Venture capital trusts changes in 2016

This year's venture capital trusts (VCT) offerings are the first under a changed set of investment rules.

VCTs offer several attractive tax benefits:

- Income tax relief at 30% is available on new share subscriptions for investments up to £200,000 per tax year;
- Dividends are free of income tax; and
- Any gains are free from capital gains tax.

Unsurprisingly such generous tax breaks do not come without strings attached, the most significant being a five-year term to avoid clawback of income tax relief and strict investment rules. Last year several important changes were made to those investment criteria in response to revised EU state aid rules:

- Age limits now generally apply to the companies raising capital for the first time under VCTs. These are ten years for 'knowledge-intensive' companies and seven years for other companies.
- The maximum that can be raised by a company under VCT and other tax-incentivised schemes is £12m (£20m for 'knowledge-intensive' companies) *in total*. The previous annual limit of £5m also continues to apply. The new overall cap will limit 'follow-on' investments.
- A company receiving funds from a VCT can no longer use the money to acquire a business.

These new constraints have forced some VCTs to reconsider their investment strategy. In particular, VCTs that relied on management buy outs (MBOs) are now no longer able to do so because of the rule against acquiring an existing business. The end of MBO finance by VCTs will increase investment risk, as the emphasis moves towards younger enterprises.

This year may see a shortage of VCT supply as managers absorb the changes and develop new strategies. If you wish to take advantage of VCT investments as part of your year-end tax planning, please contact us now so that we can keep you informed of availability. The most attractive issues could disappear very quickly – one recent £10m issue was taken up in just four days.

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.