HM Treasury

HM Revenue & Customs

Venture Capital Trusts share buy-backs:

a technical consultation

July 2013

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Preface

Subject of this consultation:	This consultation discusses options to limit particular types of share buy-backs for venture capital trusts.
Scope of this consultation:	As set out at Budget, the Government has some concerns about the use of particular types of share buy-backs and has decided to address this practice. This consultation seeks views on the issue and the potential options for legislative change.
Who should read this:	Individual investors with interests in venture capital trusts, fund managers and others within the venture capital industry
Duration:	18 July to 26 September 2013 (10 weeks)
Lead official:	Kathryn Robertson, HMRC and Sarah Adams, HM Treasury.
How to respond or enquire about this consultation:	Please send comments by 26 September by email to: nalini.arora@hmrc.gsi.gov.uk, or by post to: Venture Capital Trusts share buy-backs consultation, c/o Nalini Arora, 3/63, 100 Parliament Street, London SW1A 2BQ. For enquiries about the content or scope of the consultation please contact Kathryn Robertson (0207 147 2589) or Sarah Adams (0207 270 5549).
Additional ways to be involved:	As this is a largely technical issue with specialist interests, it is anticipated that responses will be in writing. If any respondents consider that particular issues might be better addressed in a meeting, they are welcome to contact Kathryn Robertson in HMRC or Sarah Adams in HM Treasury to suggest arrangements.
After the consultation:	The Government will take all responses into account before deciding on the final policy design and publishing draft legislation in the autumn. The Government expects that a consultation process will continue, as normal, on the draft legislation.
Previous engagement:	HMRC and HM Treasury have discussed this issue with a range of stakeholders within the venture capital trust industry, and have consulted sector representatives.

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1 Introduction

1.1 The Government is committed to making the UK one of the best places in Europe to start, finance and grow a business. The Government recognises the importance of private investment in generating growth, and the need to support SMEs to build the UK recovery. The tax-advantaged venture capital schemes play a key role in this, facilitating access to finance and providing support for smaller businesses that otherwise have difficulty finding the necessary financing support to develop and grow. A key element of the Plan for Growth (first published in 2011) was the expansion of the Enterprise Investment Scheme (EIS) and the Venture Capital Trusts scheme (VCTs), as well as the introduction of the new Seed Enterprise Investment Scheme (SEIS). These reforms, legislated at Finance Act 2012, mean that the UK now supports a wider range of small and growing businesses via the venture capital schemes.

1.2 The VCT regime has existed since 1995 and was introduced particularly to encourage investment by retail investors who are interested in investing in smaller, higher-risk trading companies but who prefer to have their investments made and managed by a professional fund manager. The scheme offers a range of tax reliefs to investors, as follows:

- income tax relief at 30 per cent of the investment in shares in a VCT up to a maximum of £200,000 in a tax year, providing that those shares are held for at least five years;
- dividends on VCT shares are exempt from income tax, both for those subscribing for new shares in a VCT and for those who have acquired their shares second hand; and
- VCT shares disposed of at a gain are exempt from capital gains tax, both for those subscribing for new shares in a VCT and for those who have acquired their shares second hand.

1.3 In recognition of the fact that VCT managers have significant funds under management at any one time, the legislation allows for a degree of flexibility in how and when those funds are to be put to use to achieve the Government's policy aims. Annex A sets out further detail about the legislation. While the Government believes that facilitating retail investment into high-growth potential companies is an important part of the support it provides to encourage risk capital investment, it will act to prevent those flexibilities being misused.

1.4 The Government is committed to retaining confidence in the tax system by taking a robust approach against abuse of the system, while supporting business innovation and growth. The Government's aim is for a tax system that is fair, competitive, and which rewards high value business investment and real economic activity. It is clear that a robust and well targeted tax system is also a key concern for taxpayers, and industry.

1.5 It is important therefore, to ensure that the tax incentives offered for investment in VCTs and the other tax-advantaged venture capital tax schemes are well targeted, so that they remain credible and represent good value for money. The tax reliefs are intended to reflect the risks that individuals face when investing in smaller and less-established business, meeting the so-called "equity-gap" to support businesses to access finance where they find it most difficult to do so. It is therefore crucial that the tax reliefs do serve that purpose, stimulating investment into risky but potentially high growth companies. They are not intended to provide relief for lower-risk investments, or to support investments made purely for the purpose of maximising tax relief.

