



HM Revenue
& Customs

Venture Capital Trusts: Commentary

Theme: The economy

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Key Findings

The number of companies operating as Venture Capital Trusts has increased in 2019 to 2020 and the amounts claimed as tax relief have grown by a small amount in 2018 to 2019. The number of shares issued in the tax year ending 2020 has decreased by 16.7% from that ending 2019.

Main points

- Venture Capital Trusts (VCTs) issued shares to the value of £685 million in the tax year ending 2020, which is 4.3% lower than in that ending 2019 (£716 million).
- The number of VCTs raising funds has remained the same in 2019 to 2020 (42).
- The number of VCTs managing funds has increased by 1 in 2019 to 2020 (62).
- Comparing the tax year ending 2019 with that ending 2018, the amount of investment on which VCT investors claimed tax relief increased by 1% to £680 million.
- The number of VCT investors who claimed Income Tax relief increased by 4% to 19,805 in 2018 to 2019.

Introduction

About these statistics

This is an annual publication of Venture Capital Trusts (VCT) statistics. It includes information about the funds raised by the Venture Capital Trusts, and the investors claiming Income Tax relief for their VCT investments.

This is a National Statistics publication. Statistical tables to accompany this commentary are available at:

<https://www.gov.uk/government/statistics/venture-capital-trusts-december-2020>

What are Venture Capital Trusts?

The VCT scheme, introduced in 1995, is one of four tax-based Venture Capital Schemes. VCTs raise funds for investments, normally annually, through new and/or top-up share issues to investors.

For more information about Venture Capital Trusts, see the summary information in Annex 1 or visit <https://www.gov.uk/government/statistics/venture-capital-trusts-statistics-introductory-note>. For more information about the data included in this release see Annex 1 at the end of this document.

VCTs raising funds and amount of funds raised

Venture Capital Trusts (VCTs) have issued shares to the value of £685 million in the tax year ending 2020, which is 4.3% lower than in that ending 2019 (£716 million).

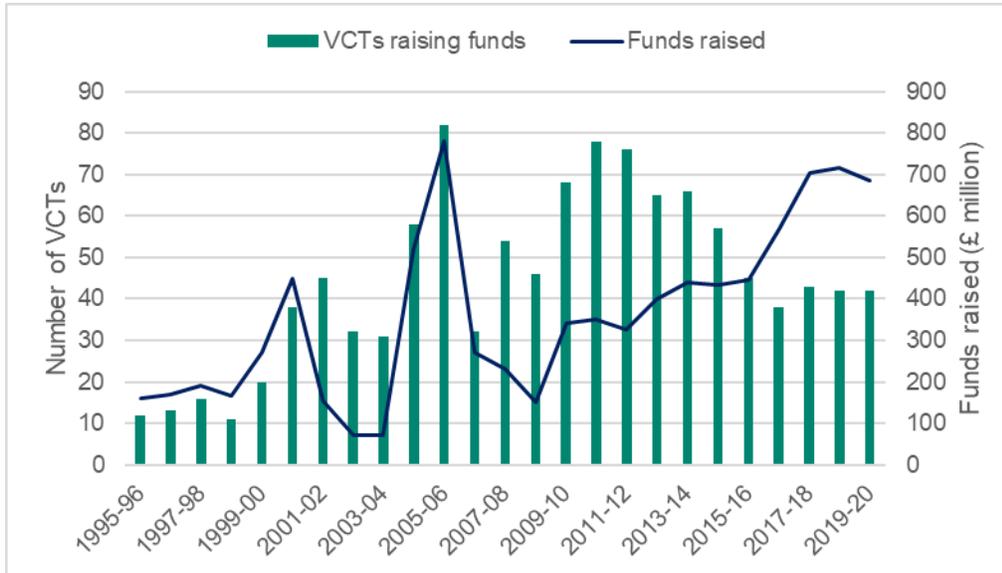


Figure 1: Number of VCTs raising funds and funds raised, April 1995 to 2020

As seen in Figure 1, the amount of funds raised by VCTs has been on a rising trend in recent years and has more than doubled since 2009 to 2010. Several rules which were introduced during the period, namely the restricted enhanced share buybacks from April 2014 and the government’s Patient Capital Review consultation in summer 2017, may partly explain the increased fund raising in the tax years ending 2015, 2016 and 2018 respectively, as VCTs anticipated possible changes to the rules of the scheme. The increase in the Income Tax relief rate to 40% saw peak funds raised in the tax year ending 2006, compared with that ending 2005.

