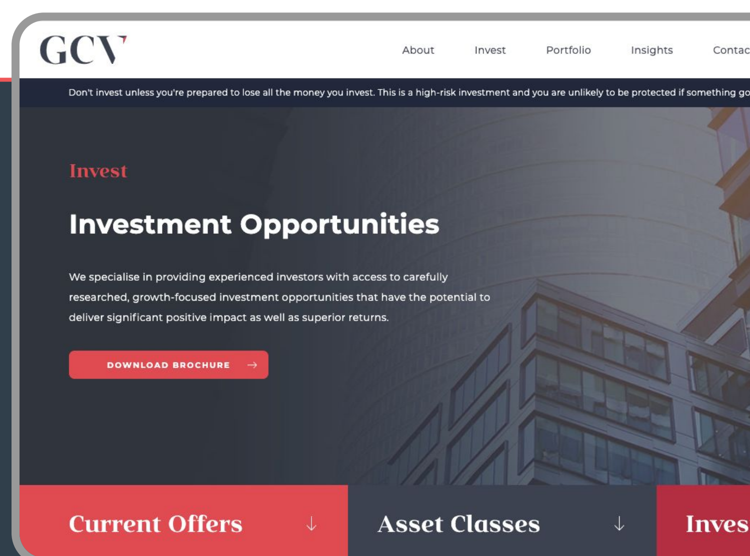
These routes can help to protect your capital from being eroded, as well as provide your wealth with the opportunity to grow further. However, the UK tax system has many complex areas and therefore conducting thorough due diligence is crucial to make the most of tax-efficient investment wrappers.

Our secure investment portal provides access to the latest opportunities, enabling you to invest online and monitor the performance of your portfolio throughout the investment lifecycle. The investments we offer have the potential to deliver attractive returns and significant tax benefits for our investors, as well as long-term positive impacts for the industries and communities in which we operate.

Investment Opportunities

Explore our tax efficient investment opportunities.

VIEW OPPORTUNITIES



> “Our focus is to help experienced investors build and retain their wealth by providing access to a small number of carefully selected, growth-focused alternative investment opportunities. These opportunities fall within our three core asset classes of venture capital, property and private equity and utilise tax-efficient wrappers wherever possible.”

Craig Peterson
Chief operating Officer,
GCV

Interested?

If you are interested in learning more about tax-efficient investing and the opportunities available with GCV, you can contact us via our website or get in touch with our Investor Relations Director here:

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Risk considerations

The UK tax system can be complex. It is important to remain up-to-date on the latest tax changes and allowances to ensure you are taking full advantage of the opportunities available. Professional financial advice is always useful.

- **Government tax changes**

Rules regarding UK taxation are subject to change. Please ensure you maintain accurate information prior to investing. There have been no negative changes to the EIS since its introduction in 1996, and none are currently forecasted. However, it is still important for investors to bear this caveat in mind.

- **Investing in early-stage companies**

EIS investments involve funding early-stage, unlisted businesses. Although this can enable considerable capital growth, it poses additional risks to the standard considerations associated with investing into traditional listed equities. Investors must ensure sufficient expertise and disposable income is present before investing.

- **Investment ISAs and pension schemes**

Stocks and Shares ISAs, IFISAs and pension schemes (such as SIPPs and SSASs) are investment tools, as well as savings tools. Therefore, they can pose a higher level of risk than traditional ISAs and pensions. Please note that capital is at risk and returns are not guaranteed.

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About the author

Norm Peterson

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Connect with Norm:

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

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

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

This 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, studied his MBA at Bradford and completed the Oxford Private Equity Programme at Saïd Business School, University of Oxford.

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

Growth Capital Ventures

GCV is an FCA-authorised investment firm that operates a private investor network: GCV Invest.

GCV Invest brings together an online and offline network of experienced private investors and institutional investors to co-invest in growth-focused investment opportunities.

We provide access to tax-efficient, impact-driven investment opportunities with the potential to deliver higher returns than many traditional investment products.

Facilitating investment across three main asset classes, we target 10x money-on-money returns for venture capital opportunities, 2.5x for private equity deals, and 1.5x for property investments.

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