Understanding Venture Capital Trusts (VCTs)

What is a VCT?

The Government introduced the Venture Capital Trust Scheme on 6th April 1995 to encourage people to invest in smaller companies whose shares and securities are not listed on the main stock exchange with the aim of making capital returns.

VCTs are themselves listed companies and are run by a fund manager.

Contribution Limits

The annual investment limit for VCT investors wishing to benefit from tax relief is £200,000.

Tax Reliefs and potential benefits

- Provided the underlying investment remains qualifying and is held for at least five years, investment into a VCT offers significant tax reliefs including:
- 30% income tax relief on investments up to £200,000 each tax year provided you are purchasing newly issued shares in the VCT and they are held for a minimum period of five years.
- Relief is restricted to your income Tax liability in the year of share acquisition as it reduces your income tax liability in the relevant year only. If you do not have sufficient income tax liabilities to fully benefit from the income tax relief you cannot carry forward any unused relief to the following year.
- Disposal of qualifying shares at a profit are usually exempt from capital gains tax, as long as the shares have been held for five years.
- Any dividends you receive from a VCT are exempt from income tax.

Withdrawals and tax

Disposal within five years will lead to the loss of any tax relief previously obtained unless the disposal results from the death of the investor.

On death there is no claw-back of income tax relief.

Inheritance Tax may still apply of course where the estate is of sufficient size.

Liquidity Issues

As VCTs have a five year qualifying period for the retention of full relief, the market for these investments is likely to be very illiquid, particularly in the early years, even though the shares will be listed.

One of the main attractions of such investments is the tax relief which is not available to a re-purchaser. This affects the demand for such shares and further contributes to the illiquidity of the market in such shares.

It is important for investors to bear in mind however that shares in VCTs are likely to trade at a substantial discount to net asset value and investors are therefore likely to find it difficult to realise what they consider to be the true value of their investment.

Some VCTs do offer share buy back schemes so that investors finding themselves needing to make a forced sale do not suffer from an unreasonable discount so the existence or absence of such an arrangement should be taken into account when considering which scheme to use.

Important Information

Our advice has been prepared based on our company's understanding of the current law and HM Revenue and Customs' practice. Whilst we believe the interpretation is correct we cannot guarantee it. Tax treatment may change in the future.

VCT's are considered a high risk investment and are not suitable for the majority of retail investors.

PLEASE REFER TO YOUR SUITABILITY LETTER FOR THE SPECIFIC RISK WARNINGS RELATING TO YOUR VCT RECOMMENDATION.

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