Alternative investing

Opportunities for experienced investors

tpo
the private office

Since the early 1980's the Government has launched a range of different schemes to encourage people to invest in small to mid-sized companies, many of which are not quoted on the stock exchange. These types of companies can vary from start-up ventures to recognised brand names but one thing they have in common is the need to raise capital to establish and grow their business.

The Government view this type of investing as a key way to support the development of businesses as they grow but recognise that it can carry additional risks in comparison to investing in a traditional Unit Trust or open-ended investment company (OEIC). They, therefore, offer attractive tax benefits to individual investors willing to invest. These include the ability to:

- Reduce your income tax liabilities
- Defer payment of Capital Gains Tax (CGT).
- Reduce your taxable estate when you die (inheritance tax (IHT))

Adding these types of investments to your portfolio can also:

- Provide high earners with the ability to build up an alternative source of tax efficient income in retirement and
- Increase investment diversification

These investment opportunities are only suitable for people who are experienced investors and have the capacity to absorb losses without their standard of living being significantly affected.

We believe that you would benefit from this type of planning and have designed this brochure to explain our approach to due diligence when researching these types of products and the services we provide once you have invested.

Investing in these types of businesses is not suitable for everyone due to the increased potential for you to lose your capital and the Financial Services Regulator, The Financial Conduct Authority (FCA), has strict rules in place which must be followed before we discuss this type of investment with you.

Our Approach

Assessing your planning needs

Individuals who would potentially benefit from this type of planning are:

High earners
who are seeking strategies to reduce their income tax liabilities and may have a reduced ability to contribute to a pension plan due to the tapering of their pension allowances.

Company directors
who are planning to sell their business and seeking investment opportunities which qualify for Business Relief (BR) as an influx of cash from the business sale increases the value of their taxable estate.

Individuals with large capital gains
perhaps from a sale of a second property or other asset of significant value, wishing to defer payment of CGT.

Individuals under an Enduring or Lasting Power of Attorney
who are unable to make gifts to individuals or into Trust and who want to take steps to mitigate IHT on their estate.

Once we have identified a potential planning need we will:

Assess your capacity to take risk

Cash flow planning is an integral part of our service and this enables us to identify individuals who have a surplus of wealth with which to meet their lifetime financial goals and have the potential to consider this type of planning.

If capacity to take risk does not exist then this type of planning will not be right for you.

Assess your knowledge and experience of investing

Having experience of investing and the ability to understand and be comfortable with investment risk is an essential requirement before undertaking this kind of planning.

As part of our assessment we will ask you to complete a risk profiling questionnaire which will not only help us assess your knowledge and experience of investing but also your emotional responses to both gains and losses.

Our approach to research

Due to the high-risk nature of this type of planning you need to have confidence in our research capabilities.

The Private Office has an Investment Committee, who are responsible for undertaking due diligence to ensure we are comfortable with the funds, investment houses and managers that we recommend to our clients.

Due to the highly specialised nature of this type of planning our in-house investment team works closely with MICAP. Founded in 2013, MICAP provides quality independent due diligence, research tools and panel support services on the tax-advantaged investment market including their proprietary impact scoring analysis which focuses on the following areas:

Portfolio strategy

This examines the diversification of the offer, particularly the number of investee companies and business sectors that investors will be exposed to. Where an investment is focused on one business sector but a number of sub-sectors this is taken into consideration. Lower diversification can often mean higher risk, and so a higher score here denotes an investment with a narrower focus.

Financial security

How secure investors' capital is, based on the nature of the investments made. A higher score could, for example, signify a focus on seed/early stage companies or that the manager does not have board representation to safeguard investors' interests (EIS/VCT), or that the target companies have a lack of real assets to mitigate risk, significant gearing or uncertain income streams (BR).

Liquidity

This considers how readily an investor can access their funds outside of any exit strategy organised by the manager. Ignoring any potential loss of tax relief, this considers how quickly an investor can liquidate their holding. A higher score denotes limited liquidity for investors.