1.6 In 2011, the Government announced some changes to refocus the schemes, introducing a new “disqualifying arrangements” test, alongside the increases in investment limits for EIS and VCT. Since those relatively substantive changes, the Government has sought to maintain stability for the tax-advantaged schemes overall. However, all aspects of the schemes are kept under review, and the Government is prepared to take action to address particular issues where there is evidence to suggest that they may be damaging the schemes overall.

1.7 As set out at Budget 2013, the Government has become concerned about the use of certain share buy-back and re-investment arrangements between VCTs and their investors. Following informal engagement with a range of stakeholders since that announcement, and further consideration of the issue, the Government has decided that it will be necessary to take some action to limit the potentially damaging effect of these arrangements and to ensure that upfront tax relief is given only for genuine new investment in VCTs.

1.8 This technical consultation document sets out the background and rationale for this policy change, before describing in some detail proposals for reform and seeking views.

1.9 It is envisaged that any legislative changes will take effect from April 2014. However, the Government will closely monitor VCT activity in this area, and may consider taking action at an earlier date if necessary to prevent forestalling.

2 VCT share buy-backs and the case for change

2.1 The Government continues to be supportive of the VCT industry and acknowledges the valuable role which it plays in providing much needed finance to small and medium companies. In the absence of a strong secondary market for VCT shares, the Government is content that VCTs continue to offer exit opportunities for those investors who genuinely wish to exit their investment. However it is concerned that some arrangements between VCTs and their investors are designed not to provide genuine exit opportunities, but rather to obtain more tax relief for those investors without necessarily supporting genuine investment.

2.2 General company law allows companies such as VCTs to repurchase their own shares. The Government recognises that VCTs as well as other companies may repurchase shares for a variety of commercial reasons, for example to allow investors to exit their investment. **The Government does not intend to prevent VCTs from repurchasing their own shares generally.**

2.3 VCT investors who want to exit their investment other than via a private sale generally have two options open to them: selling to a market maker via their stockbroker; or selling directly back to the VCT. A well-functioning secondary market would ideally be the main route to allow investors to sell their shares, but the Government recognises that the market for VCT shares is currently somewhat limited, making it difficult for investors to exit their investment when they need to.

2.4 VCTs have been accustomed to using a variety of different mechanisms to assist investors with exiting their investment, not all involving transactions between the investor and the VCT. For instance, some VCTs enter into agreements with market makers for the VCT to be a "buyer of last resort" for shares sold by investors onto the market. Alternatively, the VCT may deal directly with its investors in offering to buy back shares, either because an investor has approached the VCT directly to ask it to do so, or because the VCT itself instigates a buy-back offer to investors because it recognises that market conditions are likely to make it difficult for investors to sell their shares. **The Government does not regard either of these practices as objectionable on principle.**

2.5 However **the Government does have concerns about arrangements involving VCTs repurchasing their shares when that repurchase is connected with the investor re-investing in the same VCT within a short space of time**. Rather than facilitating investor exits, such arrangements appear designed to allow those investors who want to remain invested in the same VCT or another VCT from the same fund management group, to obtain a fresh round of tax relief for doing so.

2.6 In recent years, it has been fairly common for some VCTs to make an offer to investors to buy back shares at the same time as issuing a prospectus for a new share issue, thus making it possible for some investors to exit their investment and subscribe for new shares in the same VCT at or around the same time. In addition, a number of VCTs have "enhanced" their buy-back offers, by offering a favourable price to investors who commit to immediately subscribing for new shares in the same VCT.

2.7 Recently, some more aggressive variants on this approach have been used to maximise the potential benefits of this approach, with or without price enhancement and not always involving the issue of a public prospectus. So-called "cascade" arrangements see the VCT use its cash reserves to buy back a small tranche of shares following which the investors immediately re-invest the proceeds in new shares. The VCT then uses the amount re-invested to buy back shares from a further tranche of investors who immediately re-invest the proceeds in a new issue of shares, and so on, until – in theory – all of the investors have had their investment replaced. As this device simply recycles the VCT's cash reserves, it does not raise any new funds for the VCT to invest on into the small and medium companies (SMEs) which are the target of the Government's policy.

