Venture Capital Trusts Fact Sheet

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A Venture Capital Trust (VCT) is a company whose shares trade on the London stock market. A VCT aims to make money by investing in other companies, usually small companies with high potential for growth.

Income Tax relief of 30% is available on investment into a VCT at subscription, with a maximum investment of £200,000, while minimums are usually around £3,000 - £5,000. For example, an investor who invests £10,000 into a VCT new issue could stand to receive a cheque from the taxman for £3,000 or a favourable adjustment to their tax code. This relief is offset against the total income tax bill in any one financial year, so even basic rate taxpayers can potentially benefit from relief at 30%, providing that the cash returned by HMRC does not exceed their total income tax bill for the year. This relief applies as long as the shares are held for at least five years in qualifying companies, although we would suggest investors commit for much longer periods. If the VCT shares are sold within five years the income tax relief will be withdrawn.

WHAT IS VENTURE CAPITAL?

Venture capital is a means of financing the development of unquoted companies, and includes companies traded on the Alternative Investment Market (AIM) and NEX Exchange markets. An advantage of VCTs over other investment companies is that a VCT has three years in which to invest its assets, rather than having to be fully invested from day one. Money is, therefore, only invested when the venture capital manager finds a company that has passed the rigorous due diligence tests.

HOW ARE VCT RETURNS GENERATED?

Investors can expect to receive returns on their investment in a VCT through regular tax-free dividend payments. The income which finances these payments is generated from two sources: firstly, the income that is paid to the VCT by the investee companies or generated by the assets temporarily held in cash or cash equivalent investments; and, secondly, from the repayment of capital profits from investments that have been successfully sold (via a trade sale, flotation, management buyout or management buy-in).

VCTs can invest in a variety of companies and broadly fall into one of three brackets:

- **Generalist:** Mainly investments in unquoted companies and are akin to the wider private equity industry.
- **AIM:** Invests in companies traded on AIM or those that seek to join AIM in the near future.
- **Specialist:** Focuses on one sector, such as technology.

The tax advantages associated with a VCT can look attractive; however, tax treatment depends on the specific circumstances of each individual and may be subject to change in the future. VCTs can also be subject to additional costs, such as management fees and arrangement fees which can differ across providers.

RISK FACTORS

- The value of shares in a VCT and income arising from them can fall in value and investors may lose some, or all, of the amount they have invested.
- There is no guarantee that the market price of VCT shares will fully reflect their underlying net asset value. Liquidity in VCT shares is also limited.

Investments and income arising from them can fall in value and you may get back less than you originally invested. Tax treatment depends on the specific circumstances of each individual and may be subject to change in the future.