As well as anticipation of changes from the Patient Capital Review, the increase in funds raised from 2017 to 2018 onwards is likely due to the reduction of the lifetime allowance from £1.25m to £1m. 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, meaning there is more freedom for investment in alternatives such as VCTs.

The slight decrease in funds raised in 2019 to 2020 is likely to be a reaction to the VCT reforms introduced in 2017 which came into effect during later accounting periods and potentially due to the impacts of Covid-19 from March 2020 onwards.

Table 8.6 presents the funds raised and number of Venture Capital Trusts.

Number of Venture Capital Trusts raising and managing funds

The number of Venture Capital Trusts (VCTs) raising funds in the tax year ending 2020 have remained constant since that ending 2019 (42). In the past, the amount of funds raised by VCTs and the number of VCTs raising funds have been closely linked. However, this has been less evident in recent years where similar amounts of funds have been raised by a smaller number of larger VCTs.

A reduction in the Income Tax relief rate to 30% in tax year ending 2007 was accompanied by a sharp fall in activity to £270 million raised by 32 VCTs, and activity remained relatively low until tax year ending 2010. The amount raised by VCTs has remained stable in the tax years ending 2015 and 2016 respectively, but the tax year ending 2018 saw a rise to £705 million raised by 43 VCTs and; £716 million in that ending 2019 by 42 VCTs.

There has been a slight decrease in the amount raised by VCTs in 2019 to 2020, a total of £685 million raised by 42 VCTs. The demand for VCTs remained high for most of the tax year, however, a combination of the reforms to VCT investment conditions coming into force and the impact of Covid-19 from March 2020 onwards, is likely to have slowed the rate of fund raising.

The number of Venture Capital Trusts (VCTs) managing funds increased by 1 in 2019 to 2020 (62). Of these, the number of VCTs raising funds has stayed the same (42). The number of VCTs managing funds increased by 119 in the tax year ending 2008, compared with that ending 1996. Since the tax year ending 2011, the number of VCTs managing funds has generally been decreasing, dropping to 62 in the tax year ending 2020.

Combined VCTs raising funds, managing funds and funds raised

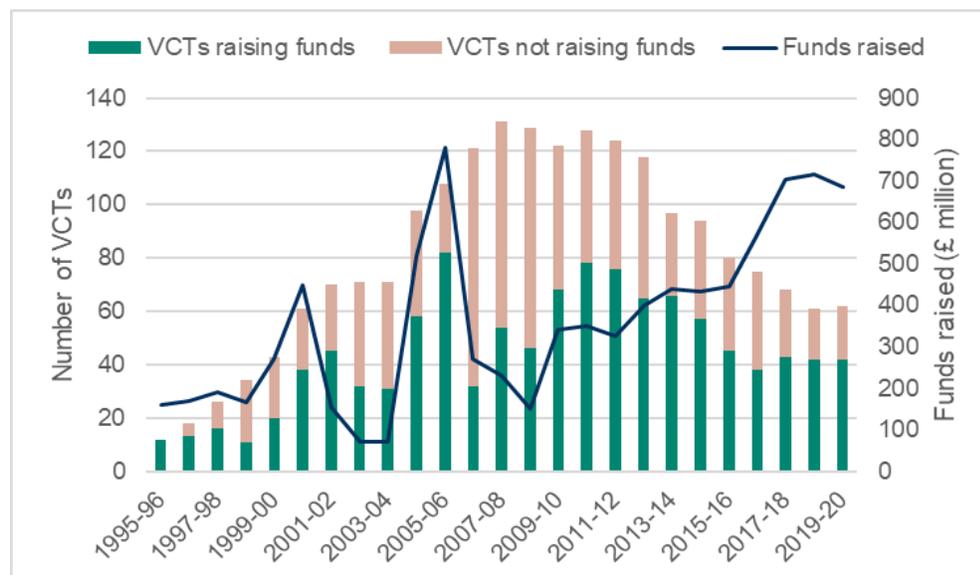


Figure 2: Number of VCTs raising and not raising funds, and amount of funds raised, April 1995 to 2020

As shown in Figure 2, Venture Capital Trusts (VCTs) have been merging over time to achieve economies of scale. The number of VCTs managing funds in a given year includes the VCTs which raised funds from investors in that year and the VCTs that did not raise funds in the year, but managed funds that had been raised in previous years.