Question 1: Does this description accurately reflect the range of VCTs' interventions in investors' share sales?

2.8 The use of these kinds of arrangement is likely to increase the exchequer cost of the VCT regime without at the same time increasing the pool of money available to VCTs for investment in SMEs. An increasingly high proportion of tax relief for VCTs is rewarding a continuation of existing investment activity rather than incentivising new or different investments. Statistics published by the Association of Investment Companies suggest that of £405 million funds raised in 2012-13, over £130 million were raised via various share buy-back and re-investment arrangements. This is almost double the proportion of funds raised from similar activity in 2011-12. A proportion of non-prospectus fund raising will arise from investors opting to re-invest dividend payments in new shares, but most of the increase is almost certainly due to an increase in arrangements involving the buy-back of shares followed by immediate re-investment in the same VCT. The likely cost to Government of these arrangements is around £40 million in 2012-13.

2.9 More fundamentally, the Government is concerned that these practices are increasingly leading to investor expectations that they will always be able to sell their shares after a period of five years and to "refresh" their tax relief at that point by immediately re-investing in the same VCT. In some cases, the process does not appear to result in the investor providing any new money to the VCT but merely allows him or her to obtain a fresh round of tax relief for the same amount invested.

2.10 If the Government does not take action on this, there is a risk that use of these types of share buy-back and re-investment arrangements may both change investors' perception of VCT investment and increase the costs of the regime. The Government is concerned that these arrangements are placing a damaging emphasis on the minimum investment period and the upfront tax relief available, rather than genuine support (potentially longer term) for high growth potential SMEs. **The Government is concerned that this could undermine the positive effects of VCTs as vehicles for investing in and supporting growing SMEs.**

2.11 Some have argued that investors would in any case seek to exit after the minimum five year holding period and would then be free to invest in any VCT they chose. According to this argument the share buy-back arrangements described above are essential to maintain investor commitment to the VCT invested in, and without such arrangements some VCTs would struggle to maintain investor support. The Government does not accept that this is justification for effectively offering a fresh round of upfront tax relief after the minimum investment period, and considers that the existing tax exemptions on dividend income and gains should be sufficient incentive for investors who have invested in a VCT which is delivering good returns on investment. Further, investors have historically held investments in VCTs for a longer period of time, without any need for this behaviour to take place. **The Government is clear that investors should not be able to obtain a further round of upfront income tax relief for merely recycling an existing investment in a particular VCT.**

3 Proposals for change

3.1 As set out in Chapter 2, the Government is concerned about the apparently increasing expectation on the part of investors that they will invariably be able to sell their shares in a VCT after a five year period and immediately re-invest in that VCT in order to obtain a further round of tax relief. It is keen to sustain the concept of a VCT as a longer-term investment vehicle which makes and realises investments in target small and medium companies over a prolonged period of time, rather than as a vehicle primarily for delivering tax reliefs to investors.

3.2 The Government wants any reform to deliver the following policy aims:

- to continue to support the tax-advantaged venture capital schemes as an important route to encouraging investment into SMEs;
- to provide a solution that is sustainable and which itself is not open to further abuse, specifically:
    - to ensure that upfront income tax relief is given only in respect of a new investment in VCT shares, rather than in respect of money recycled into the same VCT or another from the same fund management group; and
    - to provide a solution which is straightforward to operate and which does not have unintended adverse consequences.

3.3 It is likely that any reform will involve a change in the VCT scheme legislation, to take effect from April 2014. However, the Government will closely monitor VCT activity in this area, and may consider taking action at an earlier date if necessary to prevent forestalling.

