

VENTURE CAPITAL TRUSTS

Adviser Guide

In association with

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Foresight - Market Leading VCTs - 3 Strategies

Foresight Technology VCT

Early stage - Specialist - Diversified

- Target return 10x+
- Targeting exponential early-stage technology and product-based companies
- Investing in proprietary and disruptive technologies across software, hardware and deep tech
- Potentially transformational technologies
- Targeting market-leading unicorns
- Co-investing alongside other Foresight VCTs

Foresight Ventures VCT

Later stage - Technology

- Target return 3x+
- Backing proven businesses with established customers, revenues and products
- B2C, tech-hub companies to gain scalable growth through proven teams and strategies
- Adopting the lessons learnt from our early-stage funds to inform our later-stage investment decisions
- Proven strategies and strong teams
- Realisable shareholder value at exit

Foresight Enterprise VCT and Foresight VCT

Multi-sector - Diversified funding

- Target return 2x - 3x+
- Backing experienced, product and service-based businesses ready to scale and grow
- Multi-sector approach provides portfolio with diversification across geographies, sectors and investment strategies
- Providing growth capital to support a broad range of businesses
- Strong track record of exits and proven shareholder return with quarterly dividend payments

Capital at risk. Investment in VCTs should be seen as long-term. Past performance is not a reliable indicator of future performance and should not be relied upon to make investment decisions. Target returns are targets only and are not guaranteed. Figures are as at 30/09/2023.

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octopusinvestments

We offer tax-efficient investment solutions designed to help advisers create value for clients while planning for the future.

We're on a mission to invest in the people, ideas and industries that will change the world and here to help advisers deliver meaningful outcomes for their clients. We believe that over the next couple of decades, some of the best returns for investors will come from solutions to society's biggest challenges. That's why most of the money we manage is invested in companies helping to build a more sustainable planet, revitalise healthcare, or empower people.

Our scale and experience

Since launching in 2000, we've grown to become the UK's largest manager of Venture Capital Trusts¹ and investments that qualify for relief from inheritance tax². Today, we manage more than £1.6 billion across four VCTs, on behalf of more than 43,000² investors, backing hundreds of ambitious UK businesses shaping the future in technology, healthcare, sustainability, and beyond.

Through Octopus Ventures, a pan-European Venture Capital team backing entrepreneurs from pre-seed to growth stage, we bring deep sector knowledge and a proven track record of identifying and supporting high-growth companies. This expertise gives VCT investors access to some of the most exciting opportunities in the UK's entrepreneurial ecosystem. We don't just invest; we partner with founders to help them succeed, providing hands-on support, strategic guidance, and access to networks that accelerate their growth.

For advisers, we make VCTs easier to recommend through our VCT Academy, and provide practical resources so you can explain the benefits and risks with confidence. Plus, our award-winning support team is on hand for you and your clients throughout the investment journey.

Our VCT range at a glance

AIM VCTs

Invests in VCT-qualifying companies listed on AIM, offering exposure to a diverse range of UK growth companies at various stages of their maturity.

Apollo VCT

Focuses on accelerating the growth of B2B software companies that have already brought their product to market.

Future Generations VCT

Backing businesses with the power to transform the world for the better by investing in technology companies across Healthcare, Environment and People.

Important: VCT investments are high risk and not suitable for everyone. The value of an investment, and any income from it, can fall as well as rise. Tax treatment depends on individual circumstances and may change in the future. Investors should seek professional advice before investing.

To learn more:

0800 316 2295

Visit



¹ By funds under management, The Association of Investment Companies, September 2025.

² By funds under management, Comprehensive Analysis of Business Relief Offers, Tax Efficient

³ Octopus Investments, 30 June 2025.

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Puma Investments is part of the Puma Capital Group which comprises four businesses focused on delivering long-term sustainable growth for our investors and partners. Together, they manage more than £1 billion in assets, supplied funding to development projects across the UK valued at more than £3 billion across the UK and helped more than 65 companies on their journeys to success.

Puma Investments offers a broad range of alternative investment solutions to wealth managers, financial advisers and individual investors. Our award-winning solutions include long-established inheritance tax solutions, VCTs and EISs.

As a business, our origins lie in the management of VCTs. The first Puma VCT was launched over 20 years ago, and we have built up a track record of investing in small and medium-sized enterprises (SMEs) in the UK. Today, VCTs remain core to what we do; we have successfully launched 15 VCTs to date.

We have three offices in London, Edinburgh and Manchester, with an expert team of Business Development Managers ready to help you achieve the best outcomes for your clients and to navigate the upcoming changes that will drive up the number of inheritance tax payers in the near future.

VENTURE CAPITAL TRUSTS

Puma VCT 13

Launched in September 2017, Puma VCT 13 aims to deliver compelling returns through investments in companies that have graduated from start-up to scale-up, while delivering the full range of tax reliefs that come with VCT investing.

The VCT has assets of over £190 million and in the last year alone it has invested £40 million into six companies including LOVE CORN, NRG Gyms and Semeris.

Puma AIM VCT

Managed by the same experienced team behind the successful Puma AIM IHT Service, Puma AIM VCT offers clients access to AIM and AQSE-traded companies, alongside the potential benefits of VCT tax reliefs.

This is the first VCT on the AIM in 18 years. Since listing, the VCT has demonstrated a healthy deployment rate, having made four investments in quick succession.

These investments may not be suitable for all investors. Investors' capital may be at risk and they may get back less than their original investment. Tax reliefs are not guaranteed, depend on personal circumstances and are subject to change.

Contact us

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[Find out more](#)

PXN Investments brings together the expertise of Praetura Ventures and Par Equity to create one of the UK's largest venture capital managers focused on the North of England, Scotland, and Northern Ireland. By combining deep regional networks with significant capital resources, we are positioned to address the structural imbalance in the UK venture capital market, offering investors access to high-growth opportunities often overlooked by London-centric funds.

With approximately £660 million in assets under management and offices in Manchester, Edinburgh, London and Leeds, we have the scale and reach to identify exceptional founders across the UK's fastestgrowing innovation hubs. Our combined track record includes backing over 160 companies since inception, deploying over £400 million directly into UK businesses.

Our philosophy is built on providing "More Than Money." We support our portfolio through a dedicated team of operational partners—comprising over 110 senior leaders, exited founders, and industry experts—who provide the hands-on mentorship and strategic guidance required to scale effectively.

Our Investment Solutions

We offer a range of tax-efficient investment solutions designed to help financial advisers plan for their clients' futures, including:

Venture Capital Trusts (VCT)

Targeting capital appreciation and tax-free income through a diversified portfolio of scalable growth companies, specifically in the technology and healthcare sectors.

Enterprise Investment Schemes (EIS)

Access to early-stage, high-growth potential businesses with a focus on proprietary deal flow in the North of England and Scotland.

Business Relief (BR)

Services designed to mitigate inheritance tax liabilities.

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Unstructured CPD

Readers can claim unstructured CPD for time spent reviewing this guide. Suggested learning outcomes could include:

- 1 Describe impacts of the Autumn Statement 2025 on Venture Capital Trusts
- 2 Understand the current drivers for Venture Capital Trust use
- 3 Identify the expanding groups for whom Venture Capital Trusts may be a suitable investment
- 4 Quantify income generation advantages of Venture Capital Trusts
- 5 Explain the additional utility of Venture Capital Trust investments in the new IHT and pensions context
- 6 Define the current role of AI investments in Venture Capital Trusts

Contents

Introduction:

Where do VCTs sit now?	8
------------------------------	---

Autumn Budget 2025 changes impacting VCTs & that VCTs can mitigate.....