Investors claiming Income Tax relief and amount invested

Comparing the tax year ending 2019 with that ending 2018, there was a 1% increase in the amount of Income Tax relief claimed by Venture Capital Trust (VCT) investors. The number of investors increased by 4% to 19,805 in 2018 to 2019. This information only covers claims made through Self Assessment and will not cover investors making Income Tax relief claims through other systems (for example PAYE) or not making any claims.

Table 8.9 presents the distribution of investors claiming Income Tax relief under the VCT scheme, and their amount of investment.

Total figures provided in Table 8.9 on the amount of investment on which Income Tax relief was claimed are not directly comparable with the figures on the amount of investment received by VCTs in a tax year shown in Table 8.6, as a small amount of relief would be claimed through the PAYE system.

Investors claiming VCT relief by size of investment

Most investors tend to invest under £50,000 into Venture Capital Trust (VCT) funds.

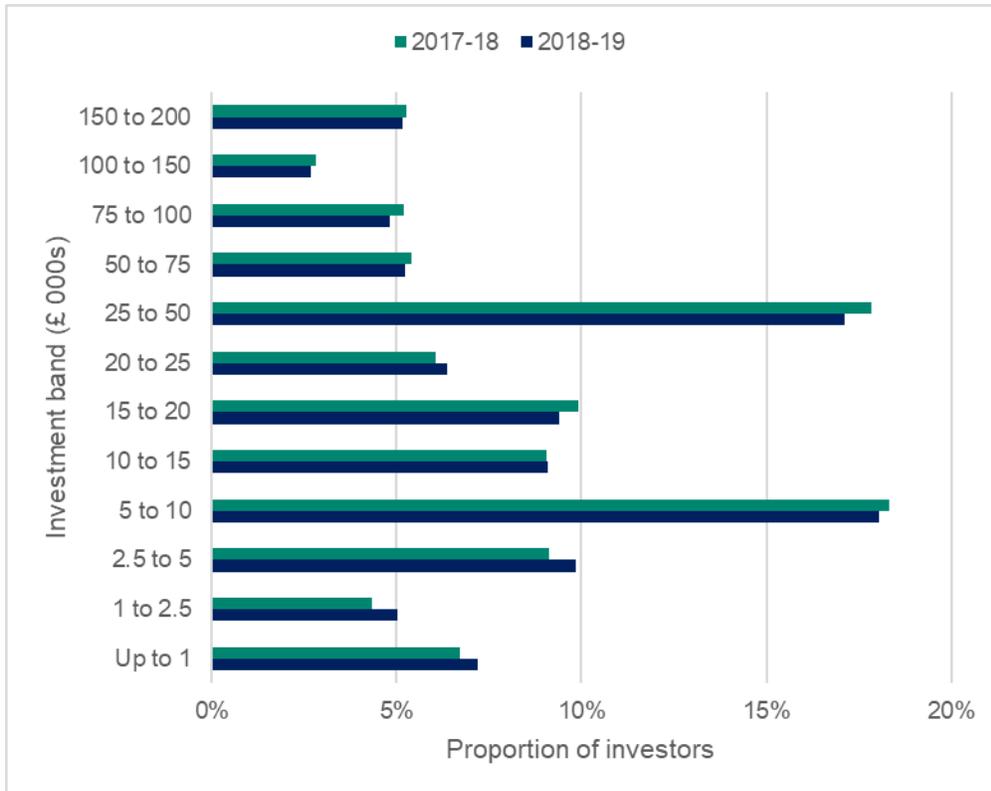


Figure 3: Distribution of proportion of investors claiming VCT relief by size of investment, April 2017 to 2019

Figure 3 shows the distribution of the investors claiming VCT relief split by size of investment. The figures for the tax year ending 2019 are similar to that ending 2018. 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 (18%) and £25,000 to £50,000 group (17%). Only 8% of investors made a claim for an investment over £100,000.

