QUICK GUIDE TO VCTs, EIS & SEIS 2024/25

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VENTURE CAPITAL TRUSTS (VCTs), ENTERPRISE INVESTMENT SCHEMES (EIS) & SEED ENTERPRISE INVESTMENT SCHEMES (SEIS)

KEY POINTS

- As incentives for investing in small, unlisted or AIM-listed companies, VCTs and EIS/SEIS both offer a comprehensive (although, slightly different) range of tax breaks.
- VCT and EIS/SEIS investments are considered high risk and illiquid. Their characteristics mean that investment should be made for the long term. You should also keep in mind that you may not be able to sell VCT or EIS/SEIS holdings for full net asset value due to limited demand.
- As with any investment, you should only consider VCTs and/or EIS/SEIS if they fit with your overall financial planning and investment strategy. Investment in these products should not be made purely for tax reasons.
- Prior to investment, a careful examination should be made of the underlying investments, investment manager history and style.

OVERVIEW OF TAX RELIEFS ON VCTs AND EIS/SEIS

	VCT	EIS	SEIS
Income Tax (IT) Relief	30%	30%	50%
CGT Treatment	Exempt	Exempt	Exempt
Maximum Annual Investment for IT/CGT Relief	£200,000	£2 Million*	£200,000
Minimum holding period for IT/CGT reliefs	5 Years	3 Years	3 Years
Carry back available	No	Yes	Yes
CGT reinvestment relief	No	No	50% of The Gain
CGT deferral	No	Yes	No
Dividend taxation	Exempt	Taxable	Taxable
Capital loss relief available	No	Yes	Yes
Eligible for IHT BPR	No	Yes	Yes

*£2million limit applies for 'knowledge-intensive companies' only, for all other EIS limit is £1million

GENERAL TAX PLANNING WITH AIM & OFEX SHARES

Reinvestment relief for capital gains tax (CGT) was introduced in 1994 and amalgamated with the enterprise investment scheme in 1998 (see page 3).

Inheritance tax business property relief (IHT BPR) at 100% is generally available in holdings in unlisted shares, including AIM and OFEX listed shares. IHT BPR is also available for EIS/SEIS, but not for VCTs.

Stamp duty reserve tax (currently 0.5%) is not applied to the purchase of shares listed on smaller exchanges like AIM or ISDX.

VCT RULES & RELIEFS

VCTs were introduced in 1995 to provide much needed finance capital to small businesses. They are quoted companies, similar to investment trusts, and subject to a number of rules and investment restrictions. At least 70% of a VCT's holdings must be in shares or securities in qualifying unquoted companies (including AIM listed companies).

TAX RELIEFS

- Income tax relief is available at 30% of the amount subscribed per tax year. The maximum annual qualifying investment is £200,000. This is withdrawn if shares are disposed of within 5 years.
- CGT deferral is not available for VCT investments made after 6 April 2004.
- VCT dividends are exempt from income tax on shareholdings acquired (whether by subscription or in the market) of up to £200,000 per tax year. VCTs can distribute capital profits as dividends.
- No CGT is due on gains arising on disposal of VCT shareholdings acquired (whether by subscription or in the market) of up to £200,000 per tax year. This relief may be withdrawn if shares are disposed of within 5 years.
- Capital losses on VCT shares cannot be relieved against other gains.
- No IHT BPR is available on VCT shares.

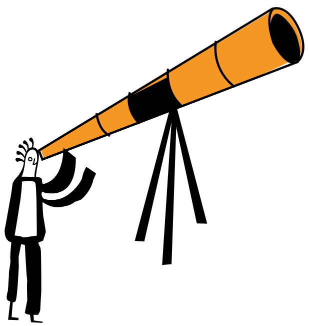
EIS RULES & RELIEFS

Whereas a VCT invests in a number of different companies, an EIS often represents investment in just one company, and should therefore typically be seen as a higher risk proposition.