11

Latest VCT statistics and what they mean.....

16

VCTs & client suitability.....

19

VCT as an income generator.....

27

AI popularity in VCT investments.....

30

A valuable combination of public and private markets

32

AIM VCTs amid upcoming IHT changes.....

35

Case studies: VCTs utility in the current context:.....

36

A potential source of gifts out of excess income.....	36
---	----

Pension changes.....	39
----------------------	----



INTRODUCTION

Where do VCTs sit now?

Welcome to the Adviser Home Adviser's Guide to Venture Capital Trusts.

With so many leaks and suggestions in the press about what the 2025 Autumn Statement had in store, amid reports of the UK's spiralling debt stoked by inflation at well above the 2% target of the Bank of England, speculation was rife that something had to give for the Chancellor. Paying for her spending plans, keeping her promise not to raise taxes on working people, and still sticking to her own borrowing rules was always going to be a tough ask.

So was the growth drive Labour has placed at the top of its agenda, with the UK economy stuck in a cycle of sluggish growth for several years.

"We've got huge potential - world-leading brands, dynamic industries, brilliant universities, and a skilled workforce. We're a global hub for trade... If renewal is our mission and growth is our challenge. Investment and reform are our tools."

Chancellor's Budget announcement, 3 September 2025

No wonder then, the Right Honourable Rachel Reeves MP decided in the Autumn Budget 2025 to double the annual and lifetime company investment limits for VCT-qualifying businesses and allow such companies to have expanded gross assets before and after share issue, from April 2026.



Of course, growth is at the heart of Venture Capital Trusts (VCTs), something recognised by governments going back 30 years and reinforced by their extension to 2035, announced by the then Conservative government's Autumn budget in 2023 and approved by the EU in September 2024 with the support of the current Labour administration.

That's hardly surprising, given that the European Commission's approval was based on a UK government evaluation of the ongoing requirement and effectiveness of both VCTs and Enterprise Investment Scheme (EIS) investments. Although advisers need to be careful not to let the tax tail wag the investment dog, this evaluation, found that:

- ➔ Among VCT investors nine in ten (89%) said the tax incentives were one of the most important reasons for investing in a VCT.
- ➔ The majority of investees surveyed, in particular knowledge-intensive investees and investees seeking more finance, agreed that the EIS/VCT schemes were either essential or very important to raising finance. Businesses surveyed reported difficulties raising other forms of finance and agreed that the schemes helped catalyse funding rounds and drawing in additional investment.
- ➔ Almost half of all funding deployed by VCTs since 2018 has gone into knowledge-intensive companies. The population of knowledge-intensive companies is higher in the UK than the European Union average and UK companies tend to be more exposed to access-to-finance problems than companies in countries with lower innovation activity.

The value of VCTs in generating risk finance to young, innovative companies has long been recognised by the UK government. Nevertheless, many are questioning how cutting the upfront income tax relief from 30% to 20% from April 2026 matches up with the Chancellor's commitment to, "*championing innovation, not stifling it.*"

Nick Britton, *Research Director of the Association of Investment Companies (AIC)*, said:

“ Despite the cut to VCT tax relief in the last Budget, VCTs are likely to remain attractive to higher earners who still face tight restrictions on how much they can save into pensions. While the cut in relief will hit demand, the 2% increase in dividend tax rates from April 2026 will make VCTs' tax-free dividends even more appealing.

There remains plenty, to fuel interest in the tax efficiencies available through VCTs which has already been fired up by years by frozen income tax thresholds (held in 2021 and extended to April 2028 in 2024 and again to April 2031 in November 2025's budget), increases to CGT rates (from 10% to 18% for the lower rate and 20% to 24% for the higher rate in October 2024), cuts to the CGT annual exempt amount (from £12,300 per individual in 2022/23 to £3,000 from 2024/25 to date) and neutralisation of Business Asset Disposal Relief (increased from 10% to 14% from April 2025 and then to 18% from April 2026 when it will align with the new main rate of CGT introduced in October 2024).



Taking income tax alone, the Office for Budget Responsibility's November 2025 Economic and Fiscal Outlook found that, *"the previously announced freezes and the extensions at this Budget are now expected to mean that between 2022-23 and 2030-31, 5.2 million additional individuals will have been brought into paying income tax, 4.8 million more will have moved to the higher rate, and 600,000 more onto the additional rate."* That's 780,000, 920,000, and 4,000 higher, respectively, in 2029-30, largely as a result of the extensions announced in the Budget. The overall figures are equivalent to one in six of the current UK population.

In fact, extending the freeze on UK income tax thresholds in the 2025 Autumn budget, from April 2028 to April 2031 is expected to raise about £7.6 billion in extra revenue in the 2029–30 tax year, rising to £8.3 billion when combined with the freeze on National Insurance thresholds.

What's more, with income increasingly targeted for taxation, the tax-free dividends of VCTs are increasingly important element of their tax efficiency.

With a focus on the current context in which legitimate tax reliefs are becoming more and more valuable with VCTs offering an increasingly appealing planning option, it's a great time to consider how and why VCT could be part of the best outcomes you are mapping for your client portfolios.



AUTUMN BUDGET 2025 CHANGES

impacting VCTs & that VCTs can mitigate

In her speech, the Chancellor said that, *“private investment is the lifeblood of economic growth”* and bemoaned the UK’s relatively low levels of retail investment in comparison with the other G7 nations.

The doubling of VCT investment limits has been described as a welcome shift in the VCT qualifying rules to include more established businesses, give regional firms additional support for scaling over a longer period and allow investors to better support high-growth businesses to succeed.

VCT investment limits	Previous limits	From April 2026
Annual VCT investee company investment limit	£5 million	£10 million
Annual investee company investment limit for Knowledge Intensive Companies (KICs)	£10 million	£20 million
Lifetime company investment limit	£12 million	£24 million
Lifetime company investment limit for KICs	£20 million	£40 million
The gross assets test for VCT qualifying investee companies	£15 million before share issue and £16 million immediately after	£30 million before share issue and £35 million immediately after



Caroline Flagg

Strategic
Partnership
Director &
Private Client
Manager



“

The doubling of the investee company limits to £10 million demonstrates a clear regulatory push towards scale-up businesses. This environment demands rigour from managers; specifically, looking for businesses with proven unit economics, mature governance, and the infrastructure to absorb and generate significant capital. This prioritises stability alongside growth potential.

Continue ►

Yet, the upfront income tax relief available through VCT investments was cut from 30% of the investment amount to 20%.

“ **Paul Chilver**, Director and Financial Planning Manager of Birkett Long, reported to the Association of Investment Companies (AIC) that: *“We will potentially recommend fewer VCT investments next tax year, however, there is more to the story than that. Firstly, many will bring forward their VCT investments from next tax year to this tax year, so they get 30% income tax relief, which will make a higher amount being invested next tax year more unlikely.*

“Secondly, as there is a limited amount that can be invested into each company, the top VCT managers can hit capacity quite early on. However, with the changes announced, including a doubling of the investment amount per company to £10 million (£20 million for knowledge intensive companies), this should help increase the capacity available. As a result of this, longer term we envisage more money being invested into VCTs.”