Exit strategy

The exit strategy for the investment considers when that exit should take place, how long the process is expected to take and any factors that it is reliant on. A higher score can denote a lack of certainty on which exit strategy is most appropriate or that there are numerous contingencies that must occur first. It could also indicate a lack of an exit record for the fund or the manager.

Regulatory status

Investments are subject to a number of different rules regarding how and to whom they can be marketed. A higher score signifies that this investment's marketing material has not been approved by an FCA* regulated firm, or that there are no FCA regulated firms involved with the management of this investment.

*Financial Conduct Authority – The Financial Services regulator in the UK

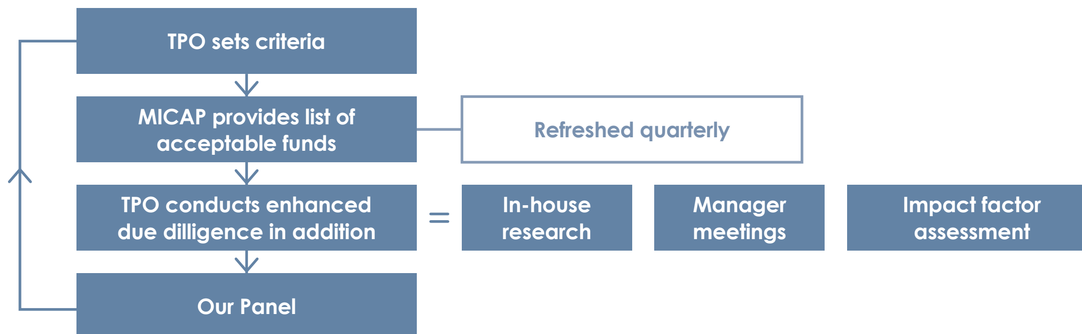
HMRC clearance

Tax reliefs are not guaranteed, and this section examines the relative risk of tax relief being granted.

A lower score typically refers to an investment that has been pre-cleared by Her Majesty's Revenue and Customs (HMRC), a higher score refers to an investment where the tax clearance status has not or cannot be pre-cleared and where there is no external and ongoing support from a third party tax adviser.

Operations and Experience

This considers the operational experience of the investment manager, based on numerous factors. A lower score refers to a longer-established firm, with a stronger balance sheet and higher net profits and turnover, a greater number of staff with more experience in the tax-advantaged and private equity sectors and a larger amount of assets under management. A higher score represents a weakness in one or more of these areas.



Understanding your investments

Venture Capital Trusts

Venture Capital Trusts (VCTs) are investment companies similar to investment trusts. They are quoted on the London Stock Exchange and typically invest in, for example, the new shares of privately owned companies and companies traded on the Alternative Investment Market (AIM) or on the Aquis Stock Exchange (AQSE). They are complex investments, aimed at wealthier, sophisticated investors with significant investment portfolios, who have an income tax liability which can be reduced by investment in a VCT, and who are in a position to accept the high risks of investing in a VCT.

Some VCTs spread your investment across a broad range of AIM listed and unquoted companies – these are known as Generalist VCTs.

Others have a more focussed approach to investing and concentrate your investment in a particular area or sector such as technology – these are commonly referred to as Specialist VCTs.

The tax treatment and reliefs for VCT investors are summarised below:

- You can invest up to £200,000 each tax year and will benefit from income tax relief of 30% of your capital investment or your actual income tax liability in the year of investment if lower.
- You will not pay CGT when you dispose of the shares
- Any dividends you receive are exempt from income tax.

You need to hold your investment for at least five years in order to take advantage of these tax reliefs.

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.

Example

Tax benefits of annually investing into a VCT

Fred has an annual salary of £300,000 and maximises his savings and pension contributions each year. He is interested in tax efficient investments and using any annual allowances available to him. He is comfortable with the associated risks of investing in a VCT.

