VENTURE CAPITAL TRUSTS

Venture Capital Trust (VCT) schemes were introduced in 1995 and allow the individual investor in the VCT (a form of investment company) to benefit from a range of reliefs as a result of the VCT investing its funds in small unquoted trading companies.

VCT schemes offer an alternative to the direct investment of Enterprise Investment Schemes as the VCT invests in a range of smaller companies enabling investors to spread their risk.

INVESTOR

Three reliefs are available to investors, these being individuals aged 18 or over who subscribe for new ordinary VCT shares on their own behalf:-

- Income Tax relief on the investment, also known as 'front-end' Income Tax relief.
- Exemption from Income Tax on dividends.
- Exemption from Capital Gains Tax (CGT) on disposals.

The last two reliefs are also available to investors who have not subscribed for new shares, such as those who have purchased the shares from someone else.

Income Tax relief

Investors in new ordinary VCT shares are entitled to Income Tax relief on a subscription up to a permitted maximum of £200,000 in the tax year in which the shares are issued. The relief is given as a reduction in the tax payable and is restricted to the smaller of 30% of the permitted maximum and the amount which reduces the individual's Income Tax liability to nil.

The relief is normally claimed after the end of the relevant tax year either by completing the appropriate boxes within the individual's Tax Return or by making a standalone claim. However, it is also possible to make an in-year claim for relief by using the individual's PAYE code.

If the shares on which relief has been claimed are sold within five years of issue then relief is withdrawn, either in whole or in part. The amount of relief withdrawn is the smaller of the relief given on the shares disposed of and 30% of the consideration received. If the shares are gifted or disposed of other than at arm's length then all of the relief is withdrawn.

Dividend exemption

Investors are exempt from Income Tax on dividends in respect of shares acquired within the permitted maximum of £200,000 and whether the shares are acquired by subscription or subsequent purchase.

CGT disposal relief

Gains on the disposal of ordinary shares in a VCT are not chargeable to CGT (and conversely losses are not allowable) providing all of the following conditions are satisfied:-

- The company was a VCT when the shares were acquired and when they are disposed of.
- The disposal is by an individual aged 18 or over at the date of disposal.
- The shares were acquired for commercial reasons and not as part of a tax avoidance scheme.
- The value of all the VCT ordinary shares acquired during a tax year does not exceed £200,000.

With regard to the last condition there are specific rules for determining whether shares are acquired in excess of the permitted maximum. Where the rules apply then disposal relief is not available to those shares identified as being in excess of the permitted maximum.