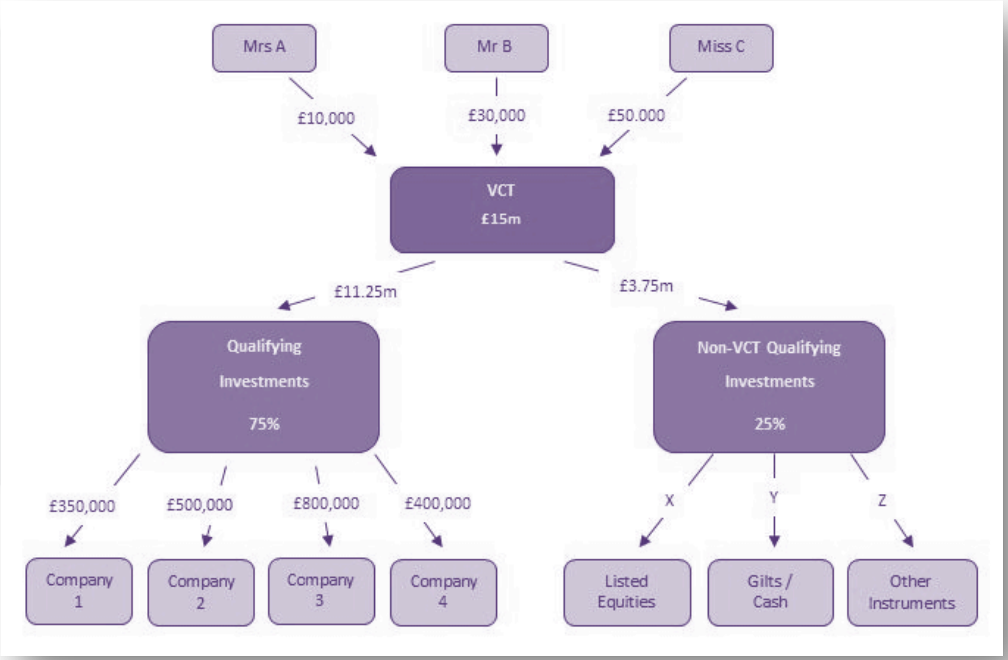
Venture Capital Trusts (VCTs)

Venture Capital Trusts

Venture Capital Trusts (VCTs) are classified as higher risk investments and have deservedly received a mixed press due to their widely varying performance. However, there are two types of VCTs:

The first type is known as an Evergreen VCT and these make up the lion's share of the industry. They have no fixed end date in which to return the original sum invested and as the VCT market is classified as an illiquid market they would therefore rank highly on the risk spectrum. They are primarily responsible for the mixed press and investment into Evergreen VCTs should not be considered lightly.

The second type of VCT is known as '*limited life*' because they are designed as a 5 - 6 year investment with a *planned exit date* for investors to receive their initial capital subject to performance over the 5 – 6 year term. At Plutus we primarily focus on these VCT, as they are generally deemed to be the less risky of the two.



VCT – The Basics

30% income tax relief on VCT subscription up to £200,000 per tax year was introduced from the 2006/07 tax year

Returns are free of income tax and capital gains tax

VCT tax relief can be claimed against all forms of taxable income (but not capital gains)

If you would like to discuss any of the above in more detail please do not hesitate to contact us.

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Inheritance Tax Planning

PLUTUS WEALTH MANAGEMENT LLP

Illustrative income tax relief examples:

Illustrative returns for each £1 invested				
Shareholder Proceeds	90p	100p	110p	120p
Less: net cost of investment (assuming 30% income tax relief)	(70p)	(70p)	(70p)	(70p)
Tax-free cash profit	20p	30p	40p	50p
Tax-free cash profit (as a % of net cost of investment)	+29%	+43%	+57%	+71%
Net Return[1]	5.2% p.a.	7.1% p.a.	9.0% p.a.	10.7% p.a.
Gross equivalent return[2] to: • 40% taxpayer	8.7% p.a.	12.3% p.a.	15.5% p.a.	18.5% p.a.
•50% taxpayer	10.4% p.a.	14.8% p.a.	18.6% p.a.	22.2% p.a.

The above returns are set out for illustrative purposes only and no forecast or projection is implied or should be inferred.

[1] The Net Return is the internal rate of return based on an investment of 100p deemed to be on 5 April 2012, 30p income tax relief deemed to be received six months later on 5 October 2012 and either 90p, 100p, 110p or 120p of Shareholder Proceeds, comprising dividends of 5.0p payable on 30 Nov 2012 and dividends of 2.5p payable on 31 July 2013 and 30 November 2013 and on the same dates each year until 30 November 2016, 50% of the balance of Shareholder Proceeds on 31 July 2017 and the remaining funds on 30 April 2018.[2] The gross equivalent return is compared to a source of income that is subject to income tax at an investor's marginal tax rate. It has been calculated by dividing the Net Return by 0.6 for 40% taxpayers and by 0.5 for 50% Taxpayers.

Conclusion

At Plutus we meet with and review most of the main VCT offerings annually and we would be happy to share our thoughts and recommendations with you. With the recent reduction in tax relief for higher earners making pension contributions, VCTs are becoming an increasingly attractive way to reduce tax bills and for some clients to generate a tax free income.

Limited life VCTs are slowly changing the widely held view that VCTs are only for the high net worth or sophisticated investor. VCTs do carry an enhanced element of risk due to the required holding period and illiquid second market, but for an investor who understands these risks and is willing to tie up capital for a minimum of 5 years they may prove to be an attractive addition to an existing portfolio.

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