



What is a VCT?

Venture Capital Trusts (VCTs) are investment companies that are listed on the London Stock Exchange, which raises money from investors and use it to invest in young, entrepreneurial businesses.

VCTs were introduced in 1995 to help smaller UK companies raise the capital they need to grow and scale.

Criteria that qualify for VCT funding

-  The VCT Must invest at least 80% of funds raised into qualifying holdings within 3 years
-  Must be unquoted or listed on AIM at the time of investment
-  Must carry out a qualifying trade and have a UK permanent establishment
-  Cannot be a subsidiary or controlled by another company
-  Must have gross assets under £30 million and fewer than 250 employees at the time of investment
-  Typically must be within 7 years of its first commercial sale (or 10 years for knowledge-intensive companies)





Types of VCTs

Generalist VCTs

Invest across a broad range of sectors and stages, offering diversified exposure to various types of companies.

1

Specialist VCTs

Focus on a single sector, providing targeted exposure to a specific industry or theme.

2

AIM-focused VCTs

Primarily invest in companies listed or listing on AIM, the LSEG market for smaller growth businesses

3



VCT Tax Reliefs

20% Income Tax Relief

Investors can receive income tax relief equal to 20% of the amount invested, up to a maximum investment of £200,000 per tax year, provided the shares are held for at least five years.

Tax-free income

Dividends paid by VCTs are free from income tax, offering investors a tax-efficient source of income.

Tax-free growth

Any capital gains made on the disposal of VCT shares are exempt from Capital Gains Tax, provided the shares qualify for VCT reliefs.





VCT Rules

- VCTs have an annual cycle. 
- Post April, the investment managers will decide on the amount of funds they wish to raise and invest into the VCT. They then declare the fund raising to the markets and typically start a raise in the Autumn, with the majority of fund-raising closing by the tax year end.
- The capital raised is then used to make new and top-up investments, fund dividends and share buy backs, and/or pay various expenses and improve the liquidity of the VCT.

Rules

-  The maximum amount an individual can invest is £200,000 per tax year*. The minimum investment will vary depending on the VCT; typically it is around £5,000.
-  To retain the upfront income tax relief, investors must hold their VCT shares for a minimum of five years. If shares are sold earlier, the income tax relief may be withdrawn.
-  Investors must be at least 18 years old at the time of subscription in order to qualify for VCT tax reliefs.





What's changed for the 2026/27 tax year

Reduced income tax relief

Income tax relief reduced from 30% to 20% for VCT investments

Higher investment limits for companies

- Gross assets limit increases to £30m pre-investment / £35m post-investment
- Annual investment limit increases to £10m (or £20m for knowledge intensive companies)
- Lifetime investment limit increases to £24m (or £40m for knowledge intensive companies)

Wider investment scope

Higher limits expand the range of eligible growth companies VCTs can invest in



How A Portfolio Might Look

It's hard to know exactly what a VCT's portfolio is worth. Because the shares of unquoted companies aren't traded on a stock exchange, there's no exact market value.

A VCT's board of directors uses valuation methods based on established principles (for example, the British Private Equity and Venture Capital Association's Valuation Guidelines or the International Private Equity & Venture Capital Valuation Guidelines) to estimate the value of each private company shareholding. They can only be estimates. Sales depend on a willing buyer and the price they are prepared to pay at that time, much like negotiating the sale of your home.



Profile of a VCTA investee company

A typical VCTA investee company at the point of investment:

35

employees

£2.6m

in revenues (to Dec 2023)

£2m

initial investment

VCTA member firms were Board Members or Board Observers on over 95% of their unquoted portfolio companies, providing commercial and professional advice, intensive support and guidance over the long term to these companies as they develop new products, enter new markets and create new jobs.



