Venture capital schemes: changes afoot?

A consultation paper issued in August could mean changes to venture capital schemes.

At the start of the holiday season the Treasury issued an open consultation paper entitled "Financing growth in innovative firms". Its focus was on what has become known as 'patient capital', which the Treasury defined as "long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses".

The paper considered existing investment incentives, such as Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs), which have been around for many years. Under the heading of "Relative costs of current interventions" the Treasury noted that "Industry estimates suggest that the majority of EIS funds had a capital preservation objective in tax year 2015/16, and around a quarter of VCTs have investment objectives characteristic of lower risk capital preservation".

The paper then went on to ask a leading question: "Are there areas where the cost effectiveness of current tax reliefs could be improved, for example reducing lower risk 'capital preservation' investments in the venture capital schemes?"

A little over a month after the paper was published, a curious thing happened. One VCT, withdrew a new share issue which it had launched just six days earlier. The decision to pull the issue "…was made in light of ongoing discussions in respect of investment in asset-based businesses following publication …of the consultation document".

At the time of writing none of the other open VCT issues had been withdrawn, but if you are considering VCT (or EIS) investment now or later this year, please contact us for an update on the situation. VCT are classed as high risk investment and only suitable for a small number of investors

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.