



# DOWNING CLAIMING INCOME TAX RELIEF ON VCTs

FOR THE 2011/12 TAX YEAR

## Taxation of VCTs

The tax reliefs set out below are available to individuals aged 18 or over and not to trustees, companies or others who invest in VCTs. Whilst there is no specific limit on the amount of an individual's acquisition of shares in a VCT, tax reliefs will only be given to the extent that the total of an individual's subscriptions or other acquisitions of shares in VCTs in any tax year do not exceed £200,000.

Investing in a VCT offers a range of tax reliefs, which include the following:

- Income tax relief of 30% of the amount subscribed for shares issued in tax year 2011/12, providing that the shares are held for at least five years.
- The income tax relief at 30% is available to be set against any income tax liability that is due in the year of subscription, whether at the lower, basic or higher rate. However, tax relief will be limited to the amount which reduces the investor's income tax liability to nil. The amount of VCT income tax relief claimable by an investor could be reduced by any other transaction that effectively benefits from income tax relief, such as a pension contribution or gift aid payment, as both result in an automatic reclaim of basic rate tax by either the pension provider or respective charity. Tax credits on dividends are not repayable, and investors should take this into account when considering their investment in a VCT.
- Exemption from income tax on dividends from shares in VCTs.
- Profits made by a VCT on the disposal of investments are not subject to tax and can be paid out as tax-free dividends to shareholders in the VCT.
- Capital gains realised on disposals of shares in VCTs are tax-free. However, losses realised on disposals of shares in VCTs cannot be used to offset capital gains.

If you subscribe for VCT shares a tax certificate will automatically be sent to you. This may have to be submitted to your tax office in support of a claim for tax relief.

## Risk Factors

VCTs are not suitable for all investors. If you are in any doubt about the suitability of an investment in a VCT you should consult an authorised Independent Financial Adviser. The key risks associated with investing in VCTs are set out below.

- **Tax reliefs:** the availability of the tax reliefs depends on the companies invested in maintaining their qualifying status. If the VCT does not maintain VCT qualifying status investors could lose the upfront 30% income tax relief and all other tax reliefs. All tax reliefs are subject to change in the future and personal circumstances. Please refer to HM Revenue & Customs' website for further guidance on the tax reliefs available on VCT investments. Under current legislation tax relief is limited to total VCT investments of £200,000 per person per tax year. Initial tax relief is limited to the amount which reduces the investor's income tax to nil. If the investment is not held for five years, the investor's initial tax relief will be withdrawn.
- **Liquidity:** it may prove difficult for shareholders to sell their shares at a fair price, or at all.
- **Investment performance:** a VCT will invest in small unlisted companies which, by their nature, are higher risk than larger "blue-chip" companies. Shares in such companies may be difficult to sell. Past performance is not a guide to future performance.
- **Investment restrictions:** a VCT's ability to obtain maximum value from its investments may be limited by the VCT rules. Changes in the VCT rules may be applied retrospectively and may reduce the level of returns for investors.
- **Speculative risk:** the value of shares may go down as well as up and shareholders may not receive back the full amount invested. In addition, there is no certainty as to the level of dividends.



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