

VCT income tax relief is now 20%: what the 2026 change means for advisers

RAM Capital Partners · 2026/27 rules

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From 6 April 2026, upfront relief on new VCT shares fell from 30% to 20%. Here's a plain briefing on what moved, what didn't, and how to frame it with clients.

2026/27 UPDATE

From **6 April 2026**, the upfront income tax relief on newly issued Venture Capital Trust (VCT) shares reduced from 30% to **20%**. For advisers recommending VCTs, it's a meaningful change to the numbers — but, importantly, it changes far less than it might first appear. Here's a clear briefing on what moved, what didn't, and how to frame it with clients.

What changed

The headline income tax relief on **new** VCT subscriptions is now **20% of the amount invested**, down from 30%. On a £50,000 subscription, that's £10,000 of relief rather than £15,000 — so the effective net cost rises from £35,000 to £40,000. As before, the relief can only be set against an income tax liability at least equal to it, and the shares must be held for the minimum period to keep it.

What stayed exactly the same

This is the part worth emphasising in client conversations, because the rest of the VCT proposition is unchanged:

Feature	Still applies
Annual investment limit	Up to £200,000 per tax year qualifies for relief
Minimum holding period	5 years to retain the income tax relief
Dividends	Tax-free (on holdings within the £200,000 limit)
Growth	Free of capital gains tax on disposal of the shares

So the tax-free income and tax-free growth that make VCTs attractive for higher earners — particularly those who have used their pension annual allowance — are all intact. Only the upfront relief has moved.

Worked example. A client invests £50,000 in a new VCT offer. Income tax relief at 20% is £10,000, so the effective net cost is £40,000. If the VCT pays a 5%-of-NAV dividend, that's roughly £2,500 a year, tax-free — an effective yield of about 6.3% measured against the net cost. (Illustration only; dividends are not guaranteed.)

What it means for advice

The lower relief nudges the suitability maths, so it's worth revisiting how you frame VCTs:

The income story matters more than ever. With less upfront relief, the tax-free dividend stream does more of the heavy lifting in the case for a VCT. For income-focused clients that's often still compelling; for those who were primarily chasing the 30% "discount," expectations may need resetting.

Position VCTs within the wider toolkit. EIS still offers 30% income tax relief and SEIS 50%, alongside their own reliefs — so where a client's objectives allow, the relative attractiveness of EIS/SEIS on the upfront relief has widened. VCTs remain distinct for their tax-free income and greater diversification.

Existing holdings are unaffected. The change applies to new shares issued from 6 April 2026 — relief already claimed on earlier subscriptions is not disturbed.

Frequently asked

Does the 20% rate affect VCT shares my client already holds?

No. It applies to newly issued shares subscribed for from 6 April 2026 onwards. Relief on earlier subscriptions is unaffected.

Are VCT dividends still tax-free?

Yes — dividends on holdings within the £200,000 annual limit remain free of income tax, and they are not guaranteed but paid at the trust's discretion.

Has the holding period changed?

No. VCT shares must still be held for at least five years to retain the income tax relief.

How RAM Capital helps

RAM Capital Partners is a specialist distributor of VCT, EIS and SEIS investments to UK financial advisers. Our Adviser Fund Centre brings together the current offers, full literature packs, an interactive tax-relief calculator (reflecting the new 20% VCT rate), CPD, and suitability support — so you can model the post-2026 numbers and document your recommendations in one place. Our distribution desk can help with product selection, due diligence and research, and introduce you to the managers running the funds your clients invest in.

To talk a client case through, call the RAM Capital team on 020 3006 7530 or email taxsolutions@ramcapital.co.uk.

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VCT, EIS and SEIS investments place capital at risk; investors may get back less than they invest and may lose the full amount. They invest in smaller and unquoted companies and are illiquid, and VCT shares typically trade at a discount to net asset value. Dividends are variable and not guaranteed. Upfront relief is withdrawn on early disposal. Tax reliefs depend on individual circumstances and on investments maintaining qualifying status, and may change. Figures reflect the 2026/27 rules and our understanding of legislation and HMRC guidance at the time of writing.

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