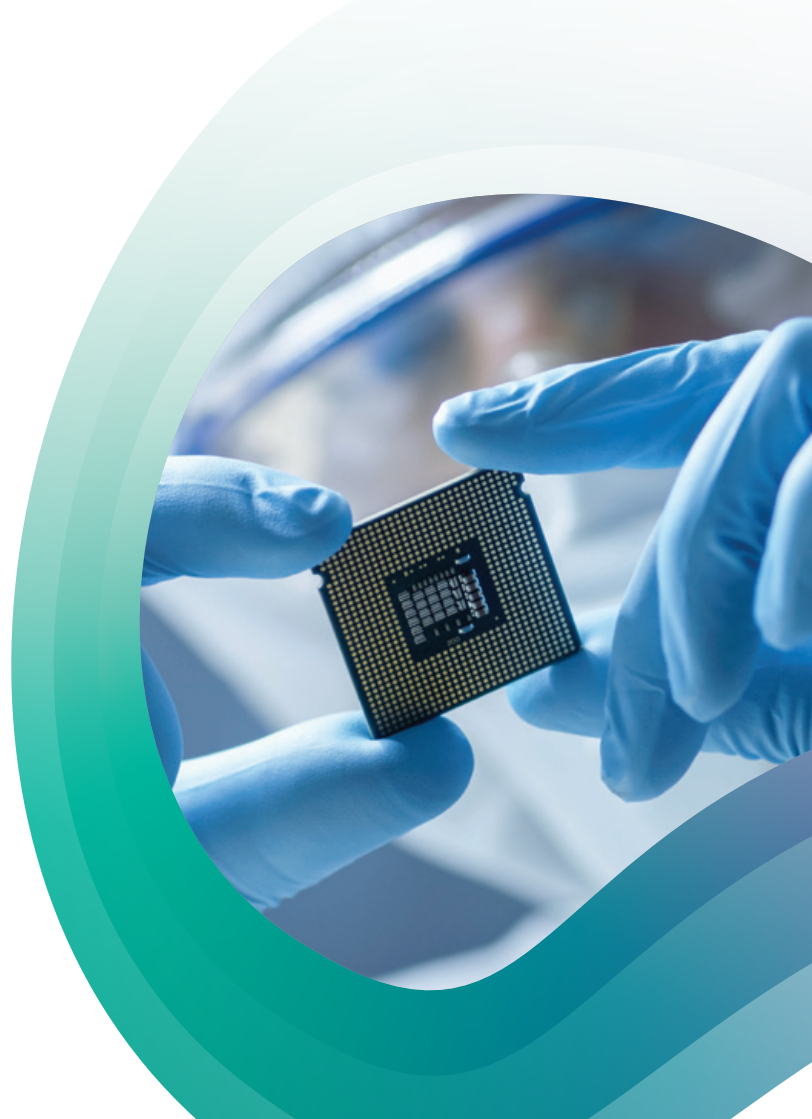


The Foresight Guide: *Venture Capital Trusts*

How VCTs work, their tax reliefs, the risks involved
and the questions to ask before investing – reflecting
the rules applying from 6 April 2026.

2026/27



Important

VCTs invest in smaller, younger companies and are high-risk, long-term investments. You could lose some or all of the money you invest, and you may not be able to sell your shares when you want to.

VCTs in one minute

A Venture Capital Trust (VCT) is an HMRC-approved, publicly listed investment company. It pools money from investors to finance a portfolio of smaller, growing businesses. A professional investment manager selects and oversees those businesses on behalf of VCT shareholders.

The Government offers tax reliefs to encourage investment in smaller companies, which can find it harder to raise growth capital. These reliefs recognise the higher-risk nature of the investment; they do not remove that risk.

You invest in the VCT itself rather than in each underlying business. Being listed does not make VCT shares easy to sell. Trading can be limited and the available price may be below the value of the VCT's underlying assets.

Approval is not an endorsement

HMRC approval relates to the VCT's tax status only. It is not a recommendation, a guarantee of performance or confirmation that the investment is suitable for you.

Upfront Income Tax relief

20% on qualifying new VCT shares issued from 6 April 2026, subject to the rules and your UK Income Tax liability.

Tax-free dividends

No Income Tax on qualifying VCT dividends, within the relevant annual acquisition limit and while the VCT remains approved.

