LUBBOCK FINE
WEALTH MANAGEMENT

Venture Capital Trusts (VCTs)

Supporting innovative UK businesses while making your money work harder

As your wealth grows, so does the importance of using it efficiently. For many experienced investors, Venture Capital Trusts (VCTs) can offer a valuable way to combine long-term investment planning with meaningful tax efficiency.

VCTs are a well-established, government-backed investment structure that many investors will already be familiar with. They are designed to encourage private investment into smaller, growing UK businesses, often innovative, ambitious companies shaping the future of their industries.

They are typically considered by individuals who have already used more mainstream allowances and are comfortable taking a longer-term view with higher-risk investments.

What is a Venture Capital Trust?

A Venture Capital Trust is a professionally managed investment company that pools money from investors and invests it across a range of qualifying UK businesses.

Rather than investing directly into one company, a VCT typically gives you exposure to a diversified portfolio, helping spread risk while accessing opportunities that wouldn't normally be available through traditional markets.

To maintain their status, VCTs must meet strict government criteria, including:

- Investing primarily in small, unquoted UK trading companies
- Holding a broad mix of investments, with limits on exposure to any one business
- Distributing the majority of income generated to investors
- Operating within HMRC rules designed to support growth and innovation

While VCTs themselves are listed companies, the businesses they invest in are often at an early or expansion stage which is where both the opportunity and the risk lie.

The tax advantages

For eligible investors, VCTs come with a number of attractive tax benefits:

From April 2026, the rate of income tax relief is expected to reduce to 20%, so there is a limited window to take advantage of the 30% rate.

Income tax relief

You can currently receive 30% income tax relief on investments of up to £200,000 per tax year, provided the shares are held for at least five years.

Tax-free dividends

Any dividends paid by a VCT is free from income tax, which can be particularly appealing for those looking to generate tax-efficient income as part of a wider investment strategy.

Capital Gains Tax exemption

Any gains made when selling VCT shares are exempt from Capital Gains Tax, regardless of how long the shares have been held. (There is no relief available for capital losses.)

Share buyback options

Many VCT managers offer share buyback facilities after five years, typically at a small discount to Net Asset Value (NAV). Some investors choose to reinvest these proceeds into a new VCT to benefit from further tax relief, subject to eligibility.

Is a VCT right for you?

Where does your money go?

VCTs invest in UK businesses that meet specific government criteria. These companies must be:

- Unquoted (AIM-listed companies are treated as unquoted for this purpose)
- Actively trading in qualifying sectors
- Focused on growth and development

Certain activities are excluded, such as property development, financial services and legal and accountancy services. The rules are reviewed regularly to ensure investment continues to support innovation and sustainable growth.

Why some investors choose VCTs

Beyond the tax advantages, there are broader reasons why VCTs may appeal:

Diversification

Your investment is spread across a number of companies, reducing reliance on the success of any one business.

Backing British innovation

VCTs support smaller UK businesses that are often at the forefront of technology, healthcare and green initiatives helping them grow, create jobs and innovate.

Long-term growth potential

Early-stage businesses can deliver strong returns if successful. While outcomes are not guaranteed, VCTs offer exposure to opportunities not typically found in mainstream portfolios.

Understanding the risks

VCTs are high-risk investments and are not suitable for everyone.

- Smaller companies are more vulnerable to economic change
- Capital is not guaranteed and losses are possible
- The market for these investments is likely to be very illiquid, particularly in the early years
- VCTs are illiquid and should be viewed as a long-term commitment
- You should be comfortable tying up funds for several years
- Governments can and do change the rules on tax in respect of investments such as VCTs

This is why VCTs are usually considered as part of a broader, well-balanced financial plan.

How we support you

VCTs are complex, and tax rules can change. Our role is to help you make confident, informed decisions. Lubbock Fine Wealth Management can:

- Discuss whether VCTs are appropriate for your circumstances
- Explain how they could fit within your wider wealth and tax planning
- Help you understand both the risks and the potential rewards
- Guide you through available options and next steps

If you would like to explore whether Venture Capital Trusts could play a role in your financial planning, we would be happy to talk.

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Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong.

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