Venture Capital Trusts & Enterprise

Venture Capital Trusts (VCTs) & Enterprise Investment Schemes (EIS) were introduced in order to encourage individuals to invest in higher risk smaller companies. In return, HMRC provides generous tax incentives varying from Income Tax relief, Capital Gains Tax exemptions and even Inheritance Tax exemptions.

While many aspects of VCT and EIS tax reliefs are similar, there are some distinct differences. We have outlined some of the key areas for consideration:

Venture Capital Trusts (VCTs)
Whilst both VCTs and EIS are high risk investments, VCTs are considered to be marginally less risky than EIS. VCTs are listed on a stock exchange and will invest in the shares of unquoted, unlisted, small companies. VCTs are usually headed up by investment experts who also aim to provide advice and support to the companies into which they invest.

In the 2014/15 the maximum tax relief amount that can be invested into VCTs is £200,000.

Tax advantages at a glance:

- **Income Tax relief of up to 30% is available on investments into new VCTs or top-up shares issued for an existing VCT** – This relief is limited to the income tax you have paid, therefore if you have only paid £10,000 income tax, the relief you receive will be limited to this amount. The relief is provided by HMRC, either by way of a cheque, or, by adjustment to the tax you pay.
  The tax relief will be clawed back if the VCT is sold within 5 years of its purchase date.

- **Income Tax free dividends** – Much of the return investors receive from VCTs is usually provided by way of tax free dividend payments. VCTs provide loans to the companies they invest in and the repayment of these loans provides an income stream which can then be distributed to investors. Tax free dividends can therefore provide a very attractive income stream for higher and additional rate taxpayers.

- Capital Gains Tax exemption- VCT shares are not subject to Capital Gains Tax upon their ultimate sale.

Although the tax advantages may be attractive, VCTs should be considered to be a sophisticated investment and investors should ensure that their exposure to such investments remains low in comparison to their overall wealth. Quality financial advice is essential when investing in sophisticated products

Enterprise Investment Schemes (EIS)
EIS should be considered to be higher risk than VCTs, as they invest in a single unlisted company, rather than a portfolio of them. EIS do not list on any stock exchange and, the value can more difficult to realise, than from a VCT. However, EIS can provide adventurous investors with access to exciting new investment opportunities and there are some very generous tax incentives in place to encourage such investment.

In the 2014/15 tax year, the maximum tax relievable amount that can be invested in EIS investments is £1,000,000.

Tax advantages at a glance:

- Income Tax relief of up to 30% is available – This relief is limited to the income tax you have paid. In order to retain this relief the investment must be held for at least 3 years. Capital Gains Tax deferral – Capital gains occurring 12 months before, or 36 months after the investment into an EIS can be deferred until the EIS is sold.

- Capital loss relief – One of the most compelling features of an EIS because the impact of losses at an individual company level is reduced. What's more, investors can offset relief against future Capital Gains.

- Tax free growth - No Capital Gains Tax is due on EIS shares held for 3 years or more.

- 100% Inheritance Tax relief after 2 years – EIS benefit from 'Business Property Relief' which means the value of shares are exempt from Inheritance Tax if held for at least 2 years. This relief is however lost if the shares are sold.

As is the case with VCTs, EIS should be considered to be a sophisticated investment and investors should ensure that their exposure to such investments remains low in comparison to their overall wealth. Advice and guidance should be considered essential when investing in products of this nature.

Important Information

VCTs and EIS are high risk investments. The value of investments and the income from them can fall as well as rise. You may not get back some, or all of the initial capital invested.

The tax treatment depends on the individual circumstances of each client and may be subject to change in future.

The Financial Conduct Authority does not regulate Tax Advice .

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