# Case Study 5 – Extracting Profits from a Business Tax Efficiently

## The Problem

Marian is a Director of a PR and Marketing company. Her salary is £50,000 per annum and she is a 40% rate taxpayer. She wants to take some of the profits out of the business and invest them elsewhere, so in 10 years or so, when her children are older, she can help them with deposits for their first homes. She has £50,000 of profit in the company that she wants to extract for this purpose.

The problem is that Marian is already receiving a salary that puts her into a higher rate banding for income tax, so a further £50,000 dividend payment from her company would be taxed at an effective rate of 25%*. This means that she would pay £12,500 in tax and her £50,000 would shrink to £37,500. She'd like a tax-efficient solution that will allow her to extract these profits, without increasing her potential income tax liabilities.

## Our tax-planning solution

We recommended that Marian invest in a Venture Capital Trust (VCT) and/or Enterprise Investment Scheme (EIS). She would be eligible to receive income tax relief of 30% if the investment is held for the required minimum period. This is 5 years for a VCT and 3 years for a EIS.

So, looking at the figures, if Marian invests a £50,000 dividend paid to her, she would be eligible to receive tax relief of £15,000. This offsets the £12,500 personal tax due on the dividend, and provides additional relief against her salary income.

* These rates do take into account the 10% dividend tax credit. While it is not possible to claim back the dividend tax credit via VCT or EIS investments, it is possible to use relief to offset the additional personal tax created from the payment of dividend income.

** Tax relief on EIS is based on the investment amount after charges (ie; net). Tax relief on VCT is based on the investment amount before charges (ie; gross).