Proposed changes

3.4 In designing a change to the scheme legislation, it is important to consider whether those changes should apply at the level of the investor or at the level of the VCT. The two approaches will both affect the ways that VCTs operate, but in different ways. They also come with different potential consequences. If legislation applies to the investor and a particular requirement is not met, then the result is that tax relief is not available to, or is withdrawn from, only the affected investor. Where a requirement applies to the VCT and that requirement is not met, then the result is that the VCT potentially loses its approved status and tax relief is recovered from all investors who have invested within the previous five years.

3.5 The Government's initial view is that it is preferable to change the rules relating to investors because changing the VCT rules could merely limit rather than prevent scope for buy-back and re-investment arrangements. Changing the VCT rules may also be a more complex and burdensome approach.

3.6 Having considered a range of options, the Government believes that an effective approach would be to impose a restriction either where an investor subscribes for shares in a VCT within a certain period of a sale of shares held in that VCT or another VCT managed by the same fund management group; or where a VCT's re-purchase of shares is subject to any understanding that the investor will re-invest in the same VCT or another from the same fund management group. This approach would restrict the amount of tax relief available to investors making reinvestments into the same VCT or a related VCT.

Box 3.A: Example of restriction of tax relief on reinvestment

Mr A sells back shares to the VCT for £10,000.

If Mr A invests that same amount back into that VCT or a related VCT, within – for example – six months; or subject to an agreement that he will re-invest that amount, he will not benefit from any new tax relief.

If Mr A invests £12,000 back into the VCT within that same period, he would benefit from tax relief on the additional £2,000 investment.

3.7 It is likely that there would also be a need to include some rules around identification of old and newer shares on disposal. This would be to prevent a VCT issuing new shares to an investor first and the investor shortly after selling shares of an equivalent value in order to circumvent the new time limit restriction.

3.8 The Government's initial view is that this approach is likely to be the most straightforward means of ensuring that upfront income tax relief is given only for genuine new investment in a VCT, and not for funds which an investor is effectively recycling in order to obtain more tax relief. A restriction of this type would still allow VCTs to offer buy-back opportunities to those investors who genuinely wished to exit their investment from that VCT, whilst deterring those who merely wanted to re-cycle their investment to benefit from a fresh amount of tax relief.

3.9 The Government would welcome views on the following:

Question 2: Do you believe that the approach described in paragraph 3.6 would meet the policy aims set out at paragraph 3.2?

Question 3: Would this approach impact adversely on VCTs' ability to raise new funds from investors, as well as preventing recycling of existing investments? If so, please explain why, if possible including quantitative evidence.

Question 4: Would this approach have any other unintended adverse consequences? If so, please describe.

Question 5: Is six months an appropriate period for a time limit, or should a longer or shorter period of restriction apply?

Question 6: Is there a simple way of defining a fund management group in this context?

3.10 The Government recognises that it might be possible for VCTs to return investors' capital via other means, for instance by converting any share premium account to distributable reserves and then making substantial (tax-free) dividend payments. This could undermine the change proposed.

Question 7: How best could the behaviour described at paragraph 3.10 be prevented?

Question 8: Are there any other ways VCTs or investors could get around a rule of the type described at paragraph 3.6?

Other possible changes considered

3.11 The Government has, however, considered other possible approaches. It would be possible as an alternative to make some changes to the rules relating to the VCT itself. For instance it might be possible to introduce a rule requiring VCTs to compare the amount of all funds raised by share issues with the amounts invested in qualifying holdings and at all times to have at least 70 per cent of all funds raised invested in qualifying holdings. Such a rule could complement the current rule requiring a VCT to have at least 70 per cent of its investments in qualifying holdings. That would tend to limit opportunities for the "cascading" arrangement described at paragraph 2.7. However, this would potentially add complexity to the already-complex rules relating to VCTs' use of funds, and Government's view is that whilst it might limit scope for buy-back and re-investment arrangements it may not prevent them completely.

3.12 Alternatively it might be possible to introduce a rule preventing a VCT from buying back shares from its own investors or investors in any other VCT managed by the same fund management firm using monies raised less than say, three years before the buy-back. This would operate by assuming that any buy back was effected using monies raised from more recent share issues before monies raised from older share issues.