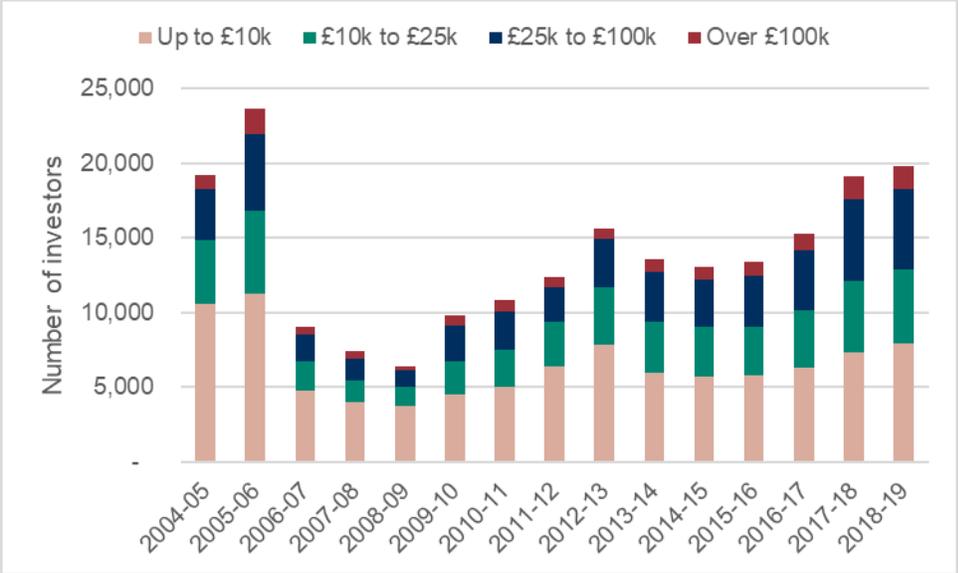


Figure 4: Number of investors claiming VCT relief by size of investment, April 2004 to 2019

Figure 4 shows a time series of the distribution of the number of investors since the upper limits of VCT investment were raised to £200,000 in 2004 to 2005. For this analysis, the investment size categories have been grouped into four bands. For all the years, those investing £10,000 or less have represented the largest group of investors, while those investing over £100,000 have been the smallest group.

The peak year for all bands, based on the number of investors, was 2005 to 2006. A reduction in the tax relief rate from 40% to 30% in 2006 to 2007 saw a fall in VCT investment across all these investment size bands. Activity continued to fall until 2008 to 2009, which represented a low point for each band.

Since then there has been a steady increasing trend in the numbers for all bands. However, there was a peak in numbers investing smaller amounts in 2012 to 2013. The recent peak seen in 2018 to 2019 likely reflects the consequence of the increase in shares raised seen in Figure 1 as a result of pension changes and the Patient Capital Review.

