



Acuity Capital Management plc: Guide to Obtaining Tax Relief on Venture Capital Trusts

For the 2009/10 Tax Year

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Introduction

Acuity Capital has produced this document to provide a brief outline to claiming tax relief after making an investment into a VCT. An individual's tax affairs may be complicated. Potential VCT investors who are in any doubt about their tax position should take specialist tax advice.

Claiming Tax Relief

The methods for claiming tax relief will differ depending on individual circumstances.

1 Completion of the Self Assessment Return

It is possible to apply for tax relief when completing your Self Assessment Return. To claim your income tax relief you must enter your aggregate investment in one or more VCTs on your Self-Assessment Tax Return for the relevant year.

2 PAYE Code Changes

For investments made in the current tax year, phone the tax office that deals with your affairs and ask them to change your tax code. They may change your code over the phone or request that you write to them, enclosing your original VCT tax certificate (keep a copy for your records). We estimate that it should take approximately a month to process a PAYE code change.

3 Reduction of Payments on Account

Form SA303 should be completed in order to reduce Payments on Account, where it is estimated that the total tax bill for 2009/10 will be lower than the payments on account. Type "SA303" in the "Search" box of www.hmrc.gov.uk in order to obtain a form. If, for example, it is estimated that your total tax bill for 2009/10 will be £3,000 less than your

payments on account (e.g. because of a £10,000 VCT subscription), then you may be able to claim to reduce each of your 31 January 2010 and 31 July 2010 payments on account (in respect of 2009/10 tax year) by £1,500. In this example, if the 31 January 2010 payment on account is not reduced, then you may be able to claim to reduce the 31 July 2010 payment by £3,000. Investors will be charged interest if they reduce their payments on account below the correct level.

4 Individuals who do not complete Self Assessment Returns

If you are not required to complete a tax return, you should send your VCT tax certificate and a copy of your P60 (if you have one) to your local tax office. You should either receive tax relief by way of a PAYE code change or a tax refund.

Tax Benefits

The tax reliefs set out below are available to individuals aged 18 or over and not to trustees, companies or others who invest in VCTs. Whilst there is no specific limit on the amount of an individual's acquisition of shares in a VCT, tax reliefs will only be given to the extent that the total of an individual's subscriptions or other acquisitions of shares in VCTs in any tax year do not exceed £200,000.

Investing in a VCT offers a range of tax benefits, which include the following:

- Income tax relief of 30% of the amount subscribed for shares issued in tax year 2009/10, providing that the shares are held for at least five years.
- The income tax relief at 30% is available to be set against any income tax liability that is due in the year of subscription, whether at the lower, basic or higher rate. However, tax relief will be limited to the amount which reduces the investor's income tax liability to nil. The amount of VCT income tax relief claimable by an investor could be reduced by any other transaction that effectively benefits from income tax relief, such as a pension contribution or gift aid payment, as both result in an automatic reclaim of basic rate tax by either the pension provider or respective charity. Tax credits on dividends are not repayable, and investors should take this into account when considering their investment in a VCT.
- Exemption from income tax on dividends from shares in VCTs.
- Profits made by a VCT on the disposal of investments are not subject to tax and can be paid out as tax-free dividends to shareholders in the VCT.
- Capital gains realised on disposals of shares in VCTs are tax-free. However, losses realised on disposals of shares in VCTs cannot be used to offset capital gains.

If you subscribe for VCT shares a tax certificate will automatically be sent to you. This may have to be submitted to your tax office in support of a claim for tax relief.

Risk Warning

VCTs are not suitable for all investors. If you are in any doubt about the suitability of an investment in a VCT you should consult an authorised Independent Financial Adviser. The key risks associated with investing in VCTs are set out below.

Prospective investors should be aware that the value of VCT shares can fluctuate and that they may not get back the amount they invest. Investment in a VCT should be viewed as a longer-term investment. The past performance of a fund manager or of a VCT is no indication of future performance. VCTs invest approximately 70% of their capital in unquoted companies, which carry a higher degree of risk than quoted companies. Consequently, these companies may not perform as expected and in some circumstances may fail completely. VCTs invest the remainder of their capital in other assets, ranging from low risk fixed interest investments to higher risk assets such as unit trusts or hedge funds. Under current legislation tax relief is limited to total VCT investments of £200,000 per person per tax year. Initial tax relief is limited to the amount which reduces the investor's income tax to nil. Income tax relief on a subscription for VCT shares is only available in the year of subscription. If the investment is not held for five years, or the VCT does not invest 70% of the funds raised in qualifying investments within three years, the investor's initial tax relief will be withdrawn. Levels and bases of, and relief from, taxation are subject to change. There is likely to be a limited secondary market for VCT shares and it is likely that the market value of the shares will not fully reflect their underlying net asset value. The management charges for VCTs may be greater than those for Unit Trusts and Open Ended Investment Companies. If a VCT does not raise sufficient funds to reach critical mass, then it may reduce diversification and thus increase risk.