3.13 The Government's initial view is that changes to the rules relating to the VCT would be less likely to deliver the desired policy aims. First of all, any such changes would add further complexity to what are already fairly complex rules, adding to the compliance burden on VCTs and making those rules more difficult for HMRC to police. More importantly, because they would merely restrict the extent to which VCTs can continue to engage in the same practices described in Chapter 2, it is unlikely that they would completely address the fundamental problem of investors recycling their investment to obtain a new round of tax relief.

Question 9: Do you believe that any of these other solutions described at 3.11 onwards would be effective in meeting the policy aims set out at paragraph 3.2? If so, would they be preferable to the changes proposed?

Question 10: Can you suggest any other legislative solutions which might better deliver the desired policy aims?

4 Summary of consultation questions

Question 1: Does the description in Chapter 2 accurately reflect the range of VCTs' interventions in investors' share sales?

Question 2: Do you believe that the option described at paragraph 3.6 would meet the policy aims set out at paragraph 3.2?

Question 3: Would this approach impact adversely on VCTs' ability to raise new funds from investors, as well as preventing recycling of existing investments? If so, please explain why, if possible including quantitative evidence.

Question 4: Would this approach have any other unintended adverse consequences? If so, please describe.

Question 5: Is six months an appropriate period for a time limit, or should a longer or shorter period of restriction apply?

Question 6: Is there a simple way of defining a fund management group?

Question 7: How best could the behaviour described at paragraph 3.10 be prevented?

Question 8: Are there any other ways VCTs or investors could get around a rule of the type described at paragraph 3.6?

Question 9: Do you believe that any of these other solutions described at 3.11 onwards would be effective in meeting the policy aims set out at paragraph 3.2? If so, would they be preferable to the changes proposed?

Question 10: Can you suggest any other legislative solutions which might better deliver the desired policy aims?

5 The consultation process

5.1 This consultation is being conducted in line with the Tax Consultation Framework. There are five stages to tax policy development:

- Stage 1 – Setting out objectives and identifying options
- Stage 2 – Determining the best option and developing a framework for implementation including detailed policy design
- Stage 3 – Drafting legislation to effect the proposed change
- Stage 4 – Implementing and monitoring the change
- Stage 5 – Reviewing and evaluating the change

5.2 This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

5.3 A summary of the questions in this consultation is included at Chapter 4.

5.4 Responses should be sent by 26 September 2013 by email to: nalini.arora@hmrc.gsi.gov.uk, or by post to Venture Capital Trusts share buy-backs consultation, c/o Nalini Arora, 3/63, 100 Parliament Street, London SW1A 2BQ.

5.5 Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from the HM Treasury website. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

5.6 When responding please say if you are a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

Confidentiality

5.7 Information provided in response to this consultation, including personal information, may be published on disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1988 (DPA) and the Environmental Information Regulations 2004.

5.8 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

5.9 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

5.10 This consultation is being run in accordance with the Government's Consultation Principles. The consultation will run for 10 weeks, reflecting the fact that informal consultation with industry has already taken place. The Government will take all responses into account before deciding on the final policy design and publishing draft legislation in the autumn. The Government expects that a consultation process will continue, as normal, on the draft legislation.

5.11 The Consultation Principles are available on the Cabinet Office website: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance.

5.12 If you have any comments or complaints about the consultation process please contact: Amy Burgess, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

Please do not send responses to the consultation to this address.

A Overview of the VCT scheme

A.1 The VCT legislation is divided broadly into three sets of rules – rules relating to the investor, rules relating to the VCT, and rules relating to the qualifying investments which the VCT makes.

Investors

A.2 An investor is eligible for income tax relief at 30 per cent of the amount invested up to a maximum of £200,000 per tax year, if he or she subscribes for shares in a VCT, the VCT issues shares to the investor, and the VCT issues the shares for raising money. Relief is not available unless the shares are both subscribed for and issued for genuine commercial reasons, and not as part of any scheme or arrangement whose main purpose is tax avoidance. No relief is available if the investor receives a loan which would either not be made at all or which would not be made on the same terms, but for the investment in VCT shares.

A.3 Dividends on VCT shares are exempt from income tax, both for those subscribing for new shares in a VCT and for those who have acquired their shares second hand.

