

Venture Capital Trusts: Introduction to National Statistics

Background

1. The Venture Capital Trust (VCT) scheme, introduced in 1995, is one of two tax-based Venture Capital Schemes. The scheme is designed to encourage individuals to invest indirectly in a range of unquoted smaller, higher-risk trading companies, by investing through VCTs.
2. VCTs are similar to investment trusts, and are managed by fund managers who are usually members of larger investment groups. Investors subscribe for shares in a VCT, which then onward invests in trading companies, providing them with funds to help them develop and grow.
3. The main features of the VCT scheme are that:
 - VCTs must be listed on a recognised Stock Exchange.
 - VCTs can invest up to £1 million per year in each qualifying company.
 - VCTs are exempt from corporation tax on any capital gains arising on disposal of their investments.
 - Qualifying companies are limited to companies carrying on a qualifying trade with a maximum of 50 full time equivalent employees at the time shares are issued, and maximum gross assets of £7 million before investment and £8m immediately after investment.

Reliefs to Shareholders

4. The tax reliefs available to investors are:
 - **Income Tax Relief** – shareholders can claim income tax relief at the rate of 30% of up to £200,000 annual investment, provided their shares are held for at least five years. Income tax reliefs are available to individuals aged 18 years or over and not to trustees, companies or others who invest in VCTs.
 - **Dividends** - no income tax is payable on dividends from ordinary shares in VCTs.
 - **Capital Gains Tax (CGT)** - No CGT is payable on disposals by individuals of ordinary shares in VCTs.

Key policy changes

5. There have been some policy changes to the scheme since its inception that could be reflected in the statistics. Some of the key changes are:
 - **2004-05:** From 6 April 2004, the maximum investment qualifying for income tax relief increased from £100,000 to £200,000. Capital gains deferral relief is not available.
 - **2006-07:** From 6 April 2006, the maximum gross assets of qualifying holdings decreased from £15 million to £7 million before investment and from £16

million to £8m immediately after investment. The rate of income tax relief reduced to 30% from 40%. The 40% rate had been introduced for a two-year period starting on 6 April 2004; prior to that income tax relief was given at 20%. The holding period for shares held by VCTs increased from three to five years.

- **2007-08:** From 6 April 2007, VCT qualifying holdings are limited to companies with a maximum of 50 full time equivalent employees at the time shares are issued. This restriction also applies to companies seeking funding through the Enterprise Investment Scheme. From 19 July 2007, companies must have raised no more than £2 million under any or all of the tax-based venture capital schemes (Venture Capital Trusts, Enterprise Investment).

6. Further details on VCT scheme and policy changes can be found at: <http://www.hmrc.gov.uk/manuals/vcmmanual/Index.htm>

Description of the Statistical Tables

7. **Table 8.6** - This table shows, by tax year, the number of VCTs and the amount of investment raised from investors for onward investment into high-risk small companies. VCTs raise funds for investments, normally annually, through new and/or top-up share issues to investors. The number of VCTs raising funds in each tax year consists of new VCTs raising funds for the first time and existing ones raising further funds. The data for these statistics are derived from internet sources - Pricewaterhousecoopers, Allenbridge, Trustnet, Investegate and London Stock Exchange VCTs information and news announcements. These sources are outside the managerial control of HM Revenue & Customs (HMRC) and therefore we cannot ensure their completeness and quality; hence, this table falls outside the scope of National Statistics.
8. **Table 8.9** - This table shows, in percentages, the distribution of the numbers of investors and amount of investment against the size of investment for which income tax reliefs were claimed for the tax-years 2007-08 to 2009-10. The statistics are derived from HMRC Self Assessment (SA) data, specifically, in 2009-10, where an amount had been entered in Tax Return: Additional Information: Page Ai 2 (Other tax reliefs box 1), and equivalent boxes in the earlier years.

Enquiries

9. Statistical enquiries should be addressed to: Elizabeth Ojomo, VCT Statistics, KAI Direct Business Taxes, HM Revenue & Customs, Room 2/43, 100 Parliament Street, London, SW1A 2BQ. Tel: 020 7147 3102, E-mail: <mailto:elizabeth.ojomo@hmrc.gsi.gov.uk>

For more general enquiries please refer to the HMRC website:
www.hmrc.gov.uk

10. For all detailed enquiries relating to investing in Venture Capital Trusts, please contact Small Company Enterprise Centre (SCEC), 1st Floor, Ferrers House, Castle Meadow Road, Nottingham, NG2 1BB. Telephone 0115 974 1250.
11. Latest information on levels of investment in VCTs and prospectuses of VCTs who are raising new and further funds can be obtained from Allenbridge at <http://www.taxshelterreport.co.uk/> - Tel 0800 33 99 99.