Tax-free gains

No Capital Gains Tax (CGT) on qualifying gains when VCT shares are sold. Corresponding losses are not allowable.

Who might consider a VCT?

A VCT may be considered as part of a diversified financial plan if an investor:

- 1 has a UK Income Tax liability against which upfront relief could be claimed;
- 2 has already considered more mainstream investments and tax wrappers, such as pensions and ISAs;
- 3 can invest for at least five years and does not expect to need the money at short notice;
- 4 understands smaller-company risk and can withstand a substantial or total loss of their investment;
- 5 wants exposure to a professionally managed portfolio of growth companies; and
- 6 has received advice that the investment is suitable for their objectives, capacity for loss and wider portfolio.

Investment in a VCT is unlikely to be suitable if you may need to access your money invested at short notice, you do not have other sufficient accessible savings, you cannot tolerate sharp falls in investment value or total loss, or you are investing mainly because of the tax relief.



How the tax reliefs work

1. Upfront Income Tax relief

For qualifying new VCT shares issued on or after 6 April 2026, an individual aged 18 or over can claim Income Tax relief equal to 20% of the amount subscribed. The maximum subscription on which relief can be claimed is £200,000 across all VCTs in a tax year, giving maximum potential relief of £40,000.

1. Relief cannot exceed the amount of UK Income Tax that would otherwise be payable.
2. Relief is claimed for the tax year in which the VCT shares are issued. It cannot be carried back or carried forward.
3. The shares must generally be held for at least five years. If you dispose of them sooner, some or all of the relief may be withdrawn.
4. The relief applies to subscriptions for qualifying newly issued shares, not purchases of existing shares on the stock market.
5. Death does not itself trigger withdrawal of the relief. Separate rules apply to disposals on death and certain transfers between spouses or civil partners.

2. Tax-free dividends

Dividends on qualifying ordinary VCT shares are exempt from Income Tax. This exemption can apply to both newly issued and second-hand shares, within the £200,000 annual acquisition limit and provided the VCT is approved at the relevant time. Dividends are variable, may be paid from realised investment gains and are never guaranteed.

3. Tax-free gains — but no allowable loss

A qualifying gain when ordinary VCT shares are sold is exempt from Capital Gains Tax. This exemption can also apply to second-hand shares. If the conditions for the exemption are met, however, a loss on disposal is not an allowable capital loss and cannot normally be offset against other gains or income.

Do not confuse the tax rules

The five-year holding period is a condition for retaining upfront Income Tax relief on qualifying new shares. It is not a general condition for the dividend or Capital Gains Tax exemptions, and it is not a promised exit date.

New shares and second-hand shares are treated differently

Tax feature	Qualifying new shares	Second-hand shares
Upfront Income Tax relief	Yes – 20%, subject to the conditions	No
Tax-free dividends	Potentially yes, subject to the conditions	Potentially yes, subject to the conditions
Tax-free gains on sale	Potentially yes, subject to the conditions	Potentially yes, subject to the conditions

What VCT tax relief does not provide

VCTs do not provide Capital Gains Tax deferral for new investments or loss relief against income. VCT shares do not normally qualify for Business Relief from Inheritance Tax and will usually remain part of your estate.

What happens when you invest?

- 1 **Discuss suitability.** Your adviser considers your objectives, tax position, other investments, time horizon, knowledge and experience, and capacity for loss.
- 2 **Review the specific VCT.** Be sure to read the relevant prospectus or securities note, key information document, annual report, latest annual and interim reports, and information on fees, dividend policy and risk factors. This guide is not a substitute for those documents.
- 3 **Apply for new shares.** You subscribe in cash. The date the shares are allotted – not simply the application date – determines the tax year in which relief may be claimed.
- 4 **Receive your certificate.** The VCT will normally issue an Income Tax relief certificate within 30 days of the investor requesting it¹. Check the VCT name, share issue date and subscription amount, then keep the certificate with your tax records.
- 5 **Claim the relief.** Claim through Self Assessment for the tax year in which the shares were issued, or ask HMRC to adjust your PAYE code or make a repayment. HMRC says a VCT claim can generally be made up to four years after the end of that tax year. The practical routes are explained on the next page.
- 6 **Hold and review.** To retain upfront relief, the shares must normally be held for at least five years. You should continue to review the investment performance, risk profile, dividends paid out, charges incurred, and consider whether the VCT remains appropriate for your needs.