Meanwhile, the wider context of Autumn 2025 budget changes, in combination with the economic landscape produced by recent and upcoming policy decisions, continues to offer some powerful drivers for VCT investors. In fact, after (or more precisely, just before) the Autumn 2025 budget, the OBR published figures confirming this budget will raise taxes by £26bn by 2029-30. This brings the tax take to an all-time high of 38% of GDP in 2030/31.

The changes contributing to that growing tax burden for individuals and with which VCTs can still assist, include:

Extension of income tax personal allowance thresholds to April 2031 at:	
Basic Rate	£12,570
Higher rate	£50,270
Additional rate	£125,140



	Previous rates	New rates
Creation of separate tax rates for property income from April 2027	Basic: 20% Higher: 40% Additional: 45%	Basic: 22% Higher: 42% Additional: 47%
Increasing the ordinary and upper rates of tax on dividend income by 2 percentage points from April 2026	Basic: 8.75% Higher: 33.75% Additional: 39.35%	Basic: 10.75% Higher: 35.75% Additional: 39.35%
Increasing the tax rate on savings income by 2 percentage points across all bands from April 2027	Basic: 20% Higher: 40% Additional: 45%	Basic: 22% Higher: 42% Additional: 47%

Introducing new restrictions to ISAs from April 2027	Previous rules	New rules
	ISA subscription rate £20,000 per year including cash ISAs, stocks and shares ISAs	Maintain total ISA annual subscription limit at £20,000 with cash limit reduced to £12,000 for under 65s

When it comes to VCT investments there are four important things to remember:

- 1 30% upfront income tax relief remains available on investments made to 5 April 2026.
- 2 Growth in VCT remains tax-free
- 3 Most VCT managers offer regular exit opportunities, so, (after the five year minimum holding period) individuals can recycle their original capital by reinvesting into VCTs to claim additional upfront income tax relief multiple times
- 4 Dividends from VCTs continue to be tax-free

The new dividend tax rates are estimated to yield £1.2 billion a year on average from 2027-28.

For individual investors, it's interesting to compare the value of ongoing tax-free dividends in this context versus the reduction in the upfront income tax relief.

Example

£100,000 VCT investment with annual 5% tax-free dividends from year three, held for 10 years

Sally, a 60-year-old higher rate income taxpayer, invests £100,000 into VCT in June 2026:

- She claims upfront income tax relief at 20% equalling £20,000.
- This is 10% or £10,000 less than if she had invested before 6 April 2026
- 5% dividend paid annually from year 3 until exit at year 10 (7 years) = £5,000 x 7 = £35,000
- Annual dividend tax relief = £5,000 - £500 dividend allowance = £4,500 taxable dividends. Tax at the higher rate (35.75%) = £1,608.75.
- 7 x £1,608.75 = **£11,261.25**

She fully recoups the £10,000 upfront income tax lost at the outset and the longer she holds the VCT shares, the greater the benefit from tax-free dividends. She also continues to benefit from the other VCT benefits during the lifetime of the investment, including access and liquidity, diversification and main market governance standards.

For context, MICAP data at 26 November 2025 shows the average five-year dividend yield from VCTs with a five-year track record is 7.10%. Remember, though that VCT dividends aren't guaranteed and capital values can vary.



James Ramsay

Head of
Investment
Product
Management



“

The increase in funding limits is a definite positive for the scope of VCT companies that will qualify for VCT from April 2026. The VCT structure lends itself better to the sorts of more mature companies with higher levels of assets that it will soon have access to. At Puma we already focus our VCT on firms looking to scale up and feel that this is the strategy the government is trying to encourage, allowing for a degree of de-risking for investors, but also filling the gap when VCT supported firms would previously have hit the limit of funding allowed for individual companies.

Continue ►



Jon Prescott

*Managing
Director*



“

Following the creation of PXN, the increased VCT limits allow us to maximise investor exposure to our highest-performing assets. We can now support companies we first backed through EIS at more stages of their lifecycle. This continuity means the VCT is investing in businesses with known track records, effectively shifting the risk profile compared to a traditional early-stage mandate.

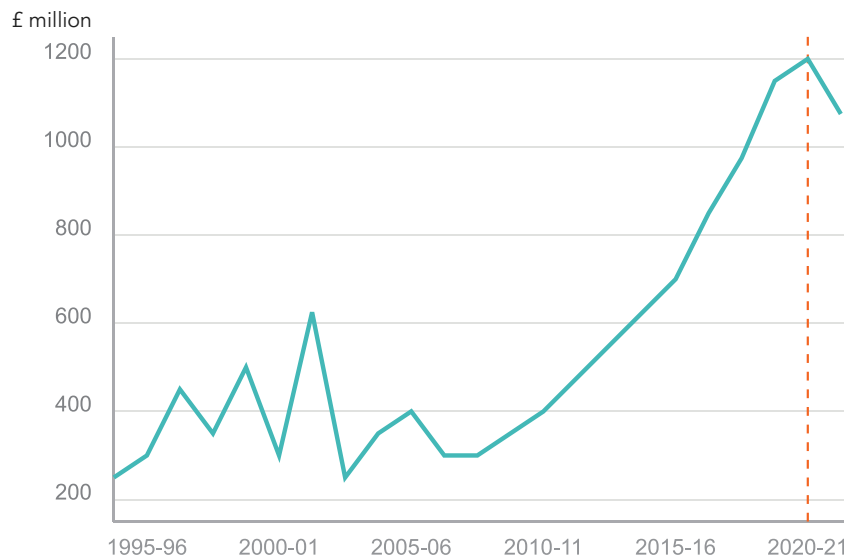


LATEST VCT STATISTICS

and what they mean

In May 2025, HMRC released its statistics for the 2023/24 tax year for Venture Capital Trusts when VCTs issued shares to the value of £873 million - a 17% decrease in comparison to the 2022 to 2023 figure of £1,051 million.

Amount of funds raised by VCTs (£ million), 1995 to 1996 to 2023 to 2024



Source: HMRC

1 STRONG VCT INTEREST CONTINUES

HMRC referred to a boost in VCT fundraising after Covid, followed by dips in 2022/23 and 2023/24 broadly following a downturn in the wider venture capital market, but emphasises that in those two years, the value of funds raised remained the second and third highest on record.

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Notably, HMRC highlighted the more than doubling of amount of funds raised by VCTs since the 2009 to 2010 tax year and its summary of the causes of that trend sound like they could also be applied to likely future interest given the current context:

"Much of this increase is likely due to the increasing appeal of the tax benefits of VCT investment as an alternative or addition to pension investment where allowances have been reduced or capped in the same period [In the 2010s this refers to the lifetime and annual tax-free pensions allowances. From 2027, it may well apply to unspent pension capital no longer benefitting from IHT relief]. This made traditional pensions less attractive, and the introduction of pension freedoms, which allow for cash to be taken out of the pot for investment, rather than buying an annuity, means there is also more freedom for investment in alternatives such as VCTs."

