

Venture capital trusts and Capital Gains Tax

i **Contacts**

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to hmrc.gov.uk

This helpsheet explains capital gains aspects of the venture capital trust (VCT) scheme for investors. But it is only an introduction. If you are in any doubt about your circumstances you should ask your tax adviser. We will also be pleased to help and will provide any forms you may require. You can also consult our *Venture Capital Schemes Manual*, which explains the rules in more detail. The manual is available at hmrc.gov.uk

This helpsheet will help you fill in the *Capital gains summary* pages of your tax return.

A VCT is a company which invests in small unlisted companies. The VCT shares which qualify for the special VCT tax reliefs are ordinary shares in an approved VCT.

You may not have to pay Capital Gains Tax on any gain you make when you dispose of your VCT shares. (This is called ‘disposal relief’ in this helpsheet.)

If you subscribed for VCT shares issued to you on or before 5 April 2004 you may have previously been able to treat gains arising on disposals of assets, around the time your VCT shares were issued, as postponed to a later year. (This is called ‘VCT deferral relief’ in this helpsheet.)

VCT deferral relief is not available for investments in shares issued after 5 April 2004. However, if you have previously deferred a gain then this gain may be revived in 2012–13. This helpsheet explains how such deferred gains should be treated.

This helpsheet describes:

- disposal relief
- deferral relief
- when the deferred gain is revived
- how deferral relief fits in with disposal relief
- what happens if the VCT
 - is taken over, or
 - makes a bonus or rights issue.

What is disposal relief?

If disposal relief is due, you will not have to pay Capital Gains Tax on any gain you make on the disposal of VCT shares. The following conditions have to be met:

- relief is limited to acquisitions not exceeding £200,000 worth of VCT shares in any one tax year (£100,000 for the year 2003–04 and earlier years)
- you are an individual (not a trustee)
- you are 18 or over at the date of disposal
- the company was an approved VCT both when you acquired the shares and when you disposed of them
- you acquired the shares for commercial reasons and not as part of a tax avoidance scheme.

Any loss you make on the disposal of VCT shares where these conditions are met, is not allowable for capital gains purposes.

Does it matter how you acquire the VCT shares?

No. For disposal relief, it does not matter whether you subscribe for newly issued shares or whether you acquire existing shares, for example, by purchase or inheritance.

What happens if you dispose of VCT shares when you acquired more than £200,000 worth in any one tax year? (£100,000 for the years 2003–04 and earlier.)

You will not have to pay Capital Gains Tax on any gain on your disposal of the first £200,000 worth of the shares acquired in any tax year (£100,000 for the years 2003–04 and earlier).

A gain on your disposal of shares acquired above this limit is chargeable to Capital Gains Tax. Similarly, a loss is only allowable if it arises on the disposal of shares acquired above the limit. The normal capital gains rules apply to disposals of shares acquired above this limit. [Helpsheet 284 Shares and Capital Gains Tax](#) explains these rules.

There are identification rules to decide which shares count first towards the limit. Shares acquired earlier in the tax year count first. Shares acquired on the same day in different VCTs or in different classes of ordinary shares in the same VCT are identified on a proportionate basis.

What happens if you sell some but not all of your VCT shares when you acquired more than £200,000 worth in any one tax year? (£100,000 for the years 2003–04 and earlier.)

You identify your disposals on a first in, first out basis.

In relation to shares acquired on the same day, shares acquired in excess of the limit are treated as disposed of before other shares acquired on that day. This is illustrated in Example 1 on page 3 of this helpsheet.

Do you need to disclose any gain arising from a disposal of VCT shares on your tax return?

You must give details of the disposal of shares on pages CG 1 and CG 2 of the *Capital gains summary* pages if either the total value of the VCT shares and any other assets you disposed of in the tax year or your total chargeable gains were more than the limits shown in the capital gains section on page TRG 5 of the tax return guide.

If disposal relief is due, please put 'X' in box 34 on page CG 2 and provide details of the claim in the 'Any other information' box, box 36, on page CG 2 or in your computations, providing a clear statement that VCT disposal relief is being claimed.

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Example 1

You buy 250,000 VCT shares for £250,000 on the same day in the tax year 2011-12. 200,000 shares qualify for disposal relief so any gain on the disposal of these 200,000 shares is exempt. Any gain on the remaining 50,000 shares is not exempt.

In the following tax year you sell 75,000 of the 250,000 shares.

You identify the sale of the 75,000 shares as follows:

- the first 50,000 with the 50,000 non-exempt shares
- the remaining 25,000 with 25,000 of the shares the gain on whose disposal is exempt.

You calculate any gain or loss on the 50,000 non-exempt shares. Any gain is chargeable to Capital Gains Tax and any loss is allowable. You must include the disposal in boxes 16 to 19 on page CG 1 for the full 75,000 shares. Put 'X' in box 20 and, either in box 36 on page CG 2 or in your computation, enter 'VCT disposal relief' and the amount of relief claimed for the 25,000 exempt shares.

You still hold 175,000 shares, the gain on whose disposal will be exempt.

What was VCT deferral relief?

VCT deferral relief is not available for investments in shares issued after 5 April 2004.

When you dispose of an asset and make a gain you usually pay Capital Gains Tax for the tax year in which you dispose of the asset. VCT deferral relief lets you treat the gain as not arising until some future date. For investments in shares issued before 6 April 2004 you could have made a claim and deferred a gain for an investment. The gain may then be revived and charged to Capital Gains Tax in a later tax year, usually when you dispose of the VCT shares. This helpsheet deals with the revival of gains deferred in earlier tax years.