VCT shares must be held for at least 5 years in order to continue to qualify for the initial income tax relief. Fred could sell his first VCT investment after the first 5 years, then reinvest the proceeds in another VCT. He could then use the further amount of income tax relief on his second VCT investment to reduce his year six income tax bill. Similarly, Fred's year two VCT investment could be sold and reinvested in another VCT in year seven, giving him additional income tax relief, and so on. The illustration assumes no gain or loss on the investment (although it is common for VCT shares to be sold at a discount to the net value of the assets held in the Trust - commonly referred to as trading at a discount to NAV) - and doesn't take into account any initial or ongoing fees or costs associated with selling the VCT shares. It is worth noting however that after selling shares in a VCT it is not possible to claim tax relief on new shares bought in the same VCT within six months of the initial sale.

£300,000 annual salary

ISA £20,000 + Pension £10,000

Following discussions with his adviser, Fred plans on investing into VCT for the next few years

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
VCT investment	£50K	£50K	£50K	£50K	£50K	£50K	£50K	£50K
Cumulative investment	£50K	£100K	£150K	£200K	£250K			
30% income tax relief	£15K	£15K	£15K	£15K	£15K	£15K	£15K	£15K
Cumulative income tax relief	£15K	£30k	£45K	£60K	£75K	£90K	£105K	£120K

Fred could use this method to keep investing and claiming income tax relief indefinitely, subject to the rules remaining the same and certain conditions. But remember that VCT income tax relief can only be claimed for the same year of investment and against tax actually paid.

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Example

Tax efficient extraction from pension

David has been retired for three years and is financially comfortable in retirement.

Following the birth of his second grandchild and with the new pension freedoms, David would like to use some of his pension to assist with the future education of his grandchildren. David is keen to plan well ahead and is investigating options to take money out of his pension in a tax-efficient manner.

VCT investment benefits

Up to 30%

Income tax relief
on up to £200K p.a.

+

Tax-free

Dividend gains

*Note: in the lower rate taxpayer example, the £5,100 income tax relief only applies if David has at least £5,100 of income tax to offset in total in the tax year. If not, based upon the tax due on the pension withdrawal, only £3,000 of it can be offset against income tax due. The remaining £2,100 will be lost.

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60% Tax Free	80% Tax Free
HIGHER RATE TAXPAYER (40%)	LOWER RATE TAXPAYER (20%)
This illustration assumes that David has other income which means he pays the higher rate of tax.	This illustration assumes that David is a basic rate taxpayer.
£20,000 withdrawn from pension	**£20,000** withdrawn from pension
£6,000 tax due on pension: 25% tax-free, 75% at higher rate	**£3,000** tax due on pension: 25% tax-free, 75% at basic rate

Save remaining cash in savings account

£14,000 remaining after tax

£14,000 invested into a VCT

£4,200 30% tax relief

£18,200 remaining after tax

(70% of initial tax has been offset)

Save remaining cash in savings account

£17,000 remaining after tax

£17,000 invested into a VCT

£5,100 30% tax relief

£22,100 remaining after tax

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Enterprise Investment Schemes

Enterprise Investment Schemes (EIS) are aimed at the sophisticated investor with large capital gains on which they wish to defer tax and/or an income tax liability that they wish to reduce or eliminate. The investor must be in a position to accept the high risks of investing in an EIS. The adviser should ensure their client has the necessary knowledge and understands the risks involved. All other lower risk, tax efficient investments should be considered first, i.e. pensions and ISAs.

The tax treatment and reliefs for EIS investors are summarised below:

- You can invest up to £1 million each year and this allowance is increased to £2 million if you invest anything over £1 million in businesses which are defined as knowledge intensive. You will benefit from income tax relief of 30% of your capital investment or your actual income tax liability in the year of investment, if lower, provided you remain invested for a period of at least three years. There is a facility to carry back up to 100% of your investment to the previous tax year, subject to the limits not being exceeded in each tax year.
- You will not pay CGT on any capital gains you make from your investment into the EIS when you dispose of the shares.
- You can defer payment of CGT which has been created elsewhere by investing in an EIS one year before or up to three years after the disposal which created the capital gain. Any capital gains deferred will become taxable again when you sell your shares unless they are being sold by your Personal Representatives when you die.
- EIS shares will usually qualify for 100% Business Relief (BR).
- From April 2026 100% Business Relief will be capped at the first £1 million of qualifying assets held when you die. Any qualifying assets in excess of £1 million will benefit from an effective rate of relief of 50%.