In addition, income tax claims tend to follow ups and downs in overall VCT investments, with VCT investors claiming income tax relief on £810 million of investment in 2023/24 – a 19% decline from 2022/23 – close to the 17% drop in fundraising. Although income tax relief for VCT investments will drop from 30% to 20% in April 2026, these funds are likely to remain attractive due to frozen tax thresholds and the benefit of tax-free dividends, especially for retirees looking to supplement their pension income.

2 VCTS ARE NOT JUST FOR HNWI'S

The May 2025 figures suggest that VCTs are useful not just to the highest earners as the amounts invested in and claimed via VCTs (as tax reliefs) by individuals in 2023/24 are not beyond the pockets of many more than just those in the ranks of high-net-worth-individuals:

- 1 The average invested per individual was around £34,000
- 2 Around 82% of VCT investors claimed tax relief under the VCT scheme for an investment of £50,000 or less; the largest number being in the £5,000 to £10,000 group with 17% of the total.

3

THERE IS SCOPE FOR MANY MORE VCT INVESTORS

24,085 VCT investors claimed income tax relief in 2023/24. HMRC data reports that in 2024/25 there are an estimated 37.4 million income tax payers, up from 33 million when personal income tax thresholds were frozen in the 2021/22 tax year. By 2029/30, the UK is projected to have around 42.1 million income tax payers. This represents nearly 1 million more than in 2025/26, driven largely by the continued freeze on tax thresholds^{1,2}. What's more, many pensioners pay income tax for the first time as state pensions and modest private pensions exceed the frozen personal allowance.



Caroline Flagg

*Strategic
Partnership
Director &
Private Client
Manager*



“

We are seeing a definitive evolution in the client base. VCTs are no longer just for those at the very end of their accumulation journey; we are seeing a significant rise in younger, high-earning professionals impacted by pension tapering. For this cohort, the VCT is a long-term growth engine, used to build a tax-free income wedge that will eventually sit alongside their pension, providing crucial flexibility in retirement.

¹ <https://www.gov.uk/government/statistics/income-tax-liabilities-statistics-tax-year-2022-to-2023-to-tax-year-2025-to-2026/summary-statistics>

² <https://www.express.co.uk/finance/personalfinance/2138743/rachel-reeves-extends-income-tax-freeze>



VCTS & CLIENT SUITABILITY

Anyone who pays UK income tax can benefit from VCT and, as we've seen those numbers are significantly on the rise.

Of those impacted since income tax thresholds were frozen in 2020/21, over five million individuals are under the age of 65 and over two million are over that age. Many of those two million are likely to be in retirement.

UK income tax payers 2010/11 to 2025/26

Year	All income tax payers (000s)	Basic rate (000s)	Higher rate (000s)	Additional rate (000s)	Age under 65 (000s)	Age 65 and over (000s)
2020 to 2021	31,700	26,600	3,980	433	24,800	6,810
2021 to 2022	33,000	27,400	4,430	520	25,900	7,100
2022 to 2023	34,500	28,200	5,100	570	27,000	7,510
2023 to 2024	36,600	29,200	6,030	923	28,400	8,250
2024 to 2025	38,000	29,900	6,560	1,140	29,300	8,740
2025 to 2026	39,100	30,400	7,080	1,230	29,900	9,190

Source: June 2025's Table 2.1 Number of individual Income Tax payers by marginal rate, sex and age produced by HMRC

UNDERSTANDING THE BENEFITS OF RISK

There is evidence that those who have been investing in VCTs to date understand and accept the risk profile, with the UK government's evaluation of the ongoing requirement and effectiveness of VCTs undertaken in 2022 finding that, in general, the investors accepted some risk in their investments. 84% of VCT investors reported that they were 'comfortable with the idea of their investments falling and rising rapidly' and most (72%) also agreed that they 'like investing in higher risk markets to potentially gain higher returns'. (State Aid SA.107221 (2023/N) – United Kingdom (Northern Ireland) Prolongation of the Enterprise Investment Scheme (EIS) and the Venture Capital Trust scheme (VCT) 22.07.24)

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That viewpoint is one that both UK government and FCA are strongly endorsing within their calls for a rebalancing the UK's approach to risk.

Kate Collyer, FCA Chief Economist:

“ Appropriate risk-taking has an important role to play in both regulation and well-functioning markets, and it underpins economic activity and growth...There are risks in not taking risks. For consumers, the seemingly safe option can mean missing out in the long run and can have life-changing consequences...For markets and firms, risk-taking can lead to both efficiency and dynamism.

The November 2025 Budget offered further evidence of this attitude, with the reforms to Individual Savings Accounts (ISAs) forming part of the government's wider strategy to develop a retail investment culture. According to 'Budget 2025 Strong Foundations, Secure Future' published on the same day as the Budget speech, *"this will drive better returns for savers and incentivise investment. Investing £1,000 a year in an average stocks and shares ISA every year since 1999 would have delivered a £50,000 better return than if it was invested in a cash ISA."*

In fact, according to research by Finder published in December 2024, 23% of UK adults - approximately 12.5 million people - actively invested in the stock market in 2024. This is an increase of a third on the 2023 figures. This is a welcome reverse as, in July 2025 research from Retailbook found that ordinary Britons have missed out on an estimated £1 trillion in wealth over the last 60 years by not investing in the stock market.

Investment appetite overall has been growing steadily with 54% of UK adults making investments across the board in 2025, up from 51% in 2024 and 42% in 2023 (finder.com). Less cautious strategies are set for growth, with 37% of advisers expecting to recommend clients to invest in private equity, and 41% expecting inflows from investors into venture capital to rise from 5 to 10% in the next five years. (*Wealth Club research released July 2025*).



The context of that appetite and political and regulatory efforts to grow it, is Barclays September 2024 finding that 13 million UK adults hold £430 billion of “possible investments” in cash savings (after the establishment of a prudent emergency fund). While some will have short-term needs to finance and others a strong risk aversion, even if VCT is only suitable for a small percentage, there could be tens or hundreds of thousands more VCT investors to be unearthed by UK advisers.

Under these circumstances, it's worth noting that there are various routes into VCT from very early seed stage investments to much more mature and less risky options. An analysis of the strategy of a selection of VCTs will help determine the overall risk profile and help investors to distinguish their comfort zone. According to Oxford Risk, this could bring an extra 4 to 5% return to a moderate risk investor.



James Ramsay

*Head of
Investment
Product
Management*



“

Fundamentally, you shouldn't be recommending VCTs purely for the tax reliefs. Obviously, there is a reason people focus on the initial tax relief as the tax planning opportunity, but really it is about potential returns and tax-free upside, because you should be making an attractive return on this profile of larger companies over the longer term. While these will remain high-risk funds, on an over-simplified metric, doubling the maturity of the company invested in should potentially half the maturity risk. That doesn't mean that existing VCTs that have focused on earlier stage companies become less risky over night, but they should do over the longer term. Advisers should be more comfortable with the later stage companies VCTs will soon be able to invest in than startups.

DROP IN INVESTOR AGE

VCTs provide the opportunity to advise on tax planning and early-stage investments and can be suitable for clients of all ages. Some investment managers have already reported a lowering of the average age of their VCT investors – from early sixties to early fifties in well under a decade. One manager raising VCT funds earlier in 2025 has cited a diverse age range in its investors with the youngest at just 20 years old and many in their 80s or 90s.