A simple illustration

Illustration only

Sam subscribes £25,000 for qualifying new VCT shares issued in the 2026/27 tax year. If Sam has at least £5,000 of UK Income Tax liability, the maximum upfront relief is £5,000. The £25,000 subscription is exposed to investment risk. If the shares fall in value, the tax relief does not protect Sam from that loss.

This example ignores fees, dividends and changes in value. It is not a forecast and does not represent the outcome of any particular VCT.

Selling and reinvesting

After the five-year qualifying period, selling the shares will not normally trigger repayment of the upfront relief². You may then choose to subscribe for new VCT shares and make a new relief claim, provided every condition is met. Anti-tax avoidance rules can restrict relief where a sale of shares in a VCT and a new subscription in the same VCT occur within six months of each other. You should seek advice from an appropriate financial adviser before arranging a sale and reinvestment.

1. Exceptions may arise in certain circumstances, such as administrative delays, outstanding approval requirements, or where the shares do not ultimately qualify for relief.

2. Exceptional circumstances may arise, such as errors occurring in the original claim or situations where HMRC later determines the qualifying conditions for relief were not met.

Claiming tax relief and planning a sale

How to claim the upfront Income Tax relief

1. **Check the tax year.** Use the share issue or allotment date shown on the VCT tax certificate, rather than the date you applied or paid.
2. **Use the correct amount.** Enter the amount subscribed for qualifying shares, not the 20% relief figure. HMRC calculates the relief, subject to your UK Income Tax liability.
3. **Choose a claim route.** Claim through Self Assessment under subscriptions for Venture Capital Trust shares. Alternatively, you may ask HMRC for a PAYE code adjustment or a repayment before filing your return. Further information is available on the GOV.UK website [here](#).
4. **Keep evidence.** Retain the VCT tax certificate, allotment confirmation and your calculation. HMRC may ask to see supporting evidence.

Claim deadline

A VCT claim can generally be made up to four years after the end of the tax year in which the shares were issued. Do not delay if you are unsure which year applies.

Selling VCT shares

A stock-market listing provides a route to sell, but it does not guarantee a buyer, a timetable or a price. The available route depends on how the shares are held and the VCT's current arrangements:

1. **VCT buyback:** some VCTs offer to buy shares back, usually at a discount to net asset value (NAV). Buybacks are normally discretionary and may be changed, paused or withdrawn by the VCT at any time.
2. **Stockbroker or platform:** shares may be sold in the secondary market, but liquidity can be limited and the price you receive may be materially below the NAV.
3. **Nominee holding:** if a platform or nominee holds shares on your behalf, contact it directly for its dealing process, timescales, documents and charges.

NAV is calculated by subtracting the VCT's liabilities from its assets and dividing the result by the relevant number of shares in issue. It is an estimate of underlying value, not a guaranteed sale price.

Before instructing a sale

1. Confirm the original issue date of your shares and whether the minimum five-year holding period has ended. Five years is a tax condition only, not a recommended or guaranteed exit date.
2. Ask the buyer of your shares for the latest NAV, likely sale price or discount, dealing costs, expected timescale and any documents or identity checks required.
3. Check whether a sale followed by a new subscription could engage the six-month anti-avoidance rule. Relief can be restricted for a sale and subscription in the same VCT, and in certain VCT merger situations.
4. Treat any new subscription or dividend reinvestment as a fresh investment decision. New shares carry new investment risk. If you claim upfront relief on them, a new five-year holding period will normally apply.

What does a VCT invest in?

A VCT usually holds a portfolio of companies at different stages of growth. Managers may invest across many sectors or specialise in a particular area. The mix of businesses, their maturity and concentration, and the manager's investment style can materially affect the risk and return profile.

