Venture Capital Trusts and dividend reinvestment

The Finance Bill is giving venture capital pause for thought.

One of the attractive features of venture capital trusts (VCTs) is that their dividends are normally free of personal tax – something which will become more appealing from the 2016/17 tax year, when the new dividend tax rules begin. Many VCTs have automatic reinvestment schemes which allow you to use the dividend to buy more shares in the trust. With some exceptions, usually the shares are newly issued rather than bought in the market, meaning that the amount reinvested qualifies for 30% income tax relief as a fresh VCT subscription.

However, changes to the rules for VCTs which were announced in the Summer Budget have prompted some trusts to stop their dividend reinvestment schemes at short notice. The trusts involved typically say they want to consider the impact of the proposed changes on their investment strategies. One area which looks to be moving off-limits for VCTs is investment in management buyouts, a strategy that has proved popular with some schemes.

The actions taken by VCTs suggest that the end-of-tax-year offerings in early 2016 may be fewer in number and potentially higher risk than has been the case in the past (and VCTs have always been high risk). If you are planning to use VCTs to cut this year's tax bill, make sure you let us know now, so that we can alert you to what is on offer as early as possible.

The value of investments can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.