This has partially been attributed to younger investors discovering the benefits provided by VCTs as a way to supplement traditional pensions and ISA investments. It's also a reasonable expectation that, as growing numbers of younger people become subject to rising taxation, consideration of VCTs will become more interesting to them.

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Mark O'Donnell, Insight Manager at MICAP also points out that “most VCT managers currently offer buybacks of their shares, enabling regular exit opportunities.” As a result, “investors can exit VCTs after the minimum five-year holding period and reinvest, provided at least six months pass before reinvesting in the same VCT. Starting VCT investment earlier allows for regular reinvestment and repeated claims of upfront income tax relief.”

Number of taxpayers in thousands forecasted by HMRC for the tax years 2023/24 to 2025/26

Age	Number of taxpayers (thousands)		
	2023/24	2024/25	2025/26
Under 20	290	336	369
20-24	1,970	2,040	2,120
25-29	3,260	3,340	3,400
30-34	3,580	3,670	3,750
35-39	3,500	3,630	3,750
40-44	3,450	3,610	3,690
45-49	3,020	3,070	3,140
50 - 54	3,340	3,360	3,320
55-59	3,290	3,380	3,410
60-64	2,670	2,820	2,940
65-69	2,240	2,380	2,510
70-74	1,910	1,960	2,020
75 and over	4,100	4,410	4,670
All	36,600	38,000	39,100

Source: Freedom of Information request FOI2025/157950, 13 October 2025



Kristy Barr

Co-head Retail



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Over the past 5+ years we have seen a steady shift in the average age of VCT investors becoming younger. At Octopus we've seen the median age for advised investors decrease from 61 in 2018/19 to around 56, and investment platforms have seen an even greater shift with 22% of VCT investors now under 45 highlighting the potential increasing appeal of VCTs for this younger audience. The recent Budget has broadened the rules for VCT company eligibility, allowing VCTs to invest in a wider range of companies including those listed on AIM and to make follow-on investments in businesses they have previously backed. We expect this will broaden the appeal of VCTs even further, as VCTs can continue to back successful businesses to grow and scale, creating opportunity for investors seeking increased diversification.

In investments in general, younger individuals are leading the charge, signalling a generational shift that advisers need to carefully consider and accommodate where appropriate within a higher-risk, high-reward mindset: Research has found that 68% of Gen Z have invested at some point in their lives, the highest percentage across all generations. Millennials are close behind, with 65% having made investments, while less than half of Gen X (48%) and just 36% of baby boomers have done so.



Richard Roberts

Head of Sales
Development



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Initially, VCTs were primarily targeted at wealthy, older investors who had already maxed out their pension and ISA allowances, and were looking for something to supplement traditional investment portfolios; and high-net-worth individuals seeking tax efficiency and particularly attracted to the income tax relief, tax free growth and tax free dividends. Although this group is still the core for fund raising, over time, investment has diversified to include: younger investors who have an appetite for early stage technology investments and want access to private companies; those general investors who want portfolio diversification away from traditional equity and bond markets; but also a wider range of investors who are in their wealth creation phase, but increasingly constrained by tightening allowances and aggressive tax rises on asset income, and are looking for ways to supplement investment portfolios. As the market has grown over time to in excess of £13bn, it has also meant that VCTs have become more accessible for this wider range of investors, have lower barriers to entry, and considered part of a core financial planning toolkit for advisers to discuss with their clients.

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CGT CHANGES

The allowance – the CGT-free portion – of gains gradually increased to £12,300 in tax year 2020/21, before being cut for individuals in 2023/24 to £6,000 and again to £3,000 in the 2024/25 and 2025/26 tax year. At the same time, a higher rate of CGT was applied to second homes at 18% (basic rate taxpayers) and 28% (higher rate taxpayers) between April 2019 and April 2024, with the higher rate reduced to 24% in October 2024, but standard rates for individuals also increasing from 10% and 20% to 18% and 24% respectively.

According to HMRC's Capital Gains Tax commentary of July 2025:

"The 55 to 64 age group has consistently had the most CGT taxpayers and, along with the 45 to 54 age group, has the most gains and liabilities. These 2 age groups represented 45% of the CGT-liable population and contributed around 60% of the gains and tax in the 2023 to 2024 tax year."

Beyond that though, the figures show that in 2023/24 43,000 individuals in the 35 to 44 age range, 16,000 in the 25 to 34 age range and 2000 in the 16 to 24 age range incurred CGT liabilities. While these numbers are low in comparison to income taxpayers, they do show the numbers for whom VCT could be useful from a CGT perspective, are worth considering. Bearing in mind the total number of GCT taxpayers in 2023/24 was just [359,000](#) and the government estimate that the Autumn Budget 2024 changes will lead to 264,000 individuals paying more CGT in 2025/26, there could be a need for greater CGT mitigation across a broad group of individuals.

Further tightening of CGT application in the Autumn 2025 budget included amendments to the non-resident capital gains tax rules, closing loopholes for protected cell companies, and restricting Employee Ownership Trust Capital Gains Tax relief from 100% to 50%.



VENTURE CAPITAL IS A GOOD DIVERSIFIER FOR CONVENTIONAL PORTFOLIOS

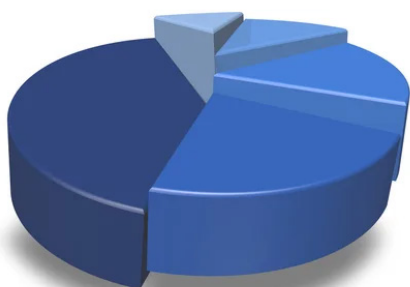
Stephen Jones, Chartered Financial Planner, Clear Solutions:

“ VCTs are a great tax planning tool and investment diversifier permitting clients to access an illiquid market (smaller companies). Higher rate and additional rate tax-payers should all consider it and anyone extracting cash elsewhere with tax implications should investigate if they can ‘reclaim’ the tax by using a VCT - subject to all the standard checks an adviser would undertake.

A portfolio approach is key for VCT investors, of whom 78% said they preferred a mix of low- and high-risk investments. VCT investors also valued the increased diversification of investing in a VCT, rather than the underlying portfolio of companies as is the case with EIS. (State Aid SA.107221 (2023/N) – United Kingdom (Northern Ireland) Prolongation of the Enterprise Investment Scheme (EIS) and the Venture Capital Trust scheme (VCT) 22.07.24)

Diversification in VCTs is, indeed, built-in through investing in a large, diversified portfolio of companies, typically 30-70, providing cushioning against individual company failures and a more stable, though diluted, return profile. VCT investment managers also employ sector diversification as young startups and more established firms are acquired by a VCT.

With such a mix of investments, VCTs can be a strategic addition to an investor’s existing portfolio, providing exposure to an asset class less correlated with traditional listed equities and bonds. This was the conclusion of Hardman & Co’s white paper, ‘how much should clients invest in venture capital?’ which concluded that *“clients with an average risk profile should have venture capital [VCT and/or EIS] exposure of mid-teen percentages or more, depending on which area of venture they have exposure to.”* This can improve expected annual returns and reduce expected standard deviation in a 60:40 investment portfolio.



