The Foresight Guide:

Venture Capital Trusts

2023/24

Foresight

What is a Venture Capital Trust (VCT)?

A VCT is a tax-efficient investment company listed on the London Stock Exchange.

VCTs were introduced by the Government in 1995 to stimulate investment in smaller UK companies and now have assets of over £6 billion invested.

Investors are rewarded with income tax relief and tax-free dividends.

There are two types of VCT...

Feature	Specialist VCT	Generalist VCT
Anticipated Exit Period	Varied	Evergreen
Risks	Potentially higher risk as there is no sector diversification	Spread across sectors
Income Tax Relief	✓	✓
Tax-free Growth	✓	✓
Tax-free Income	✓	✓
Dividend Reinvestment	✓	✓
Portfolio	Focused on one sector	Diversified

Tax Reliefs

Income Tax Relief

You are eligible for 30% Income Tax Relief on your investment provided that you hold the investment for five years.

The amount of relief you can claim is restricted to the level of your annual income tax liability with the maximum relief you can claim in any single tax year being £60,000 from a maximum subscription of£200,000 per tax year

Income tax relief can be used against all forms of income tax paid, including dividends and rental income

Tax-Free Growth

Capital Gains Tax does not apply to any capital growth in the value of your VCT investment

Tax-Free Income

Dividends paid by your VCT are tax-free

Note: The availability of the VCT tax reliefs is dependent on each investor's individual circumstances and VCT tax reliefs are subject to change.

Additional Benefits

Growth Potential

Help smaller companies to generate wealth and contribute to the UK's economic growth. Smaller UK businesses can offer more potential for substantial long-term growth if they are successful.

Diversifying Your Portfolio

Smaller unquoted companies typically follow different investment cycles from other parts of the market, so a VCT can bring extra diversification to your investment portfolio.

Investment Opportunities

VCTs are considered a higher risk investment; however, portfolios will differ in their investment focus.

Disclosures and Transparency

VCTs are public companies listed on the LSE. They abide by regulatory and governance standards that require greater transparency and disclosures to investors than other tax-efficient investment schemes such as Enterprise Investment Schemes (EIS).

A Different Type of Long-Term Investment

Complement your pension and ISA portfolio with a tax-efficient investment with a higher annual contribution of £200k.

The Rules

- **Managers will be required to invest** at least 30% of funds raised in qualifying holdings within 12 months after the end of the accounting period.

- **Investment by a VCT in any one company may** be up to £5 million, but this investment cannot make up more than 15% of the VCT's total assets.

- **A minimum of 80% of the VCT's assets must** be "qualifying" holdings – unquoted companies, or those whose shares are traded on the Alternative Investment Market (AIM) and that are permanent establishments in the UK. The balance can be invested into areas such as government securities, gilts and blue-chip shares*.

- **The VCT company in which an investor places their money must** be listed on the London Stock Exchange (LSE).

- **A qualifying VCT company must** remain within those qualification boundaries for the duration of the investment. A loss of qualifying status by the VCT would result in investors having to repay tax reliefs obtained.

- **The gross assets of investee companies must not** exceed £15 million at the time of investment.

- **Investee companies must not** have more than 250 employees.

- **For any new investments** there is an investment cap of £12 million (£20 million for 'knowledge intensive' businesses which may also have up to 499 employees).

- **For any new investment** managers are no longer able to finance Management Buy-Outs or Acquisitions.

- **For all new investments** a qualifying company must be no more than 12 years old, unless the fundraise will fundamentally change the business activity and must have made their first commercial sale within the last seven years.

- **For all new investments** knowledge intensive companies must have made the first commercial sale or reached turnover of £200,000 in the last 10 years.

*As of April 2019

The Risks

Tax rules are subject to change.

If you sell your shares early you will lose the income tax relief.

Investing in small companies is inherently risky; these companies may not perform as hoped and in some circumstances may fail completely.

Your capital is at risk; you may not get back as much as you put in.

VCTs should be considered longer term investments and may be higher risk and more difficult to realise than other securities listed on the London Stock Exchange.

The secondary market for shares in VCTs is limited and as a result the shares usually trade at a discount to net asset value.

Who could benefit from VCT investing?

An individual who:

Wants to reduce their Income Tax liability

Has a medium to long-term investment horizon and accepts the increased risk profile

Holds cash and is looking for a better rate of return

Would like to withdraw excess cash held in a business

Is an investment bond holder who wants to exit, but is worried about facing a tax charge on encashment

Has a fully funded pension or is close to the lifetime allowance

Is a non-domiciled individual wishing to remit overseas income and gains to the UK, tax-efficiently

Is a landlord interested in offsetting tax on rental income

Would like some exposure / diversification to venture capital investments in their portfolio

Would like to generate a tax-efficient income

Foresight Highlights

A leading infrastructure and private equity investment manager founded in

1984

More than **40,000** retail investors

Private equity investment team managing over

£1.3 billion

of retail & institutional funds in a portfolio of

281 companies

£12.2 billion*

of assets under management - energy infrastructure and private equity

GROWTH INVESTOR 2022 | AWARDS — WINNER BEST VCT INVESTMENT MANAGER

GROWTH INVESTOR 2022 | AWARDS — RUNNER UP EXIT OF THE YEAR

insider DEALMAKERS AWARDS 2022 WINNER

Unquote BRITISH PRIVATE EQUITY AWARDS 2021 WINNER VENTURE & GROWTH CAPITAL HOUSE OF THE YEAR Foresight Group

Correct as at 30 September 2022
*Correct as at 31 March 2023

Other Guides from Foresight:

- Foresight Guide to **BR**
- Foresight Guide to **IHT**
- Foresight Guide to **IHT**
- Foresight Guide to **Tax**

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VCT products designed to manage tax liabilities are not suitable for all investors and will place investors' capital at risk, and you may not get back the full amount invested. The tax scenarios shown are indicative and are subject to change. Please note that the availability of the VCT tax reliefs is dependent on each investor's individual circumstances. VCT tax reliefs are subject to change, investments may also rely on the company or investment opportunity in question meeting VCT qualifying criteria which are not guaranteed.

Foresight does not provide financial, legal, investment or tax advice, and therefore potential investors should seek specialist independent tax and financial advice before deciding to invest. Past performance should not be taken as a reliable indicator of future results and forecasted returns are not guaranteed. The VCT products are long term investments and you may not be able to get your money back out before the end of the investment term. Please see the relevant offering document for full details where attention should be paid to the risk factors set out.

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