VCTs, EIS and SEIS explained

Tax relief for backing smaller companies comes with substantial investment risk.

You could lose all the money invested

These are high-risk investments in smaller, often young companies. They can fail, be hard to sell and take much longer than the minimum tax holding period to realise. Tax relief is conditional, can be delayed or withdrawn and does not protect your capital. This is an explanation of the schemes, not an invitation to invest or a personal recommendation. [12]

Three routes, different structures

A **Venture Capital Trust (VCT)** is a listed investment company investing in a portfolio of qualifying businesses. Under **EIS** or **SEIS**, you subscribe for shares in qualifying companies directly or through a managed portfolio/nominee service; the underlying shares are yours for tax purposes. The VCT itself is listed even though many of its holdings are unquoted. [1,6,7,10]

2026/27 investor position	VCT	EIS	SEIS
Upfront Income Tax relief	20% on eligible new subscriptions	30%	50%
Annual qualifying investment ceiling	£200,000	£1m; up to £2m with the extra £1m in knowledge-intensive companies	£200,000
Minimum tax holding period*	5 years	3 years	3 years
Carry back Income Tax relief	No	Normally one tax year	Normally one tax year
Dividends	Normally exempt within qualifying limit	Taxable under ordinary dividend rules	Taxable under ordinary dividend rules
Loss relief against income	No equivalent investor share-loss relief	May be available on net qualifying loss	May be available on net qualifying loss

Use the current rate

The VCT upfront rate fell from 30% to **20% for subscriptions from 6 April 2026**. Do not use a 30% VCT example for a new 2026/27 subscription. EIS and SEIS remain 30% and 50% respectively. Relief cannot exceed your eligible UK Income Tax liability. It is not a deduction from salary or ANI and does not itself restore the Personal Allowance or childcare eligibility. [1-4]

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What qualifies for relief?

The company, share issue, investor and ongoing conduct all have to qualify.

EIS company conditions

A qualifying company normally needs a UK permanent establishment, an eligible trade, genuine growth/development funding and a real risk to capital. It must satisfy independence, age, employee, asset and fundraising limits. Ordinary EIS cases generally use fewer than 250 full-time equivalent employees and a first qualifying investment within seven years of the first commercial sale, subject to exceptions. Knowledge-intensive companies have different tests and higher limits. [6]

2026 limits: do not recycle old company checklists

From 6 April 2026, ordinary EIS gross-asset limits generally increased to **£30 million before** and **£35 million immediately after** the share issue. Special lower limits continue for specified Northern Ireland goods/wholesale-electricity companies. Annual/lifetime fundraising and knowledge-intensive rules also need checking against current guidance. A company being small, British or listed on AIM does not by itself make a share issue EIS-qualifying. [2,6]

Shares and investor conditions

Relief normally requires eligible newly issued shares subscribed for in cash, fully paid, with no prohibited preferential protection or pre-arranged exit. Acquiring someone else's existing EIS shares does not create fresh subscription relief. Being connected through employment, control or a substantial interest can disqualify an investor; director exceptions and associated-person rules are technical. Existing holdings, linked loans and receiving value also need review. [4,9]

A VCT must qualify too

HMRC-approved VCTs must maintain a qualifying portfolio under detailed tests, including an **80% qualifying-holdings** requirement, subject to timing rules. Underlying companies must satisfy relevant trade and growth conditions. Buying new VCT shares may give upfront relief; buying existing VCT shares on the stock market generally does not. Qualifying dividends and disposal gains may still receive relief on secondary-market holdings within the annual conditions. [1,7,8]

Approval is not a performance guarantee

HMRC advance assurance is based on specified company/share conditions and information supplied. It does not approve the investment's commercial merits or confirm that every investor qualifies. EIS3/SEIS3 certificates and the investor's own eligibility still matter. Minimum holding periods are not promises of an exit: EIS/SEIS periods can run from trade commencement if later than share issue. [1,4,10]

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VCT relief in figures

Upfront relief and tax-free dividends do not make the investment risk-free.

Example 1: £20,000 subscribed to new VCT shares

Assume an eligible 2026/27 subscription and at least £4,000 UK Income Tax liability available for relief. £20,000 × 20% = **£4,000 upfront relief**. Economic net cost after relief is **£16,000**, before charges and investment movements. You still pay £20,000 into the VCT; tax relief is reclaimed or collected through the appropriate HMRC process. [1,3]

Illustration after the minimum holding period	Result
Cash invested / upfront relief	£20,000 / £4,000
Total qualifying dividends received	£3,000; assumed exempt
Shares later sold for	£15,000
Overall result	£15,000 + £3,000 + £4,000 - £20,000 = £2,000 gain
If the shares instead became worthless and no dividends were paid	Loss after assumed retained upfront relief = £16,000