What to expect



Fees



Dividend Target



Timetable of Offers



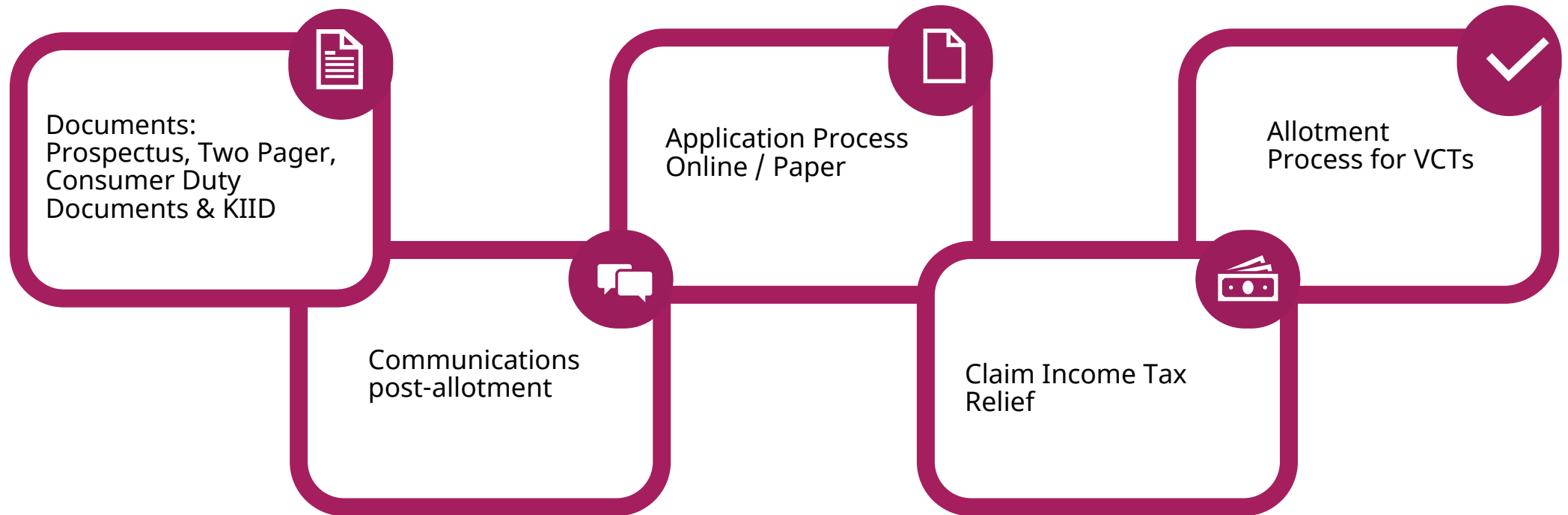
Communications
Updates from VCTs



Capacity



VCT application process





Selling your VCT shares

How VCT shares can be sold



- VCT shares are listed but often illiquid on the open market
- Shares can usually be sold via a direct facility or through a broker
- Share buyback facilities are commonly

Key considerations



- Selling VCT shares within six months of a new subscription may reduce income tax relief under the 6-month rule
- Buybacks can be infrequent and depend on the manager's policy



Outlook for VCTs

30 years of growth

- VCTs raised **£918 million** in the 2025/26 tax year
- Third-highest annual total on record
- Up **£23 million** from last year

Backing UK innovation

- VCTs manage **£6.5 billion**, backing **1,000+ companies**
- Support for **100,000+ jobs**
- Driving innovation and scaleup growth nationwide

Policy support secured

- Chancellor confirms **sunset clause extended to 2035**
- Strong government backing continues

Real economic impact

- VCTA-backed companies contributed
- **£452 million in NI/PAYE** in 2023



Client Suitability

Suitability is an important topic when considering whether a VCT investment is a suitable investment for a client. Investments into smaller, unquoted companies are high risk and advisers need to spend time thinking about suitability and documenting the thought process in suitability reports when recommending a VCT.



Tax Capacity - Client should have an income tax liability that could be offset by the upfront income tax relief available for VCT investors.



Attitude to Risk - Suitable for those comfortable with higher-risk investments in early-stage, unlisted companies as part of a diversified portfolio.



Liquidity and Timeframe - Investors must be able to commit funds for at least five years without needing access, and should view VCTs as a medium- to long-term investment.



Knowledge and Experience - Clients must have the capacity to understand the nature of VCTS and the associated risks.



Portfolio Role - VCTs are typically suitable only for some experienced investors, where the investment forms part of a broader, diversified portfolio.



Why Invest in VCTs?



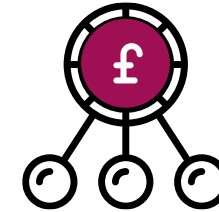
Growth Potential

VCT investments into smaller growth businesses have the potential to grow faster than bigger, more established companies. Of course, smaller companies will also carry a greater degree of risk.



Tax Incentives

Income tax relief, tax-free capital gains and tax-free dividends. This is especially valuable for higher earners or those in retirement.



Diversification

VCT investments can be a useful diversifier than more traditional asset classes



Supporting Smaller UK Businesses.

VCTs play a crucial role in fostering innovation and advancing the growth of the UK economy. They aid smaller companies in expanding, thereby contributing to job creation.