Amount of investment for which VCT relief was claimed

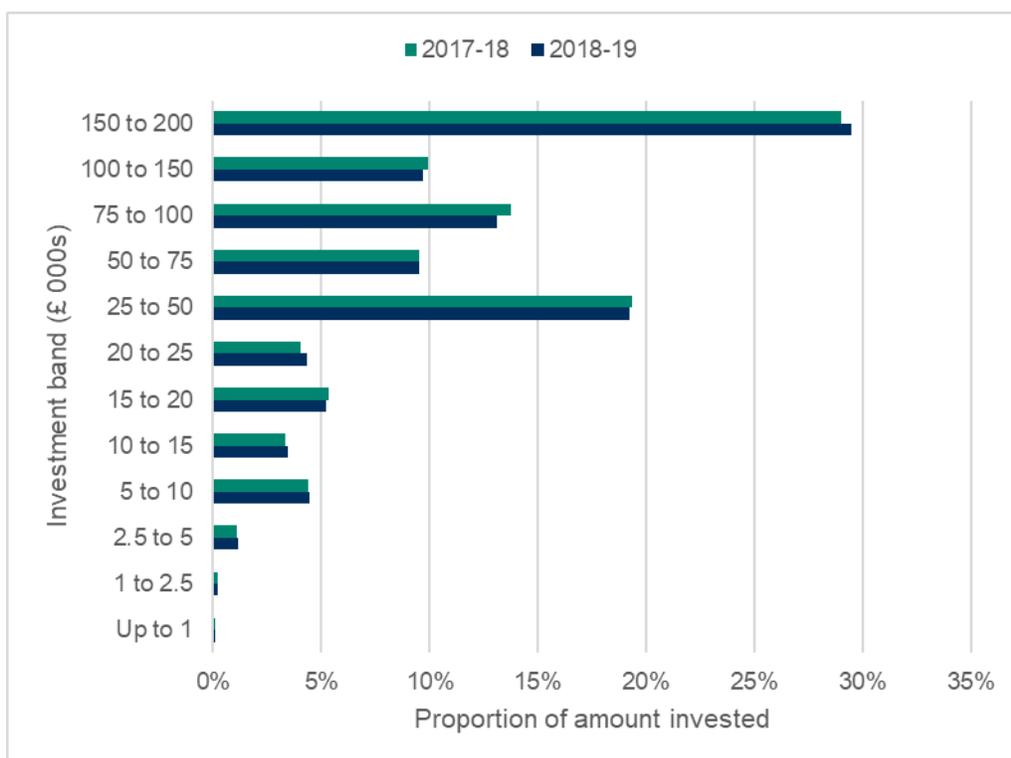


Figure 5: Distribution of proportion of investment for which VCT relief was claimed by size of investment, April 2017 to 2019

Figure 5 shows that the largest category of investment by amount in 2018 to 2019 was investments between £150,000 and £200,000, followed by investments between £25,000 to £50,000. The investments from these two groups account for 48% of the total amount invested.

Figure 6 shows a time series of the distribution of the size of investments since the upper limit was raised to £200,000 in 2004 to 2005. For this analysis, the investment size categories have been grouped into four bands. The analysis shows that the highest bands (in other words, those investments over £25,000) unsurprisingly account for the highest levels of investment, whereas the lowest bands (investments up to £25,000) include the smallest proportion of total investment in both years.

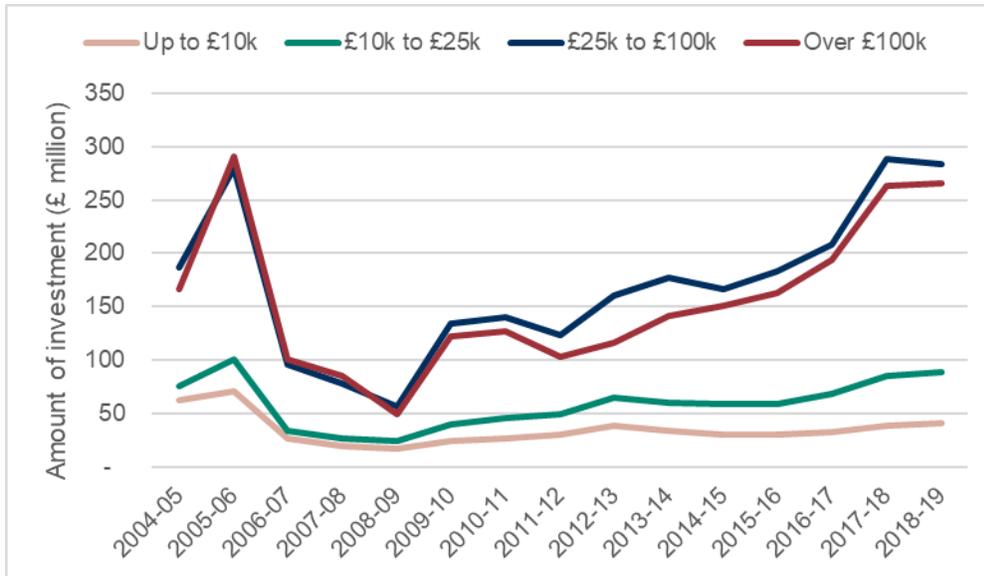


Figure 6: Distribution of overall investment for which VCT was claimed by size of investment, April 2004 to 2019

The amount of investment follows a similar trend to the number of investors (see Figure 4), with 2005 to 2006 being the peak year for all groups, except the £25,000 to £100,000 group which saw peak investments in tax year ending 2018. Comparing the tax year ending 2007 with that ending 2006, each band saw a sharp drop in activity (three times lower investments) due to the relief rate being reduced to 30%. The decline continued, reaching a low in 2008 to 2009 for all bands.