This effectively provides a complete exemption from IHT for the value of shares in an unquoted trading company up to £1 million, provided those shares have been held for at least two years prior to the chargeable lifetime transfer or death.

- Should the worst occur and you make a loss on your investment when you dispose of your shares these losses (less the income tax you received) can be offset against other taxable income or capital gains in the year of disposal.

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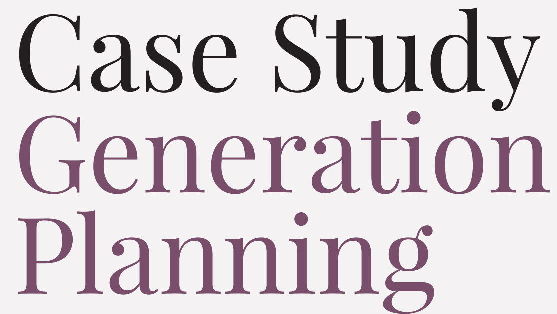

Case Study Generation Planning

Situation

- The client, in their late 80s, had a London flat which was no longer used by her and her husband, and was not required by the next generation.
- The property was subject to significant capital gains.
- The client had stable sources of income to meet known expenditure needs.
- The client had determined to sell the property and wished to pass on the proceeds to her family.

What we did

- Spent time with the family to understand liquidity needs and individual objectives of beneficiaries.
- Reviewed EIS investment and made suitable recommendations which enable the client to roll over the capital gain arising from the sale of the property in line with the risk appetite of the family. The assets should attract BR in two years.
- Worked with lawyer to reword her will so that she continues to leave her remaining assets to her husband however assets that qualify for BR should pass down to the next generation/trust.
- Client saved CGT and potentially IHT equivalent to £1.28m* on a £2m gain.

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*Assuming death occurs prior to April 2026 and 100% Business Relief is granted.

Business Relief Schemes

There has been a rise of investment into companies which are not AIM listed but carry out a trade which qualifies for Business Relief (BR). In the main, these companies focus on capital preservation and risk mitigation through direct investment in unquoted trading companies.

You need to be invested for a period of two years to qualify for BR and the two year qualifying period will effectively start from the date HMRC declares the investment obtains qualifying status, rather than the day invested.

This does not mean having to hold the same AIM stock for this period of time. For example, an AIM stock might be held for say six months and then sold. Provided that all of the sale proceeds are invested in another qualifying company within three years of the disposal, the six months counts towards the two year period for BR purposes.

This is particularly important because apart from voluntary trading, there can be occasions when it is necessary to sell certain AIM shares e.g. because the company has become listed on the main market or has been taken over by a non-qualifying company.

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Example

Elderly and in poor health

Darren is 72 and single. He is in ill health and unlikely to survive seven years and is aware that, because he has no children, his estate will not benefit from the Residence Nil Rate Band, but is very close to his godson to whom he wants to leave as large an inheritance as possible.

Darren's main asset is his house, which is currently valued at £600,000

£300,000

+

£200,000

+

£100,000

He downsizes to a property valued at £300,000, sets aside £200,000 for any potential care costs, and invests his £100,000 remaining assets into a BR service.*

BR QUALIFYING ✓

After 4 years he withdraws £50,000 from the BR investment to use to continue funding his care**

£200,000 + £50,000 = £250,000

On death, after five years, his house value has appreciated to £325,000 but does not exceed the Nil Rate Band, so no IHT is due, Darren has a total of £375,000 of assets to leave to his godson.

The £50,000 in the BR service is covered by BR and therefore outside of the charge to IHT on death.