The VCT rules in plain English

1. Once the relevant rules apply, qualifying holdings must represent at least 80% by value of the VCT's investments.
2. Qualifying businesses are generally unquoted for VCT tax purposes. Companies whose shares trade on AIM can still be treated as unquoted.
3. An investee company must meet detailed conditions, including having a permanent UK establishment and using the funds raised for organic growth and development.
4. Most investee companies must have fewer than 250 full-time-equivalent employees; the limit is fewer than 500 for a qualifying knowledge-intensive company¹.
5. For most investments made from 6 April 2026, gross assets must not exceed £30 million immediately before investment and £35 million immediately after. Lower legacy limits still apply to certain specified Northern Ireland companies, which remain subject to earlier qualifying thresholds in limited cases. Further information is available on the GOV.UK website [here](#).
6. For most companies invested into from 6 April 2026, the annual risk-finance limit is increased to £10 million and the lifetime limit increased to £24 million. The corresponding limits for qualifying knowledge-intensive companies are increased to £20 million and £40 million. Detailed exceptions apply.

Why these rules matter

The rules direct VCT capital towards smaller businesses seeking growth finance. As a result, a VCT portfolio will usually be higher risk than a fund investing in larger, established listed companies.

1. A knowledge-intensive company ("KIC") is a business that carries out significant research, development, or innovation activity and meets specific conditions set out in the tax rules.



What does a VCT invest in?

Not all VCTs are the same

When comparing VCTs, look beyond the headline tax relief. Consider:

1. **Investment strategy:** whether the VCT is generalist or specialist, and its sector, stage and company concentration.
2. **Existing portfolio:** its maturity, valuation basis, mix of profitable and loss-making companies, and exposure to the largest holdings.
3. **New money:** how quickly it is expected to be invested and how much may initially remain in cash or liquid assets.
4. **Dividend policy:** the target, track record, sustainability and whether dividends are supported by realised proceeds.
5. **Performance:** NAV total return, including dividends, over consistent periods and after charges. The share price alone can be misleading when trading is thin or shares trade at a discount to NAV.
6. **Charges:** initial, annual, performance-related and administration costs, plus any adviser charge.
7. **Liquidity policy:** the manager's share buyback approach and the discount to net asset value that may apply.
8. **People and process:** the investment team, resources, governance, valuation policy and approach to supporting portfolio companies.
9. **Offer details:** share issue price, allotment timing, minimum subscription, capacity and closing conditions.



Common planning questions

Does a VCT reduce Inheritance Tax?

Important distinction

VCT shares generally remain part of your estate and are not typically eligible for Business Relief. The VCT tax reliefs do not provide an Inheritance Tax exemption.

You may separately decide to make regular gifts out of income, including income received as VCT dividends. This is an estate-planning strategy, not a VCT tax relief. To qualify for HMRC’s normal-expenditure-out-of-income exemption, the gifts must:

- form part of the donor’s normal expenditure;
- be made out of income; and
- leave the donor with enough income to maintain their usual standard of living.

The conditions are fact-specific. Keep contemporaneous records of income, expenditure, gifts and the intended pattern, and obtain specialist tax or legal advice.

What if you own a business?

Upfront VCT Income Tax relief is available to a qualifying individual who subscribes for eligible new shares. A subscription by your company does not give you personal VCT Income Tax relief. Your adviser should distinguish company cash from your personal cash and coordinate the advice with your accountant or tax adviser.

VCT and EIS are not the same

Feature	VCT	EIS
What you own	Shares in a listed investment company holding a portfolio	Shares in individual qualifying companies, often through a managed service
Upfront Income Tax relief	20%, subject to the conditions	30%, subject to the conditions
Minimum holding period for upfront relief	Normally five years from share issue	Normally three years, with company-level conditions
Dividends	Exempt from Income Tax within the VCT rules	Normally taxable under the usual dividend rules
Loss and CGT deferral relief	No allowable loss where VCT disposal relief applies; no current CGT deferral relief	Loss relief and CGT deferral may be available, subject to the rules

This is a high-level comparison only. EIS has different eligibility, timing and company-level rules and requires separate suitability and tax analysis.

The risks you need to understand

Capital at risk

You could lose some or all of the money you invest. Tax relief can reduce your Income Tax bill, but it does not guarantee a return or protect your capital.

Smaller-company risk: Smaller and younger businesses may have limited trading histories, narrower product ranges, fewer funding options and greater dependence on a small number of key people. They may fail completely.

Liquidity risk: Although VCT shares are listed, trading can be limited. A buyer may not be available when you want to sell, and the sale price may be at a material discount to net asset value.

Valuation risk: Many underlying holdings are not quoted on a public market. Their valuations involve judgement, may be updated less frequently than quoted investments and can change sharply when new information becomes available or a transaction occurs. A smoother valuation history does not necessarily mean lower risk.

