PhilipHare&Associates

Experts in the UK's Venture Capital Tax Reliefs

Venture Capital Tax Reliefs are a key part of the UK Government's strategy to help small and growing businesses raise much-needed capital. We specialise exclusively in this area, advising investors and companies raising finance alike.

CO INVESTOR Technologies

VCT

VCT legislation was first enacted in 1995, but the rules have changed several times. The following description is a summary of the rules as they stood immediately following the enactment of the Finance Act 2018, with effect from 15 March 2018 and The European Commission approved of the Antumn Budget 2017 changes to the VCT legislation in July 2018. This is a simplified summary and doesn't go into all the detail. For more information, we suggest you read HMRC's published guidance here.

What is a VCT

A VCT is an investment company whose shares are listed on a European regulated market. It is required to invest in and maintain a portfolio of qualifying trading companies.

In addition, a VCT must:

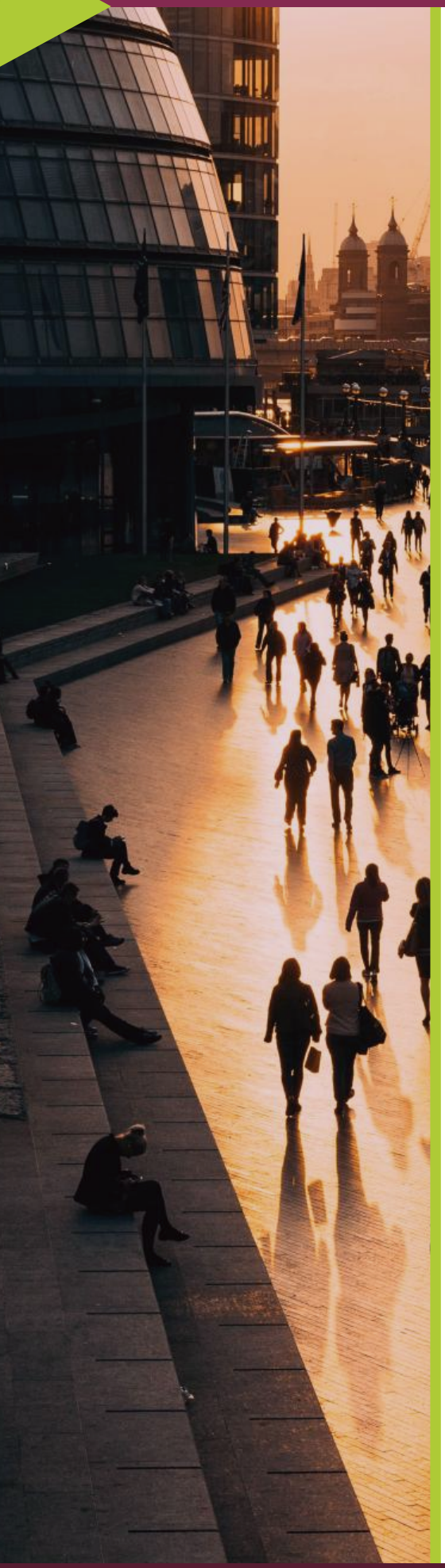
- Derive its income wholly or mainly from shares and securities.
- Not retain more than 15% of the income from shares and securities.
- Not hold an investment in a company which exceeds 15% by value of its total investments.
- Have at least 70% of its investments in qualifying trading companies (see below)*.
- Not make an investment in a company which causes that company to receive more than £5m of State aided investment in the 12 months ending on the date of the investment (£10m for a 'knowledge-intensive' company from 6 April 2018), or more than a total of £12m (£20m for a 'knowledge intensive' company).
- At least 30% of all new funds raised in accounting periods beginning after 5 April 2018 will need to be invested in qualifying-holdings within 12 months of the end of the accounting period in which the VCT issued the shares.
- In general, not invest in a company whose trade is more than seven years old (ten years for a 'knowledge intensive' company).
- Not invest in a company which goes on to use the VCT funds to acquire another company or business.
- Only invest in qualifying holdings or certain non-qualifying holdings.
- Not return capital to shareholders within three years of the end of the accounting period in which the shares were issued.

The qualifying trading companies in which VCTs invest must also meet a number of detailed rules, including:

- They must have no more than £15m in gross assets at the time of investment.
- They must have fewer than 250 employees at the time of investment (or fewer than 500 for a 'knowledge-intensive' company).
- Their shares must not be quoted on a recognised stock exchange.
- They must not be controlled by another company.
- The above rules also apply to the group if the company is part of a larger group.
- All VCT investments into qualifying trading companies made on or after 15 March 2018 must meet the 'Risk to capital' condition.

A company must not raise more than £5m finance in rolling 12-month period through any combination of VCT, Enterprise Investment Scheme (EIS) investment or certain other Government incentives (other than for a 'knowledge intensive' company which, from 6 April 2018, can raise £10m in any rolling 12-month period), or a total of £12m through any combination of EIS and VCT investment (and certain other publicly funded support). For a 'knowledge intensive' company, the total lifetime funding cannot exceed £20m.

*For accounting periods beginning on or after 6 April 2019 this increases to 80%.



VCT Tax Reliefs for Investors

In order to obtain VCT tax reliefs, investors must be at least 18 years of age. In addition, the reliefs are only available for the first £200,000 of VCT shares acquired in any tax year.

For subscriptions of VCT shares within the annual £200,000 limit:

As an investor you can subscribe up to £200,000 in any tax year for new shares in VCTs. This enables you to enjoy income tax relief at 30% of the amount invested. In order to retain the income tax relief you must hold the shares for a period of at least five years.

A VCT will issue a tax certificate to its subscribers for shares which enable investors to claim the income tax relief. If the investor has a loan linked to the subscription for shares, will not be available.

Where an investor disposes of shares in a VCT within six months of a subscription in the same VCT (or in another VCT which is known to be merging with that VCT), irrespective of the order of those transactions, income tax relief is restricted by reference to the proceeds received on disposal.

For all acquisitions of VCT shares within the annual £200,000 limit, you may:

- Benefit from Dividend relief on any dividends received from VCTs.
- Benefit from exemption from tax on gains on disposal of VCT shares. Losses are also exempt, meaning there is no relief for losses.

If a VCT loses its status then the tax reliefs described above may be withdrawn.

