

VENTURE CAPITAL TRUSTS (VCTS)

A Venture Capital Trust (VCT) is an investment company broadly similar to an investment trust. It will be quoted on the stock market and will have to invest at least 70% of its assets in companies that would qualify under the EIS, and must distribute most of its income by way of dividend. It must be able to demonstrate a spread of investments: none can account for more than 15% of the value of its portfolio.

Individuals who subscribe for new ordinary shares in VCTs up to £200,000 per tax year, qualify for 30% income tax relief, provided the shares are held for at least five years. In addition, any dividend received by individuals aged at least eighteen in respect of ordinary shares in a VCT is exempt from income tax (prior to April 2006 the tax relief was 40% and the qualifying period three years).

Gains accruing to individuals aged at least eighteen on the disposal of ordinary shares in VCTs are not chargeable gains, but equally, no capital gains tax relief is available for losses.

Prior to April 2004 Capital Gains arising on the disposal of any assets could be deferred where the gain was reinvested in *newshares* in a VCT – this relief has now been abolished.

VCT & EIS Compared

The reliefs for Venture Capital Trusts and the Enterprise Investment Scheme are similar in many respects, but there are some significant differences. The table below highlights the main reliefs. For further details see the fact sheets for each type of investment.

	VCT	EIS
Annual investment limit	£200,000	£500,000
Income tax relief for subscribers	30%	20%
Clawback if held for less than	5 years	3 years
Reinvestment relief period		
- before gain made	1 year	1 year
- after gain made	1 year	3 years
Tax free dividends?	Yes	No
Tax free capital gains?	Yes	Yes (after 3 years)
Tax relief for losses?	No	Yes (after 3 years)
IHT business property relief?	No	Yes

* No limit on CGT deferral

Updated: April 2008
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