

Venture Capital Trusts

Venture Capital Trusts (VCTs) are complementary to the Enterprise Investment Scheme (EIS), in that both are designed to encourage private individuals to invest in smaller high-risk unquoted trading companies affected by the equity gap. While the more famous EIS requires an investment to be made directly into the shares of the company, VCTs operate by indirect investment through a mediated fund. In effect they are very like the investment trusts that are obtainable on the stock exchange, albeit in a high-risk environment.

What is a VCT?

VCTs themselves are quoted companies holding at least 70% of their investments in shares or securities that they have subscribed for in qualifying unquoted companies. They must distribute the majority of their income and are allowed to retain only 15%. In addition they must show a spread of investments with no single holding accounting for more than 15% of the value of total.

VCTs are exempt from tax on their capital gains and there is no relief for capital losses.

Reliefs Available to Investors

Income tax relief currently at 40% is available on subscriptions for VCT shares up to a limit per tax year of £200,000.

Investors are exempt from tax on any dividends received from a VCT although the credits are not repayable.

Capital gains arising on disposal of the shares are also exempt and unlike the EIS there is no necessary minimum period of ownership. There is no relief for any capital losses.

Removal of Capital Gains Deferral Relief

The ability to defer capital gains against a VCT investment was withdrawn from 6 April 2004. The quid pro quo for this at least in part was the doubling of income tax relief from 20% to 40% although the rate of relief is currently under review.

Qualifying Companies

The definition of a qualifying company for VCT purposes is very similar to that applying for EIS. The company:

- must be unquoted, although shares on the Authorised Investment Market (AIM) are deemed unquoted for this purpose. They may become quoted later.
- must not deal in land, leased assets or financial, legal or accountancy services. In addition it must not be a trade that has a large capital aspect to it, such as property development, farming, hotels or nursing homes.

How We Can Help

It is not possible to cover all the detailed rules in a factsheet of this nature. If you are interested in investing in a VCT please contact us for further information.

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