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Kristy Barr

Co-head Retail

octopus
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Interest in early stage unlisted businesses is rising as private markets become more accessible to a wider range of investors. Hardman & Co's research, led by Dr Brian Moretta, finds that adding modest exposures to venture capital, particularly early stage companies, can enhance long term returns, and with rebalancing, not increase overall portfolio risk. For retail investors, one of the principal ways to access venture capital is VCTs, which provide a form of diversification, and tax efficient mechanism to participate in the growth potential of early stage businesses.



James Ramsay

*Head of
Investment
Product
Management*


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The change to allow more mature companies in VCT portfolios is going to allow for more diversification through maturity stages. Arguably this opens up additional sectors that are more asset intensive and therefore have larger asset bases.



VCT AS AN INCOME GENERATOR

Stephen Jones, Chartered Financial Planner, Clear Solutions:

“ We have a considerable number of clients who every year max out their ISA and pension contributions or are unable to put significant sums into these vehicles, VCTs are fabulous for adding to a client’s income stack.

VCTs can pay dividends from realised profits, income and reserves, and may be suspended or varied. Importantly, they are not subject to dividend tax. This makes them a useful vehicle for tax-free income, particularly at a time when dividend tax liabilities are soaring thanks to the cutting of the dividend allowance from £2,000 to £500 over the last three years and the 2% hike in dividend tax rates in the Autumn 2025 budget.

This has placed tax-free dividends at a premium, with the number of people paying dividend tax expected to hit a record 3.67m in 2024/25, doubling the numbers from 2020/21. In monetary terms, from 2024/25 to 2027/28, HMRC has forecast the diminished allowance will raise over £3 billion in total.

Again, this issue extends well beyond high-net worth individuals, with an estimated 2.15m basic rate individuals having taxable dividend income in 2024/25. (*FT Adviser, August 2025*).

Number of individuals paying dividend tax

Tax year	Number of individuals
2020-21	1,810,000
2021-22	1,830,000
2022-23	1,900,000
2023-24 (est)	3,080,000
2024-25 (est)	3,665,000

Source: FOI data request from HMRC

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Hence, clients investing for their retirement could use VCTs as a tax-free route to income supplements once retired. Additionally, from 2027 when pensions are included in estates for inheritance tax purposes, advisers and clients may be considering increasing their rate of pension drawdown and using investments like VCTs to tax-efficiently grow their capital and income.

Nick Britton, Research and Content Director, Association of Investment Companies (AIC):

“ Many VCTs have a target yield of 5% and the current yields of VCTs are a bit higher than this, 7% for the main VCT sector and 8% for AIM VCTs [as at 04/12/25]. These yields are tax-free and are all the more attractive given the 2% increase in dividend tax rates from April 2026.

Pointers on VCT dividends:

- Some trusts offer a Dividend Reinvestment Scheme (DRIS) that uses dividends to subscribe for new shares, which can qualify for VCT income tax relief subject to the usual conditions and annual limits.
- VCT boards set dividend policies, often targeting an annual yield as a percentage of NAV, typically around 3–5% across the market, though targets vary by trust and are not guaranteed.
- VCTs can also pay special dividends if the portfolio has a successful period



**Richard
Roberts**

*Head of Sales
Development*

Foresight
Invest Build Grow

“ Venture Capital Trusts have increasingly evolved into credible income-generating vehicles which can be used as part of core financial planning - particularly in the context of the shifting tax and retirement planning landscape. The growing demand from investors approaching or already in retirement and who are looking for predictable, tax-efficient income which has more flexibility and has fewer restrictions on how and when they can access capital has increased and is set to continue. VCTs are particularly relevant for High earners constrained by pension annual allowance tapering, and those looking to extract pension funds tax-efficiently and reinvest in income-generating assets

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Toyin Oyeneyin

*Tax Product
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With the recent Budget changes increasing the tax burden and including increases in dividend tax, the appeal of VCTs including as a source of tax-efficient income has never been greater. VCTs offer investors up to 30% income tax relief on new investments, alongside tax-free dividends making them an increasingly attractive option for those seeking to supplement income in a challenging environment. While diversification of risk is a well-known investment principle, many overlook the value of diversifying income streams.



Caroline Flagg

*Strategic
Partnership
Director &
Private Client
Manager*

pxn
INVESTMENTS

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Our institutional mandates, such as those from the British Business Bank, allow us to deploy capital at the very start of a company's journey to stimulate regional growth. We follow this with EIS investment, where specific tax reliefs help mitigate early-stage risk. By the time we introduce VCT capital, we are investing in a known quantity—companies we have monitored for years—creating a robust, evidence-based portfolio with strong income generation potential.



THE POPULARITY OF AI IN VCT INVESTMENTS

VCTA, The changing faces of VCT, 2025:

Each year, there is a wealth of ideas spinning out of UK universities and talent striking out of British businesses. These innovators are building new technologies – from artificial intelligence to virtual reality and robotics – that are shaping emerging industries such as fintech, biotech, and cyber security. These technologies require substantial investment to take ideas through to commercialisation – and this is particularly true in research-intensive sectors such as deeptech and life sciences. Historically, VCTs have provided an ideal mechanism for providing the patient capital required to grow these businesses.

Some VCT investment managers report that up to one in two investment opportunities they have reviewed in the last 6 months have AI embedded in their business models. In the broader AI universe, “AI-related investments accounted for the majority of VC deal value in H1 2025 (51%), compared with just 12% of total VC deal value in 2017.” (Artificial Intelligence H1 2025 Global Report, August 2025)

AI is clearly a crucial sector for future opportunities and the long-term potential of AI is immense, with a massive opportunity currently available to invest in AI as businesses become AI enabled before they come to public markets, provided sufficient investment is made to fund development. The applications are almost unlimited and possible investment areas are widespread, but this gives advisers a headache. Where they have clients with a particular interest in this category of technology, it can be difficult to identify good deals.

Outside of such an expressed requirement for tech-related holdings, advisers must also consider whether AI is a thematic exposure worth holding in client portfolios, how best to access it, and what risks could derail its promise.

There is a plethora of established VCT managers specialising deep tech and AI, already nested in the networks offering deals in the space and resourced with suitably experienced staff to undertake the necessary due diligence to distinguish those with greater chances of success, as well as to diversify exposure.

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Many software companies now claim to be “powered by AI”, but investors must distinguish between AI-native businesses and those that simply integrate AI. The difference lies in whether AI is the core engine driving the innovation and growth of the business or whether the company has insourced this technology to improve an aspect of the solution (i.e. introducing an AI chatbot feature). This distinction can make a significant difference in the overall growth potential of the company and the pace at which it can innovate its product offering. AI-native firms often command higher multiples for their disruptive high-growth potential, while AI-powered companies are typically valued on traditional software metrics, even though both will ultimately be valued on the pace and efficiency of its growth rate.



Richard
Roberts

Head of Sales
Development

Foresight
Invest Build Grow

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AI is indeed a hot topic in the investment industry, and one which many investors will want access to within their portfolio, as it will undoubtedly have an impact on how we live our lives in the years to come. With billions being invested by the large US tech companies in the quantum computing facilities which will drive the sector at macro level, it is just not possible for many VCTs to compete so each VCT manager will have a different view on how to adapt strategy to access this market efficiently and manage risk in what could be an overheating sector. Our house view is that we are looking to invest in and back “AI enabled” companies rather than investing in the AI itself – so applying technology to make existing companies more efficient to unlock opportunities to drive their growth.