- Investment must be by individuals into new subscriptions for eligible ordinary shares in qualifying unlisted and AIM-listed trading companies that satisfy EIS conditions.
- The minimum holding period is 3 years, and the shareholding acquired must not exceed 30% per investor.
- An EIS company can become listed within 3 years of the EIS shares being issued - providing such arrangements are not in place at the time of the EIS investment.
- Income tax relief is 30% on investments of up to £1million per tax year. All or part of the investment in an EIS can be carried back to the previous tax year (subject to being within the maximums for that year).
- CGT deferral (not relief) is available up to the full value of the investment and is available where the EIS investment is made within the period spanning 1 year before and 3 years after the gain. However, any deferred gain is not triggered by death and IHT BPR may be available
- Capital losses can be claimed on the EIS shares, or the losses may be relieved against income. However, when calculating any capital losses, you must reduce the cost of your EIS investment by the amount of income tax relief received.

For an additional rate taxpayer, this can reduce your net loss to 38.5% of the original EIS investment. Example:

- £100,000 subscribed, with income tax relief of £30,000 (net cost £70,000)
- If EIS shares become worthless: £70,000 loss relieved against income at 45% = £31,500
- Net loss is: £100,000 - (£30,000 + £31,500) = £38,500

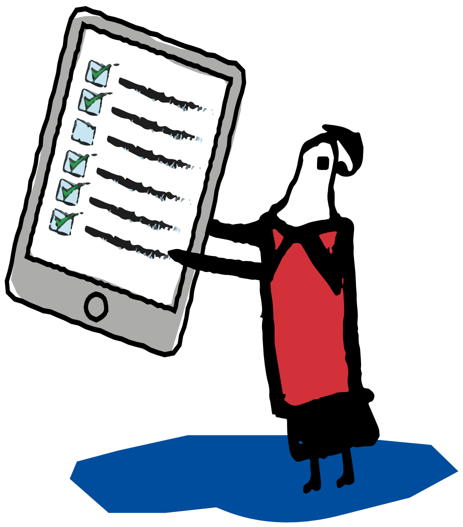


SEIS RULES & RELIEFS

SEIS relief was introduced for investments in qualifying smaller companies (see below) from 6 April 2012.

As SEIS companies are necessarily very small, these investments should be seen as higher risk than EIS.

- To qualify for the SEIS, companies must meet the following criteria:
  - 25 or fewer employees
  - assets of up to £350,000
  - carrying on, or preparing to carry on, a new qualifying business
- Income tax relief of 50% is available to investors who hold less than 30% of the company (including shareholding directors).
- Investments of up to £200,000 per year are eligible, with unused allowances able to be carried back one year, as with EIS.
- SEIS companies are subject to a maximum tax- favoured cumulative investment limit of £250,000.
- Qualifying shares purchased in a SEIS will be exempt from CGT.
- CGT reinvestment relief is available at a 50% rate – for any capital gains realised and reinvested in a SEIS in the same year, half of the reinvested gain will be exempt from CGT.
- If any claim for carry back is made, the CGT and income tax relief must be applied to the same tax year (you cannot carry back one and not the other).
- Capital loss relief is available, as for EIS shares.



RISK WARNING: VCTs

This warning notice draws your attention to the risks associated with investments in VCTs.

Because this investment may go down in value as well as up, you may not get back the full amount invested.

Although the VCT is or will be quoted on the stock exchange, many of the underlying investments held by the VCT are not quoted on any market. These unquoted investments carry a higher risk than those quoted and it may be difficult to obtain reliable information about their value or the extent of the risks to which the VCT is exposed.

If the VCT shares are sold within three years, any income tax relief obtained at outset will be forfeited.

The tax reliefs that currently apply to VCTs are, like all tax legislation, subject to change.

You should not subscribe to a VCT until you:

(a) have read and understood the terms and conditions of the scheme particulars; and

(b) are aware of the risks involved in such shares and such schemes.

RISK WARNING: EIS & SEIS

This warning notice draws your attention to the risks associated with EIS and SEIS investments.

You may have difficulty in selling these investments at a reasonable price.

In some circumstances it may be difficult to sell them at any price.

Accordingly you should carefully consider whether such investments are suitable for you in the light of your personal circumstances and the financial resources available to you.

You should not subscribe to such a scheme until you:

(a) have read and understood the terms and conditions of the scheme particulars; and

(b) are aware of the risks involved in such shares and such schemes.

FIND OUT MORE

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Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. This guide is provided for information only and should not be relied upon as advice. You should not act on any of the information without seeking professional advice.

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