

Venture Capital Trusts

Venture Capital Trusts ("VCTs") are collective investment vehicles which have been approved by HM Revenue & Customs. The conditions for approval are:

- a VCT's income must be derived wholly or mainly from shares or securities;
- a VCT must retain not more than 15% of its income derived from shares or securities;
- no holding in any company can represent more than 15% by value of a VCT's investments; and
- the shares making up a VCT's ordinary share capital must be traded on the London Stock Exchange and listed on the Official List of the UK Listing Authority.

Within the accounting period beginning not more than three years after the initial listing of shares by a VCT, the following requirements must be met:

- at least 70% by value of a VCT's investments must be in shares or loans of at least five years' duration in "qualifying holdings"; and
- at least 30% by value of a VCT's qualifying holdings must be in ordinary shares.

Qualifying holdings

Qualifying holdings are defined as holdings of shares or securities (including loans of at least five years' duration) in unlisted companies (including companies whose shares are traded on the Alternative Investment Market ("AIM")), which exist wholly for the purpose of carrying on one or more qualifying trades wholly or mainly in the United Kingdom. The holding must consist of shares or securities which were first issued to and have been ever since continuously held by the VCT. The main excluded trading activities are:"

- dealing in land, commodities, futures, shares or other financial instruments;
- dealing in goods other than in the course of an ordinary trade of wholesale or retail distribution;
- banking, insurance or other financial activities;
- leasing or receiving royalties or license fees with certain exceptions;
- providing legal or accountancy services;
- property development;
- farming or market gardening;
- holding, managing or occupying woodlands, any other forestry activities or timber production;
- operating or managing hotels or comparable establishments, or managing property used as an hotel or comparable establishment;
- operating or managing nursing homes or residential care homes, or managing property used as a nursing home or residential care home; and
- providing ancillary services to any of the above by a related party.

VCTs may count an investment of up to £1 million in total in a qualifying trading company in any one year towards the 70% qualifying requirement provided that, for VCTs raised before 5 April 2006, the gross assets of the company do not exceed £15 million prior to the investment or £16 million following the investment; these figures were revised to £7 million and £8 million respectively for VCT monies raised after 5 April 2006

Funds raised after 5 April 2007: for a company to qualify as a VCT investment, it must have no more than 50 full-time employees at the date of the issue of securities and no more than £2 million may be invested by all venture capital schemes in the 12 month period up to and including the date of investment.

Investments in qualifying companies held by VCTs at a time when such companies become quoted on the London Stock Exchange may be treated as investments in qualifying trading companies for up to a further five years. Investments sold continue to be treated as qualifying investments for a period of six months provided the investment has been held for at least six months.

Pre Budget December 2009 VCT Changes

In the Pre-Budget statement on 9 December 2009 certain changes were proposed to the Venture Capital Trust scheme, to become effective on 6 April 2010 for investments made on or after that date. In summary, these changes relax the requirement to carry on a trade wholly or mainly in the UK to a requirement to have a permanent establishment in the UK, and introduce a restriction on investing in "enterprises in difficulty" which are defined as companies which are more than 3 years old and which cannot raise money from their existing funders. A further change was made whereby a VCT may be listed on any European Regulated Market. In addition, for funds raised on or after 6 April 2010, a new definition of "eligible shares", alongside an increase in the requirement to have 70% of investments held in eligible shares, was introduced. A consultation document was also issued seeking responses to proposals which would change the definition of "small" enterprise, which seeks to focus the VCT scheme at smaller, higher risk businesses. The gross assets test would be replaced by a maximum balance sheet total of €10 million.