A VALUABLE COMBINATION OF PUBLIC & PRIVATE MARKETS

"The UK has some of the lowest levels of retail investment in the G7."

Chancellor Rachel Reeves, Autumn Budget, November 2025

LISTED ON THE MAIN MARKET

VCTs are listed on the London Stock Exchange which holds funds up to high compliance and reporting standards with ongoing scrutiny. **Simon Walls**, executive director of markets at the FCA highlighted their importance in July 2025, labelling them as "world leading" and, "our economic engine," which we want to keep "roaring in support of sustained growth and prosperity for the whole country."

UNLISTED SHARES INVESTMENTS

Nevertheless, VCT investments must largely be in unlisted shares – a requirement intended to give confidence to advisers and investors access to potentially high-growth, less obvious opportunities. Currently, the FCA aims to boost individual's exposure and access to private markets amid global stock market volatility.

Given that private businesses have historically outperformed public markets, despite elevated levels of volatility and risk, the uptick in returns potential over the longer term is a great incentive as is the access to new industries and technology. Meanwhile, a reasonable lack of correlation to public markets offers the potential for counter-cyclical returns and is more tax efficient.

"Some still position public and private "markets as binary options. As if we must choose between transparency or flexibility, scale or specialism, liquidity or long-term commitment. That split feels outdated to me. The boundaries are blurring. More and more we see the two working together – through listed funds, hybrid structures and evolving investment models."

Sarah Pritchard, Deputy Chief Executive of the Financial Conduct Authority, July 2025

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This has not escaped the notice of financial advisers with recent research among them revealing that 37% expect to recommend clients to invest in private equity, and that 70% expect to see investment into private markets increase between 25 and 50% in the next two years (*Wealth Club research released in July 2025*).

“ According to **Alexander Axtell**, Financial Planning Consultant at Quilter: *“the listed wrapper gives governance, reporting cadence and daily pricing, while the underlying assets are long-term, higher-risk and less liquid; share prices can move at premiums/discounts to NAV, and liquidity can be better than direct unquoted exposure but not absolute.”*



James Ramsay

Head of
Investment
Product
Management



“ Very few VCT managers have an in-house buyback system that deals with the administrative issues that arise with buybacks. One example is that the investor normally needs to find a broker to act on their behalf and most brokers do not cover VCT buybacks. There are a few VCTs now, like Puma’s, that will alleviate most of that administration for investors by bringing it in-house, making it materially easier to exit VCTs*.

* Buybacks depend on regulations, market conditions, and the Company having sufficient funds and distributable cash reserves, and remain at the discretion of the Board.



Richard
Roberts

Head of Sales
Development



Invest Build Grow

“ A common misconception for VCT investors is that they just invest into private companies, but VCTs can also hold a range of AIM stocks providing they qualify under the VCT investment rules. This approach can provide further portfolio diversification into slightly different and more mature growth companies, and often help VCTs with liquidity as it can be easier to sell holdings in part/ full on demand, which is less easy to do with unlisted companies. This can smooth investment performance and also ensure regular dividend payments can be met for investors.





Toyin Oyeneyin

*Tax Product
Specialist*

octopus
investments

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We are currently experiencing a pivotal moment for private markets and vehicles such as Venture Capital Trusts (VCTs), supported by government initiatives and broader industry recognition of the returns private market investments can generate over the long-term. There is growing adoption of VCTs as an integral part of financial planning. Octopus Investments has consistently advocated for the use of VCTs to complement pension planning, given their benefits including income tax relief, tax-free income during retirement, and capital gains tax exemption on growth. These advantages are becoming increasingly pertinent in light of governmental efforts to promote retail investment, particularly in private markets, as well as recent changes to inheritance tax and pension regulations. Currently, pensions may be accessed at age 55, increasing to 57 from 2028 and may continue to rise. In contrast, VCTs offer more flexible accessibility at any age, subject to liquidity constraints.



AIM VCTs AMID UPCOMING IHT CHANGES

IHT relief applicable to Business Relief-qualifying AIM shares is set to be cut from 100% to 50% in April 2026. As a result, 50% of standard IHT (20%) will become applicable to those shares. This might be a concern to those with VCTs that invest in AIM-qualifying shares.

In fact, VCT shareholders are holders of shares in the VCT rather than the underlying investee companies, whether those companies are quoted on AIM or not. So, VCT investors never have access to Business or IHT Relief. Consequently, they are not impacted by changes to the reliefs applicable to the underlying investees. Instead, they are only impacted by changes specifically to VCT rules.



James Ramsay

Head of
Investment
Product
Management



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In the Autumn 2025 Budget changes really open up AIM VCTs again. AIM's performance has struggled since 2022. Then again, the fundamentals of the business on there have not fallen to the same degree as the pricing, suggesting it is poor market sentiment rather than company performance that is primarily impacting prices. The VCT company rule size increases apply to AIM too. This should translate to some compelling opportunities to get exposure to later stage, less risky companies, which are more appropriate for more investors.



CASE STUDIES:

VCTs utility in the current context

A POTENTIAL SOURCE OF GIFTS OUT OF EXCESS INCOME

Tax-free dividends from a VCT could build up in an individual's estate and create an IHT liability. Or they could be used to fund something or someone with no tax payable on the transfer if they are considered to be regular gifts out of income.

This is because regular lifetime gifts out of excess income are immediately exempt for IHT purposes, whether or not the donor survives for seven years or what their available nil rate band is. Despite being tax-exempt, HMRC still considers VCT dividends as income, not capital.

For the gifts out of income exemption to apply, a transfer of value must meet three conditions:

-  **It formed part of the transferor's normal expenditure and was regular.** Evidence of an intention to make regular gifts, ideally over a period of at least three to four years could be in the form of a letter stating the intention to make the gifts, or a pattern such as the payment of dividends from a VCT investment for the benefit of someone else. The amount of, and the beneficiary of the gifts can vary.
-  **It was made out of net income after tax** such as dividends from shares, 'taking one year with another'. So, one bad income year among several normal years that disrupts the gift pattern will not result in loss of the exemption, assuming the gifts then recommence. However, if you save up the dividends over an extended period and then gift them, this might incur a capital gains charge as HMRC will likely consider accumulated income as becoming capital after two years.
-  **It left the transferor with enough income to maintain his/her normal standard of living** without resorting to capital to meet living expenses. Examples given by HMRC of normal expenditure include regular premium payments on an insurance policy for another person. If circumstances change, but the pattern of gifting has been established, a person can stop making the gifts without losing the exempt status of those qualifying gifts already made.

Consider though, that dividends from VCTs are not guaranteed which may interfere with your being able to demonstrate a consistent pattern of gifting—for example, monthly or annual gifts funded by VCT dividends. Consider, for example, how it might look if the plan is to pay a child's school fees, fixed at regular intervals before the start of each term. If you receive insufficient or zero dividends from the VCT to pay for one term, you may need to pay from capital which is then reimbursed by future VCT dividends. Would HMRC view this as meeting the 'regular' requirement?

It's important to:

- ❗ Keep clear records of dividend receipts and corresponding gifts.
- ❗ Submit a letter to HMRC outlining the plan to make regular gifts from VCT income.
- ❗ Consult a professional tax adviser or solicitor.