Concentration risk: A specialist VCT or a portfolio with a small number of significant holdings may be affected heavily by one sector or company.

Dividend risk: Dividend targets are not guarantees. Payments can be reduced, postponed or stopped, and a dividend distribution reduces the assets remaining in the VCT.

Tax risk: Tax rules, rates and interpretations can change. Relief depends on your circumstances, the shares and the VCT continuing to meet the rules. Relief may be withdrawn.

Charges and dilution: Share issues and buybacks can affect net asset value per share, while performance fees may further reduce returns.

Timing risk: Applications can be scaled back, and shares may be allotted in a later tax year than expected. The tax year of share issue determines when relief may be claimed.

No allowable loss: Where the VCT Capital Gains Tax exemption applies, a loss on disposal is not an allowable loss for tax purposes.

Past performance: Past performance is not a reliable indicator of future results. A long or successful track record cannot remove the risks above.

Questions to discuss with your adviser

1. Why might a VCT be suitable for me compared with a pension, ISA or conventional investment?
2. How much can I afford to lose without affecting my plans or standard of living?
3. Do I have enough UK Income Tax liability to use all the expected relief?
4. When are the shares expected to be allotted, and in which tax year?
5. How diversified will my overall portfolio be after this investment?
6. What are the total charges, including adviser charges, and how do they affect potential returns?
7. What is the VCT's dividend policy, and how sustainable have past dividends been?
8. How has the VCT performed, measured by NAV total return including dividends, over consistent periods?
9. How does the VCT value unquoted companies, and how frequently are valuations reviewed?
10. What is the buyback policy and typical discount if I later want to sell?
11. What documents and ongoing reports will I receive?

Frequently asked questions

Can I access my money within the five years?

You can try to sell listed VCT shares, but the market may be limited and the price may be below net asset value. Selling qualifying new shares within five years will normally trigger withdrawal of upfront Income Tax relief.

Is a five-year holding period a recommended exit date?

No. Five years is principally a tax condition. The investment case, liquidity and market price may mean holding for longer is appropriate.

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Are dividends guaranteed?

No. A VCT board decides whether and when to pay dividends. The amount may vary or be nil.

What happens if I die during the five-year period?

HMRC guidance says death does not itself trigger withdrawal of upfront VCT relief. The estate, probate and beneficiary tax implications will still require advice.

Can I buy VCT shares second-hand?

Yes, but the purchase of existing shares does not qualify for upfront Income Tax relief. The dividend and Capital Gains Tax exemptions can still apply if their conditions are met.

Will VCT shares reduce Inheritance Tax?

Not through the VCT tax reliefs themselves. Because a VCT is listed, its shares generally remain part of your estate and are not typically eligible for Business Relief.

Does HMRC approval mean the investment is recommended?

No. HMRC approval concerns the VCT's tax status. It is not an endorsement, a guarantee of performance or a suitability assessment.

Does the Financial Services Compensation Scheme protect me from investment losses?

No. FSCS does not cover poor investment performance or ordinary market losses. Protection may apply to certain eligible claims if an authorised provider or adviser fails; the position depends on the firm, service and circumstances. Ask your adviser or provider what protection applies.

Do I need to send my VCT tax certificate with my tax return?

Normally, you keep the certificate with your records rather than attaching it to an online return. HMRC may ask to see it, so retain it safely.

Important information

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VCT products designed to manage tax liabilities are not suitable for all investors and will place investors' capital at risk, and you may not get back the full amount invested. The tax scenarios shown are indicative and are subject to change. Please note that the availability of the VCT tax reliefs is dependent on each investor's individual circumstances. VCT tax reliefs are subject to change, investments may also rely on the company or investment opportunity in question meeting VCT qualifying criteria which are not guaranteed.

Foresight does not provide financial, legal, investment or tax advice, and therefore potential investors should seek specialist independent tax and financial advice before deciding to invest. Past performance should not be taken as a reliable indicator of future results and forecasted returns are not guaranteed. The VCT products are long-term investments and you may not be able to get your money back out before the end of the investment term. Please see the relevant offering document for full details where attention should be paid to the risk factors set out.

Before investing

Read the current prospectus or securities note, key information document and latest annual and interim reports for the particular VCT. This guide does not contain enough information to make an investment decision.