*An optional two-year term insurance policy would give added protection by paying out the equivalent of any IHT due on the investment amount should he die before the two-year BR qualification period expires.

** the total care costs now amount to £250,000, the original £200,000 + the additional £50,000 withdrawn from the BR service, leaving the remaining £50,000 BR investment outside of the charge to IHT on death. For the sake of simplicity, this example assumes no growth.

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Investing in AIM Portfolios

Another effective means of planning for IHT involves the use of bespoke portfolios of AIM stocks to take advantage of BR rules and this is a service offered by a number of leading stockbroking or fund management firms.

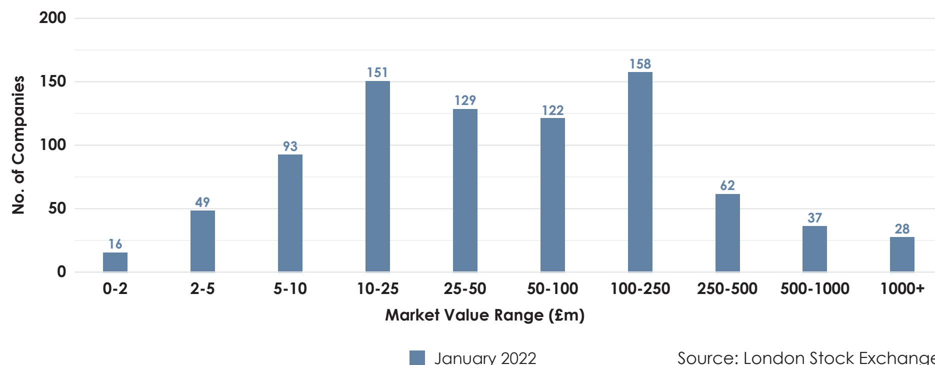
An AIM Portfolio IHT Plan is an investment with the objective to acquire a diversified portfolio of AIM listed companies which meet the BR qualifying criteria and offer potential for growth, although a number of plans are clearly more focused on preserving capital than seeking to grow it.

Typically the plan will consist of 30-50 companies; these companies will be spread across different sectors and will have varying degrees of underlying security. The plan may also allow continued access to the money and an ongoing level of control.

Advantages of AIM portfolio services

The main advantages of AIM portfolio services are as follows:

- They do not involve any Chargeable Lifetime Transfers (CLTs) or Potentially Exempt Transfers (PETs): the only requirement is to survive at least two years after the portfolio is created.
- The capital investment remains fully available, if needed.
- All portfolio income flows to the investor and there is no fixed level for payments.
- Any capital gain in the shares is washed out on death.



Business Relief on AIM shares is changing on 6 April 2026. Qualifying shares will benefit from a reduced effective rate of 50% Business Relief from that date (currently 100%).

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Case Study
Ongoing access to funds

Scenario

William invested £50,000 in an estate planning service a few years ago to mitigate a potential charge to IHT. He is now unexpectedly in need of funds to support his son's business.

Investment profit (assuming 1% exit deal fee)	
Growth p.a.	3.5%
Year 1	£51,750
Year 2	£53,561
Year 3	£55,436
Year 4	£57,376
Year 5	£59,384
Exit less deal fee at 1%	£58,790

*Note: gifting the cash proceeds to his son means there may be CGT to pay on the gain and make this a potentially exempt transfer (PET). If there was no need for cash, William could have instead gifted the BR qualifying shares to his son, potentially maintaining BR if the gift becomes a failed PET and using holdover relief to defer any CGT liability.

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William invested £50,000 in an estate planning service with his son in mind

As the investment was made with the intention of benefitting his son anyway, he sees no difference in unwinding it and making the funds available to his son. As his BR investment is in AIM shares, his fund manager is able to sell his holdings quickly and return the money back to William within a few business days.

The investment had made a modest profit over the last few years.