Anyone making regular gifts for several years before their death may inadvertently achieve the exemption conditions, so it is worth executors checking after the death of the donor.

Possible uses of gifts out of VCT income:

- ➔ Income transferred into trust normally attracts a charge to IHT if the nil rate band is exceeded, but not where regular gifts out of income are made
- ➔ A client could regularly pay the premiums of a large 'whole of life' policy written in trust and paying out on death. The policy premiums, which are purchasing a benefit for others, will not be subject to IHT as they would be from the settlor's excess income.
- ➔ A client could settle a £300,000 insurance bond into a discretionary trust and make ongoing exempt gifts into it with which the trustees pay into the bond. No matter when the settlor dies, there is no IHT due.



Case study 1

Scenario

Ryan is 58, a retired executive with an annual income of £55,000 (higher-rate taxpayer). He also has an investment portfolio valued at £250,000 in listed shares. In November 2024 he realises a capital gain of £100,000 from sale of some tech stocks.

As a result of the Autumn Statement of October 30 2024, CGT rates for higher-rate taxpayers have increased from 20% to 24%

Ryan applies his tax-free CGT allowance of £3,000, leaving him with a taxable gain of £97,000.

The resultant CGT liability without planning is $£97,000 \times 24\% = £23,280$ (previously it would have been $£97,000 \times 20\% = £19,400$).

Tax Planning Strategy

Ryan is advised to reinvest £100,000 of his gain into a VCT within the same tax year as the gain was realised.

He then receives:

- £30,000 income tax relief (30% of £100,000 in 2025/26)
- Tax-free dividends from VCT shares
- No CGT on disposal of VCT shares

He also uses his £30,000 income tax relief to offset his CGT bill (£23,280). This would leave him with an additional cash amount of £6,720.

He must hold the VCT shares for at least 5 years to retain the tax relief, although CGT exemption on disposal applies no matter how long he holds the VCT shares.

Note: Ryan would have been able to offset the full £23,280 bill if he had reinvested £77,600 of his realised gain, ($£77,600 \times 30\% = £23,280$) leaving him with £19,400 remaining cash.



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PENSION CHANGES

Bringing most unused pension capital into the scope of IHT from April 2027 has fundamentally changed how pensions will be used after that date. They won't be used as an IHT vessel, and they may have higher drawdowns. Many VCT investment managers are advising on using tax-efficient vehicles like VCTs to offset income tax when withdrawing more cash from pensions than the tax-free lump sum, helping reduce IHT exposure if they die after April 2027.



Jon Prescott

Managing
Director



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For sophisticated investors, VCTs act as an intelligent bridge in estate planning. They provide tax-free growth and income that can effectively de-risk assets removed from a pension environment, allowing that capital to then be integrated into broader IHT strategies, such as gifting or specialist BR investments, further down the line.

Case study 2

Scenario

Indira, 64 and in good health, has a £800,000 pension but does not need to touch it because she is living off capital and income from personal investments. She has, however withdrawn her full tax-free lump sum.

Having used all her Nil rate band (NRB) and Residence nil rate band (RNRB), if she dies after 6 April 2027, Indira's pension is likely to be taxable to IHT at 40% totalling £320,000, leaving her son Ravi to inherit just £480,000 of the pension.

If Indira is over the age of 75 when she dies, Ravi, an additional rate income taxpayer will have to pay his 45% marginal rate on the withdrawal - £216,000, leaving him with just £264,000 of the pension. However, HMRC has stated that, *“where both income tax and inheritance tax are paid on the same pension benefits, HMRC will develop mechanisms to account for any overpayments and ensure that these are refunded to beneficiaries.”*

But Ravi would need to claim back any such income tax overpayment and there are doubts that the process published on 21 July 2025 to award beneficiaries deductions to prevent such double taxation, will result in all income tax applicable if the deceased was over the age of 75, being refunded.



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ALTERNATIVELY:

Instead of leaving these assets to be eroded by IHT and income tax Indira withdraws money from her pension and invests it into VCTs as follows to recoup some of the income tax payable on the drawdowns:

For ten years she takes £70,000 from her pension to take her income up to £100,000 annually (*this creates marginal income tax of £27,431.40 per year*).

Tax Band		Rate of tax	Tax
Personal Allowance	Up to £12,570	0%	£0.00
Basic rate	£12,571 to £50,270	20%	£7,539.80
Higher rate	£50,271 to £125,140	40%	£19,891.60
Total		£27,431.40	

Each year, Indira then uses the funds withdrawn from her pension to make a £70,000 VCT investment (which creates 30% or £21,000 income tax relief).

VCT shares could possibly attract tax free dividends, but exit will be required and redistribution into an IHT efficient solution would be necessary or the £700,000 of VCT shares would be taxed to IHT at 40% creating an additional £280,000 IHT liability. The minimum holding period to retain upfront tax relief gained from VCT shares is five years.

She intends to hold all the VCT shares for a minimum of five years and then to exit the VCT by selling the shares and using the proceeds to acquire Business Relief qualifying shares for the IHT efficiency.

£700,000 is removed from the pension at an income tax cost of £274,314. That is offset by £210,000 of VCT income tax relief, to leave an overall tax cost of £64,314.

If the shares simply keep their value, then on Indira's death 15 years after 6 April 2027, Ravi will inherit:

£700,000 Business Relief qualifying shares benefitting from 100% IHT relief

+£33,000 pension + the value of the income tax paid on the pension he is able to claim back from HMRC.

(Having used all her NRB and RNRB the £100,000 remaining pension is taxable to IHT at 40% totalling £40,000 and then Ravi will pay 45% income tax on the £60,000 remainder, leaving him with £33,000 + income tax reclaim from HMRC).





Total inheritance	£733,000 less £64,314 pension withdrawal income tax cost	= £668,686 + income tax reclaim
Original inheritance		£264,000 + income tax reclaim
This equates to an IHT saving of £404,686 (before income tax reclaims)		

You should remember though, that the risk profile of VCT is much higher than is typically associated with pensions.



For **Axtell**, “Practically, pensions remain the primary retirement-income vehicle in my planning conversations; VCTs are used alongside for specific tax reasons rather than as an IHT or core income solution.”



**Richard
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*Head of Sales
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Foresight
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VCTs should be part of any good advisers financial planning toolkit. With the tax burden only set to increase in the coming years, and a forecast 11 million higher rate tax payers by 2027* there is a clear opportunity for advisers to add value to their clients by engaging with VCTs. It is no longer an alternative investment just for high net worths, but an increasingly more mainstream investment solution to accompany core planning. But I’d also urge advisers not to think of this as just a tax reducer – it can be a real addition to drive alpha for an investment portfolio, for example: 10 year cumulative combined performance for the largest 10 VCT managers, with dividends re-invested and excluding tax reliefs, show a total return of c. 62%. The comparable return for the FTSE100 across the same period was only 53%. When you then factor in tax reliefs on top, these can be valuable investments for clients to hold.

*Source: IFS



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Lisa Best, Director, tax-efficient solutions, Adviser Home is a financial journalist with a focus on tax-efficient investments. She won the EISA's award for Best EIS Journalist or Advocate in 2022, was a finalist in 2024 and has edited and written multiple guides and insights on Business Relief, SEIS, EIS and VCT.