friend

Briefing note

February 2015

# VENTURE CAPITAL TRUSTS

## Introduction

There are a number of provisions within the UK tax code which provide certain tax reliefs for taxpayers who invest in certain companies.

This Briefing Note deals with Venture Capital Trusts ("VCT") with two further Briefing Notes dealing with the Enterprise Investment Scheme ("EIS") and Seed Enterprise Investment Scheme legislation.

## Qualifying individuals

VCT income tax relief is available to an investor aged 18 or over. The shares must be issued for genuine commercial reasons and not as part of a scheme to avoid tax. Trustees cannot qualify for this relief. There are complex provisions that can deny income tax relief in certain situations primarily where loans are involved.

## Qualifying companies

A VCT must have received HMRC's approval to operate as a VCT and cannot be a close company (a company with five or fewer shareholders). There are rules to define the types of companies in which a VCT can invest. Please see the Briefing Note on EIS for this detail.

A VCT must have at least 70% by value of its investments represented by shares or securities in qualifying companies the remaining 30% of its investments can be in other assets such as fixed interest stocks. Of the 70% of investments that must be in qualifying companies, at least 70% of this must be in "qualifying ordinary shares", for example ordinary, non-redeemable shares. No more than 15% of the value of a VCT's investments can be represented by shares in any one company.

New VCTs have a three year period of grace for satisfying these conditions. The VCT's shares must be admitted to trading on an EU regulated market. Cash held by a VCT is treated as an investment for the purpose of these tests. This is so even if the funds are held on non-interest bearing accounts.

## Income tax relief on investment/dividends

The rate of income tax relief is 30%.

The maximum annual investment is £200,000 per tax year. No carry back facility is available.

Income tax relief is given as a credit against an individual's income tax liability for the year of subscription.

Income tax relief will be withdrawn if within five years of the issue of the shares the VCT ceases to qualify or if the shares are sold

Dividends in respect of up to £200,000 of VCT investment per annum are free of income tax. This, unlike the income tax relief on subscriptions, is also available on acquired shares as well as newly issued ones.

The tax relief is not affected by the income tax capping rules.

**Capital Gains Tax ("CGT") relief on sale of shares**

Disposals of VCT shares will be free of CGT as long as the VCT qualified when the shares were bought and sold and provided the amount invested did not exceed the permitted annual maximum of £200,000. Relief is available on shares that were subscribed for or purchased.

**CGT deferral relief**

CGT deferral relief (see EIS Briefing Note) is not available for VCT investments.

**Losses**

No allowable CGT loss accrues on VCT shares if they are sold at a loss or become worthless.

**Practical issues**

The investor must claim relief within four years of the end of the tax year in which the investment was made.

In year claims for relief by repayment through self-assessment will be rejected.

**Inheritance tax considerations**

VCT shares, since they must be quoted, will not attract any special reliefs for IHT purposes.

**Further advice**

The rules are complex and only the main points have been set out in this Briefing Note. Please contact us if you require any more information or specific advice.

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