A.4 VCT shares disposed of at a gain are exempt from capital gains tax, both for those subscribing for new shares in a VCT and for those who have acquired their shares second hand.

A.5 Tax relief will be withdrawn if the investor disposes of his or her shares within five years of acquisition. Tax relief will also be withdrawn if the VCT loses its approved status within that five year period.

The VCT

A.6 HMRC may approve a company as a VCT if the company can show that it meets a number of conditions in relation both to its last complete accounting period and to the accounting period which is current when it makes its application for approval.

A.7 To retain its approved status, one of the conditions to be met is that the VCT must have at least 70 per cent by value of its investments in "qualifying holdings" – that is, in shares or securities in small or medium companies of the type which the VCT scheme is designed to support. "Investments" for this purpose has a wide definition. It includes not only holdings which the VCT has in shares and securities, but also any other funds or monies belonging to the VCT including any amounts subscribed for shares issued by the VCT.

A.8 The 'value' of an investment is the cost of the investment initially, but that value is re-calculated every time the VCT makes a further investment of the same type in the same company, or when the holding otherwise increases in value because of any payment made.

A.9 Normally the VCT has to meet the 70 per cent test at all times – that is, it must continuously have at least 70 per cent by value of its investments in qualifying holdings. The legislation recognises that a VCT may take some time following a fund raising to be able to find and make suitable qualifying investments. When a VCT is first approved and first issues shares, the 70 per cent test has to be met by the time of the VCT's accounting period beginning no more than three years after approval. For later share issues, in most circumstances the funds raised by the later share issue are ignored for the 70 per cent test until the VCT's accounting period which ends no more than three years after the later share issue. This is sometimes referred to as the "three year disregard period".

A.10 There is a separate disregard period which applies in certain circumstances to funds generated by the disposal by a VCT of a qualifying holding. Where that applies, the 70 per cent test is treated as being met for six months following the disposal.

Qualifying holdings

A.11 70 per cent of the VCT's investments must be in "qualifying holdings" – that is, holdings of eligible shares or securities in qualifying companies. The rules relating to investee companies are very similar to those for the Enterprise Investment Scheme: at time of investment the company must have no more than £15 million in gross assets; must have fewer than 250 employees and must not be quoted on a recognised stock exchange. On an ongoing basis, investee companies must have a permanent establishment in the UK, and are subject to certain additional ongoing restrictions as to nature of activities, group structure and use of the monies invested by the VCT.

Current treatment of share buy-backs

A.12 If the VCT uses any of the monies raised by a share issue to buy back shares from its investors, it may not always be allowed to benefit from the three year disregard period but may have to apply the 70 per cent test immediately to all of its investments including the funds raised by the new share issue. That will be the case either where HMRC considers that the shares being bought back represent a significant proportion of the VCT's ordinary share capital, or where the buy-back is made as the result of a general offer to the members of the VCT.

A.13 The legislation does not prevent a VCT using part of the 30 per cent of its funds which do not have to be in qualifying holdings, to buy back shares from investors, providing that all other requirements are met.

A.14 The legislation does not make any direct link between the amounts subscribed for shares by investors on which tax relief is granted, and investments in qualifying holdings made by VCTs.

A.15 There are already some potential tax implications for investors who sell their shares directly back to the VCT which issued them. Any excess over the original purchase price is a distribution of the VCT's assets to its shareholders which is potentially taxable in the hands of the investor. Although a VCT can pay dividends to its shareholders free of tax, distributions other than dividends are not tax-exempt.

A.16 If a share buy-back takes place within the first five years of investment, the individual would no longer be eligible for the tax relief and it would be clawed back by HMRC. If a buy-back takes place after the minimum investment period, the individual would be free to use the proceeds of the share sale as they wished.

Treasury shares

A.17 General company law allows companies including VCTs to repurchase their own shares and to hold them "in treasury" rather than cancelling them. It is possible for a company to re-issue "treasury" shares to new shareholders and the Taxes Acts treat such an issue as though it were a new issue of shares by the company concerned. However the VCT legislation stipulates that if "treasury" shares are re-issued to shareholders then those shareholders are not eligible for income tax relief on the cost of those shares.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

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