£50K BR investment encashed at

£58,790*

Case Study
AIM ISA contributions over a number of years to build a tax-efficient pot

Scenario

Mark, retired and in his 70s, has accumulated a £135,000 ISA portfolio including stocks and shares, which he has over 20 years of experience of investing in. He would now like to find a way to invest that retains the tax benefits of an ISA wrapper, without the potential IHT liabilities.

Since 5 August 2013, it has been possible to hold shares listed on AIM in the stocks and shares component of an ISA including Junior ISAs.

The potential IHT benefits of AIM shares are not lost if an ISA wrapper is used.

The inclusion of AIM shares following the 2013 Budget opened up the use of ISAs in IHT planning, whereas ISAs had previously been an obstacle to IHT planning because they could not be placed in trust or assigned. The introduction of the Additional Permitted Subscription in December 2014, which granted a surviving spouse/civil partner an additional ISA allowance equivalent to the value of their deceased spouse/partners ISA holdings at the date of death, and the further revisions to ISA inheritance rules from 6 April 2018 have added to the appeal of the ISA/AIM combination in estate planning.

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Business Relief on AIM shares is changing on 6 April 2026. Qualifying shares will benefit from a reduced effective rate of 50% Business Relief from that date (currently 100%).

Mark transfers his existing ISA to an AIM IHT ISA with the objective of IHT mitigation.
Free of tax

AIM IHT ISA

- There are none of the costs of putting assets into trust or buying a life assurance policy.
- Any non-AIM/non-BR qualifying AIM shares are sold and, because this is done within the ISA wrapper, any gains made on the shares are not subject to CGT.

AIM BR

The manager of the service invests the funds into suitable AIM BR shares.

2 YEARS BR QUALIFYING

This leads to 100% IHT relief and also offers access to the growth potential of carefully-selected UK smaller companies, and access to his funds when he wants them.

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	Estate without IHT planning	AIM IHT ISA	AIM IHT ISA (3.5% growth (net) not reinvested**)	AIM IHT ISA (3.6% growth (net) reinvested with additional £6,000 invested at start of each year**)
Gross (investment value)	£135,000	£135,000	£135,000	£135,000
1% initial fee	£0	£1,350	£1,350	£1,350
Net investment	N/A	£133,650	£133,650	£133,650
IHT at 40%	£54,000	£0	£0	£0
Growth in value on gross investment	-£54,000	-£1,350	£25,084	£58,358 (£30,000 of which is additional capital)
Value of inheritance left to beneficiaries	£81,000	£133,650*	£158,734	£192,035

In this example, the chosen AIM IHT ISA manager charges 1% initial fee without any dealing fees, ongoing fees or exit charges. These figures will vary depending on what fees are applied by the relevant AIM IHT manager.

*even if the value of the AIM IHT ISA doesn't go up, his beneficiaries still save £53,460 after all fees without the IHT liability.

**each additional investment starts a new two year BR qualification clock for that investment.

kO 3000

If you are undertaking this type of planning, it is important that you work with a financial adviser who will continue to provide you with support once your investment has been made.

Our investment committee, working alongside MICAP, will continue to monitor the quality of the schemes we have recommended using an impact score, which is a proprietary tool that takes account of a number of factors. By doing this we will be looking for any notable changes which may suggest that a more in depth review is needed. We will actively engage with your product provider to clarify any areas of potential concern that are identified and, should the need arise, we will write to you with our recommended next steps.

This continued oversight by our investment committee and our ongoing support should changes be needed are included in your ongoing service fees.

Contact Information

These investment opportunities are only suitable for people who are experienced investors and have the capacity to absorb losses without their standard of living being significantly affected.

If you would like to discuss this type of investment, please get in touch with either your TPO Adviser or:

Visit
www.theprivateoffice.com/free-consultation

Email
enquiries@theprivateoffice.com

Call
0333 323 9060

Leeds | London | Bath

Head Office
No 2 The Bourse
Leeds LS1 5DE

T: 0333 323 9060
E: enquiries@theprivateoffice.com
W: theprivateoffice.com

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