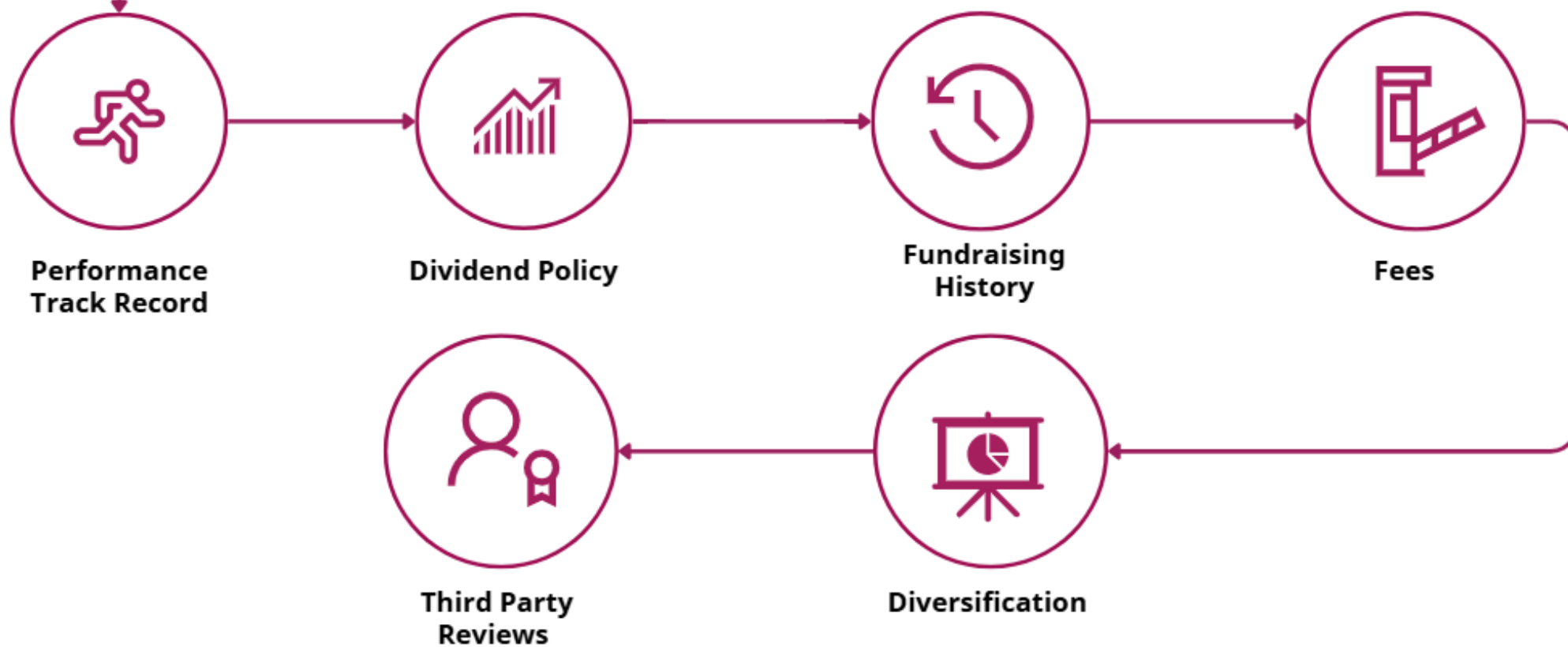
Risks associated with VCTs

- 1. Illiquidity** – VCT shares can be difficult to sell, and buybacks may be infrequent
- 2. Company risk** – Underlying companies are early-stage and may fail or underperform
- 3. Investor risk** – The value of the investment can fall, and returns are not guaranteed
- 4. Changing tax rules** – Tax reliefs depend on current legislation, which may change in the future
- 5. Loss of VCT status** – If a VCT fails to meet qualifying rules, tax benefits may be withdrawn





