

INVESTING IN VENTURE CAPITAL TRUSTS

30% Income Tax relief can be claimed each tax year on up to £200,000 of new investment in Venture Capital Trusts (VCT's). Although the VCT itself will be listed, it's main activity will be to invest in a number of unquoted trading companies and hence investment advice is necessary as to its merits as a portfolio investment. It could well be regarded as carrying a reasonable degree of risk.

Besides the 'upfront' tax relief, gains on sale of VCT's are generally free of capital gains tax provided the VCT is held for at least five years. VCT's may pay dividends and in that eventuality these will be tax free. Unfortunately, where capital losses are made by investors in VCT's, these are *not* available for offset against capital gains.

The basic concept behind the tax reliefs for VCT's is to encourage investment in unquoted trading companies and the VCT's themselves have a privileged tax status with a tax exemption for capital gains they themselves make.

In these days of high income tax rates, there are not very many opportunities to reduce income tax liabilities so the merits of VCT's need to be considered carefully with ourselves and with your Investment Adviser. Unlike shares issued under the Enterprise Investment Scheme, there is no tax relief for losses or any prospect of an inheritance tax exemption.

To obtain full income tax relief the shares must be held for 5 years otherwise you will suffer a clawback of some or all of the income tax relief given. However, this does not apply if the disposal is a transfer between spouses. In such a case, the recipient is treated as having originally subscribed for the shares and if they make a disposal within 5 years of original acquisition by the transferor spouse, the income tax relief is withdrawn from the person making the disposal.

Contact Richard Holme or Corinne Richards for further information:

richard.holme@creaseys.co.uk or
corinne.richards@creaseys.co.uk

Creaseys LLP
12 Lonsdale Gardens
Tunbridge Wells Kent TN1 1PA
01892 546546
www.creaseys.co.uk