When is the deferral gain revived?

Usually this will be in the tax year when you dispose of the VCT shares (unless the disposal is to your spouse or civil partner at no gain/no loss for capital gains purposes, in which case it will be when that person disposes of them).

The deferred gain would be revived earlier than this if:

- you (or your spouse or civil partner to whom you have transferred your shares) cease to be resident in the UK, if this happens within three years (five years if the VCT shares were acquired before 6 April 2000) from the time the shares were issued. But this does not apply if whichever of you holds the shares takes up employment outside the UK and becomes resident again within three years without disposing of any of the shares in the meantime
- the company loses our approval as a VCT
- any of the Income Tax relief on your subscription for VCT shares is withdrawn in other circumstances. Income Tax relief on a subscription for VCT shares is described in the notes for box 1 in the 'Other tax reliefs' section on page Ai 2 of the [Additional information](#) pages
- there is a share exchange or company reconstruction which is not treated as a disposal, and the new assets held following the exchange or reconstruction are not ordinary shares in a VCT.

The deferred gain will not be revived if you die before a chargeable event occurs.

How do you report the deferred gain when it is revived?

You must give details of the revived gain on pages CG 1 and CG 2 of the [Capital gains summary](#) pages. You should provide a clear statement that this is a gain that had been the subject of VCT deferral relief claim and is now being revived, either in box 36 on page CG 2 or with your computations.

Guidance on Entrepreneurs' Relief and deferred gains can be found in [Helpsheet 275 Entrepreneurs' Relief](#) and in the [Capital Gains Manual](#) on our website at hmrc.gov.uk You can use your annual exempt amount, £10,600 for 2012–13, for the tax year in which the deferred gain is revived, to cover the whole or part of the revived gain.

How much of the deferred gain is revived?

The whole of any deferred gain is revived if:

- you dispose of all your VCT shares, see Example 2 below, or
- the event giving rise to the revived gain is not a disposal of your VCT shares (for example, if the company loses its approval as a VCT).

Example 2

This deals only with the revived gain.

You defer a gain of £50,000 on a disposal in 2003–04 by subscribing for £50,000 worth of VCT shares issued in that year. If you sold all the VCT shares in 2012–13, the deferred gain of £50,000 would be revived in 2012–13.

If you dispose of only some of your shares, some of the deferred gain will be revived.

Example 3

This deals only with the revived gain.

You defer a gain of £20,000 arising in 2003–04 by subscribing for £20,000 worth of VCT shares issued in the same year. If you sell 15,000 VCT shares in 2012–13, part of the deferred gain is revived in the tax year 2012–13. All your VCT shares were used to defer the gain and, as you have sold 15,000 of the 20,000 shares, the same proportion of the deferred gain is revived: £15,000.

The position is more complicated where you dispose of only some of your shares and you claimed deferral relief on some, but not all, of these shares. You have to identify the shares you have disposed of and the shares which have had deferral relief.

What are the identification rules?

You identify disposals on a first in, first out basis.

When shares were acquired on the same day, you identify disposals first against shares which have not been used in the claim for deferral relief.

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How does VCT deferral relief fit in with disposal relief?

Subscriptions for shares issued before 6 April 2004 which are used in claims for deferral relief may also count towards the maximum acquisition on which disposal relief is available.

Example 4

You sell an asset in 2003-04 realising a gain of £60,000. You subscribe £100,000 for 100,000 shares in a VCT which are issued to you in the same tax year. You receive deferral relief against the gain of £60,000. In a subsequent tax year you sell 50,000 of the VCT shares.

The 100,000 VCT shares are the only VCT shares you acquired in 2003-04 and therefore they all qualify for disposal relief, so that any gain you make on the sale of the 50,000 VCT shares is not chargeable to Capital Gains Tax.

Only £60,000 of the subscription is used in the claim for deferral relief. Therefore £40,000 expenditure on 40,000 shares has not attracted deferral relief.

The 50,000 shares sold are identified as follows:

- first, against 40,000 shares for which no deferral relief was given
- second, against 10,000 shares for which deferral relief was given.

Deferral relief was given for 60,000 shares of which 10,000 were sold, so the proportion of the £60,000 deferred gain to be revived is:

$$\frac{10,000}{60,000} \times £60,000 = £10,000$$

£10,000 of the deferred gain is revived in the tax year in which you sell the 50,000 VCT shares.

What happens if another company takes over the VCT?

The VCT or the other company involved usually writes to you explaining the tax implications.

For Capital Gains Tax purposes you are not treated as disposing of your VCT shares if another VCT takes over the VCT in which you hold shares and just issues new VCT ordinary shares to you. In these circumstances, and provided any front-end Income Tax relief is not withdrawn, VCT deferral relief continues.

In the case of a merger of VCTs, special rules may apply allowing your reliefs to continue.

With all other takeovers:

- you are treated as disposing of any VCT shares which qualify for exemption on disposal
- any deferred gain will be revived.

What happens if the VCT makes a bonus issue of shares?

For Capital Gains Tax purposes, the original shares and the bonus shares related to them are treated as the same asset. This means that if you deferred a gain, your VCT deferral relief continues and is apportioned between the original and the bonus shares.

What happens if the VCT makes a rights issue of shares?

If you subscribe for the rights shares, this is usually treated as a separate subscription for capital gains purposes and will qualify for the capital gains reliefs if the relevant conditions are met.

Any VCT deferral relief you have received continues but relates only to the shares on which it was originally given.