There has been an upward trend in the level of activity across all bands since 2008 to 2009. A sharp increase in the amount of investment can be seen in 2017 to 2018 for the two higher bands (£25,000 to £100,000 and Over £100,000). The amount invested and number of investors in 2018 to 2019 have remained stable since the previous year.

Annex 1 - Background Information

This year, several changes have been made to the layout of this National Statistics publication. These have been introduced to improve the readability of the publication. Information about the data sources and methodology can now be found in this annex.

Data Sources

Investments in VCTs are notified to HMRC, but until recently not in a form suitable for data capture. Therefore, information on the number of VCT trusts and funds raised are obtained from publicly available internet sources such as Pricewaterhousecoopers, Allenbridge, Tax Efficient Review, FE Investegate and London Stock Exchange VCTs information and news announcements. As a result, these figures are outside the managerial control of HM Revenue and Customs (HMRC) and are not considered National Statistics. However, they are published annually by HMRC as our current best indicators of the number of VCT funds and the amounts they raise.

Self Assessment (SA) returns are used to collect VCT investor-level information. The tables using this data are considered National Statistics. This information will not cover investors making Income Tax relief claims through other systems (for example PAYE) or not making any claims.

All figures in this release are based on data extracted in November 2020.

Methodology

The figure on the amount of funds raised by tax year in Table 8.6 is the aggregation of the amount raised by each individual VCT company. The data on the activity of individual VCT funds are manually recorded from the daily news announcements on UK quoted companies.

The figure on the number of VCT funds is produced based on the news announcements regarding new VCT funds formed and VCT funds merged, liquidated or dissolved. The figures cover all VCTs and consequently the results are not subject to sampling error (as no sampling is necessary). Figures in this release refer to tax years; the tax year runs from 6th April in one year to 5th April the following year.

A number of checks against other external commercial websites such as Allenbridge and Tax Efficient Review and against figures annually published by Association of Investment Companies (AIC) are carried out to validate the figures. As these figures are outside the managerial control of HM Revenue and Customs (HMRC), these checks are at a high-level. This includes comparison of the total funds raised by all and individual VCTs in a given tax year with those published on commercial websites.

It is assumed that small discrepancies with AIC industry figures arise due to differences in the methodology and assumptions used to compile the figures; for example, AIC figures exclude enhanced share buybacks. In the case of large discrepancies, this is reported to VCT policy colleagues and further investigation takes place until the discrepancy is understood.

The investor information in Table 8.9 is based on data from SA returns. As no sampling is necessary, sampling error is not an issue. This information will not cover investors making Income Tax relief claims through other systems (for example PAYE) or not making any claims. However, these numbers are expected to be small.

Revisions to previously published tables

This release provides the first estimates of the number of investors and the amount claimed through Self Assessment in value terms for 2018 to 2019. Prior to 2014 these were published as percentages. Venture Capital Trust (VCT) investors can claim Income Tax relief up to four years after the end of the tax year (6 April to 5 April the following year) in which the investment was made. Therefore, in the next publication, a small number of late claims could result in minor revisions to the provisional figures for 2018 to 2019.

User engagement

HMRC is committed to providing impartial quality statistics that meet our users' needs. We encourage our users to engage with us so that we can improve our National Statistics and identify gaps in the statistics that we produce.

If you would like to comment on these statistics or have any enquiries, please use the statistical contacts named on the front page of the publication.

UKSA Assessment

These statistics have been assessed for compliance with the Code of Practice for Statistics by the UK Statistics Authority (UKSA). The assessment report is available on the UKSA website: <https://www.statisticsauthority.gov.uk/code-of-practice/>

UKSA is an independent body directly accountable to Parliament with the overall objective to promote and safeguard the production and publication of official statistics. It is also required to promote and safeguard the quality and comprehensiveness of official statistics and good practice in relation to official statistics.