A guide to claiming VCT income tax relief

Once you subscribe for new VCT shares, you are entitled to claim 30% income tax relief on the amount invested, providing you hold the shares for at least 5 years. This tax relief is available on a maximum investment of £200,000 per tax year*, and is restricted to your income tax liability. This guide is designed to help you make your claim.

After your shares have been allotted, Capita Registrars will issue you with your tax certificate, which you'll need to claim your income tax relief using one of these four methods:

1. Completing a Self Assessment Return
   - You can apply for tax relief by completing the Additional Information (SA101) form issued by HMRC.
   - You will need to enter the total value of your VCT investment in the equivalent of Box 1 in the section titled 'Other tax reliefs'.
   - Claiming your tax relief this way will reduce the amount of tax that you will need to pay. If you have paid too much tax, the excess can be repaid directly into your bank or building society account by entering the details in the relevant section of the form.
   - If you don’t automatically receive a self-assessment form, you can get one from HMRC’s website (www.hmrc.gov.uk) or by writing to your tax office.

2. If you want to claim through a PAYE code change
   - If you've made an investment in the current tax year, you can write to HMRC and ask them to change your tax code.
   - Your income tax will be reduced on a monthly basis until your income tax relief is used up.
   - You will need to include your national insurance number, a P60 form and a copy of your VCT tax certificate.
   - We estimate that it should take approximately a month to process a PAYE code change.

3. Reducing your payments on account
   - If you estimate that your total tax bill for 2015/16 will be lower than your payments on account, you should complete form SA303 to reduce these payments.
   - You can download a copy of form SA303 from the HMRC website (www.hmrc.gov.uk).
   - Remember, if you reduce your payments on account below the correct level, you will be charged interest.

4. If you don’t complete Self Assessment Returns
   - You should send your VCT tax certificate, along with a copy of your P60 (if you have one), to your local tax office.
   - You should then either receive tax relief by way of a PAYE code change, or a tax refund.

For further details on how to claim your tax relief, please contact HMRC directly on 0300 200 3300.

*Each new tax year begins on 6 April and ends on 5 April the following year
VCT tax reliefs
Investing in a VCT offers a range of tax reliefs, including:

- **Income tax relief at 30% of the amount subscribed for shares issued in the 2015/16 tax year (providing the shares are held for at least five years).**
- **Income tax exemption on dividends from shares in VCTs.**
- **Tax-free capital gains on disposal of investments, although losses realised on disposals of shares in VCTs cannot be used to offset capital gains.**
- **The income tax relief is available to be set against any income tax liability that is due in the year of subscription, at any rate. However, tax relief will be limited to the amount which reduces your income tax liability to nil. The amount of VCT income tax relief that you can claim could be reduced by any other transaction that effectively benefits from income tax relief, such as a pension contribution or gift aid payment. This is because both result in an automatic reclaim of basic rate tax by either the pension provider or the respective charity. Tax credits on dividends are not repayable, and investors should take this into account when considering their investment in a VCT.**

Please note, the tax reliefs set out above 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 shares you can have in a VCT, tax reliefs can only be claimed on the first £200,000 that you invest in a single tax year.

Risk factors
VCTs may not be suitable for all investors, and if you are in any doubt about your tax position you should take specialist tax advice. 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 the HMRC 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 your income tax to nil. If the investment is not held for five years, your 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.