TURCAN CONNELL

Briefing Note

Venture Capital Trusts

What is a Venture Capital Trust?

- It is a Trust designed to encourage individuals to invest in a range of small, higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange.
- By investing in a venture capital trust (VCT), the investment risk is spread over a number of companies.
- The venture capital trust itself is registered on the London stock exchange and so will be tightly regulated.
- 70% of the Trust funds must be invested in qualifying companies within three years of funds being raised. The remaining funds can be invested in whatever the fund manager chooses.
- The Trust must be approved by HM Revenue & Customs.
- Tax reliefs are only available to individuals, not trustees or companies.

What are the income tax benefits?

- Exemption from income tax on dividends from ordinary shares in VCTs.
- Income tax relief at the rate of 30% on the amount subscribed for in shares up to a permitted maximum of £200,000 per tax year.
- The shares must be new ordinary shares and must be held for at least five years.

What are the Capital Gains Tax Benefits?

A gain made on the disposal of VCT shares is, subject to qualifying conditions, free from Capital Gains Tax (CGT). The shares on which a CGT exemption is available are limited to acquisitions up to a permitted maximum per tax year, which is currently £200,000. Equally, a loss cannot be used to offset against chargeable gains elsewhere in the tax year of disposal.

What are the risks?

- VCT shareholdings will form part of an investor's estate and will therefore be subject to inheritance tax on death – compared with Enterprise Investment Scheme shares which should attract 100% Business Property Relief and so are not subject to inheritance tax.
- VCT shares can be difficult to sell. The tax advantage (30% income tax relief) only applies to the purchase of newly issued shares, and whilst there is a secondary market in VCT shares, they have generally proved to have poor liquidity when compared to larger listed entities and investors should be aware of this. As a result, VCT shares usually trade at a discount to the net asset value.

This note is intended as a brief summary of the taxation and legal position of Venture Capital Trusts as at October 2012. Past investment performance is not necessarily a guide to future performance. The value of investments may fall as well as rise. Taxation is subject to change and depends on the individual circumstances of each client. Legislation is also subject to change. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise and investments in such companies are substantially riskier than in larger companies. The investments made by AIM VCTs will be in AIM shares, smaller companies which can be illiquid and therefore difficult to realise and investments in such companies are also substantially riskier than in larger companies. No responsibility can be accepted for any action taken in reliance of this note and specialist advice should be taken in every case. Turcan Connell would be happy to provide such advice.