What to look for in your VCT





Opportunities for advice

Tapered Annual Allowance

Planning strategies for high earners affected by the reduced pension allowance

Pension Withdrawals

Clients seeking to extract cash from their pension in a tax-efficient way

Business Owners

Clients looking to extract cash from their business while managing tax-exposure

Rental Income Offset

Clients wanting to reduce tax liability on property income

Growth-Focused Investors

Clients interested in private equity and early-stage company exposure

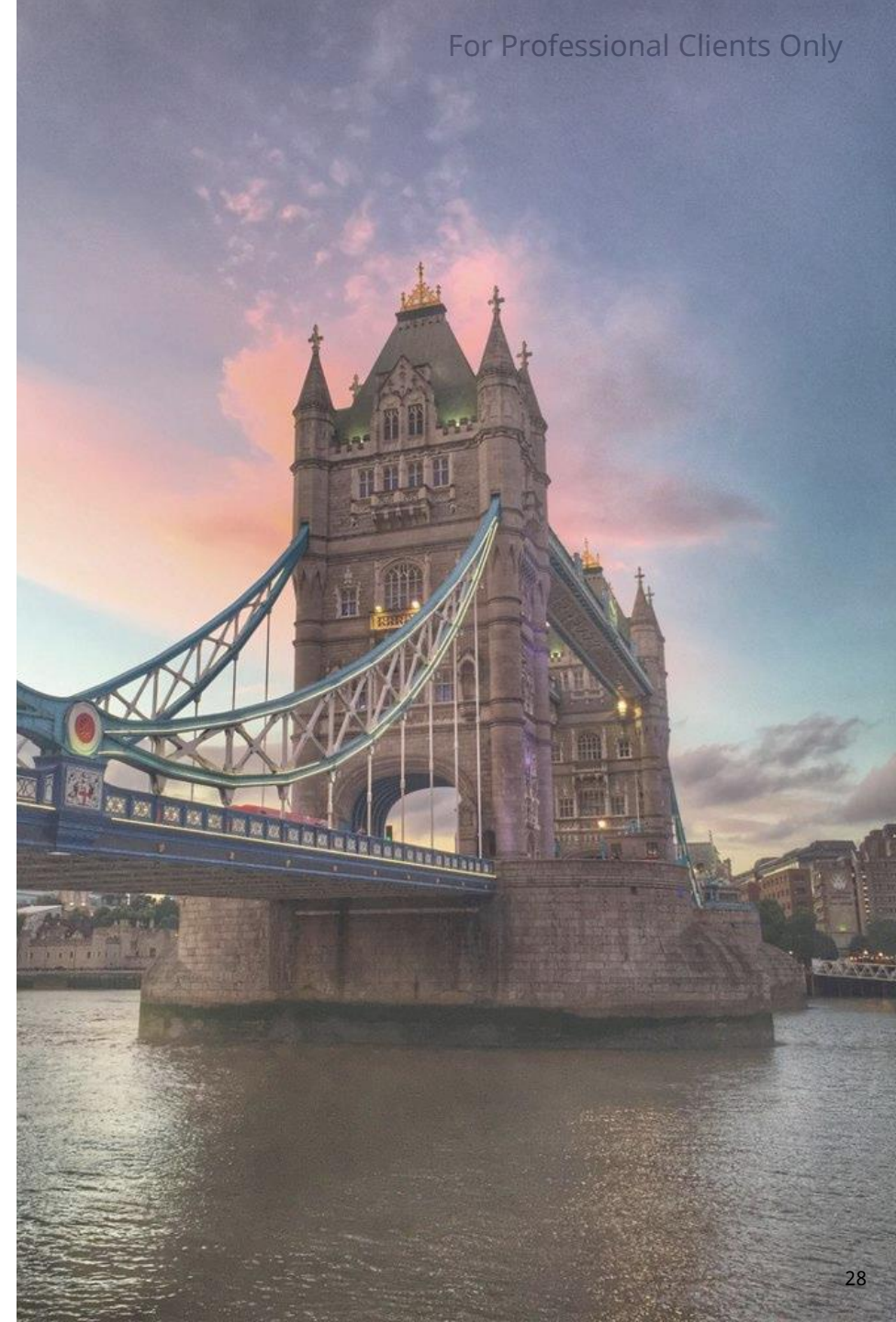


Contact us

Please contact the LightTower Partners team for more information and support including:

- Prospectuses and application forms
- Marketing materials and client-friendly resources
- Independent reviews and suitability guidance
- Generic tax guidance on VCTs
- CPD-qualifying presentations
- Dedicated adviser support team
- Client illustrations tailored to individual scenarios

Please [email](#) or call **020 7071 3920** for any further information you require.





Important Information

Venture Capital Trusts, Enterprise Investment Schemes and IHT services are relatively complex products with significant performance and liquidity risks. Your capital is at risk if you invest in a Venture Capital Trust, Enterprise Investment Schemes and IHT service and you may lose some or all of your money invested. Tax treatment depends on your individual circumstances and may be subject to change. The availability of tax reliefs depends upon the companies invested in maintaining a qualifying status with the HMRC.

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