What the example assumes

It ignores transaction costs and assumes the VCT and investor remain eligible, the initial relief is retained, and the disposal takes place outside the minimum five-year period. There is no guaranteed dividend or sale price. Eligible gains on VCT shares are generally CGT-exempt, but an eligible VCT disposal loss is not an allowable capital loss; you cannot assume EIS-style loss relief. [1,8]

Tax capacity is a real limit

If the same £20,000 subscription is made by someone with only £2,500 eligible Income Tax liability, relief is limited to **£2,500**, not £4,000. VCT relief cannot normally be carried back or carried forward. It does not pay a tax-free £4,000 bonus regardless of the investor's bill. Check the tax year in which the shares are issued and the relief certificate, not just the date money reaches a manager. [1]

Do not confuse access with a five-year clock

Selling new VCT shares within five years normally causes upfront relief to be withdrawn, subject to statutory exceptions. Even after five years, there may be limited buyers, discounts to asset value, restricted buyback policies or no convenient exit. Charges and portfolio valuations matter as much as the headline tax rate. [1,8,12]

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EIS gains, losses and deferral

Three different tax reliefs with different purposes.

Example 2: a qualifying company succeeds

Jordan subscribes £20,000 to eligible EIS shares and obtains **£6,000** Income Tax relief. After the required holding period, the shares sell for £35,000. If all disposal-relief conditions remain satisfied and the upfront relief is retained, the **£15,000 growth can be CGT-exempt**. Before costs, the combined gain including upfront relief is £35,000 + £6,000 - £20,000 = **£21,000**. EIS dividends, if paid, are not generally tax-free. [4,5]

Example 3: a qualifying company fails

For a separate £10,000 EIS investment, assume £3,000 initial relief is retained, the shares become worthless and a valid disposal/negligible-value and share-loss claim is available. Net loss for relief is £10,000 - £3,000 = **£7,000**. At an assumed 45% relevant marginal Income Tax rate, loss relief is £3,150. Total tax relief is £6,150 and the investor still loses **£3,850**. Relief is conditional; capital remains at risk. [4,5,13]

Deferral relief concerns a different gain

A qualifying EIS subscription can defer a gain on another asset, usually where shares are issued in the period one year before to three years after the original gain. You normally reinvest the **gain**, not all the sale proceeds. This is postponement, not an automatic exemption: the deferred gain generally revives on a later chargeable event such as disposal of the EIS shares. The rate at revival can differ from the original rate. [5]

Example 4: deferring a £40,000 gain	Illustration
Original taxable capital gain	£40,000 after applicable reliefs/exemption
Eligible EIS subscription used for deferral	£40,000 within the qualifying window
Tax deferred at an assumed 24% CGT rate	£9,600
Potential upfront Income Tax relief, separately	£12,000 if the EIS relief conditions and tax capacity are met
Future position	The original £40,000 gain can revive; the EIS shares' own growth is a separate gain

IHT is a separate test

Some unquoted EIS/SEIS holdings can qualify for Business Relief after the required ownership period, commonly two years, if conditions are met. Scheme status does not guarantee Business Relief. The 2026 allowance and 50% relief rules can restrict the outcome; VCT shares do not generally qualify for Business Relief simply because underlying companies might. [11]

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SEIS and a sensible decision process

Earlier-stage companies, higher relief and potentially greater risk.

What makes SEIS different?

SEIS targets very early-stage qualifying businesses. Broad company conditions include a qualifying trade no more than three years old, gross assets no more than **£350,000**, fewer than **25** full-time equivalent employees and a lifetime SEIS fundraising ceiling of **£250,000**. Other independence, trade, use-of-money and investor conditions apply. These are company limits, not your personal annual investment limit. [10]

Example 5: £10,000 SEIS subscription

Assume a qualifying share issue, eligible investor and sufficient Income Tax liability. £10,000 × 50% = **£5,000 upfront relief**. If the entire eligible net loss of £5,000 later qualifies for income loss relief at an assumed 45%, a further £2,250 may be available. The investor still loses **£2,750**. Relief timing, retained eligibility and a valid loss claim are essential. [1,10,13]

SEIS reinvestment relief is not EIS deferral

Subject to the conditions, SEIS can exempt **50% of a qualifying reinvested capital gain**, rather than merely postpone it. With a £10,000 gain and a matching qualifying £10,000 SEIS investment, up to £5,000 of the gain may be exempt. At an assumed 24% CGT rate that saves £1,200. Income Tax relief, reinvestment relief and loss relief have their own rules: do not simply add headline percentages without modelling the claim. [1]

Questions for your adviser

Can you afford a permanent loss and a long period without access? Are emergency reserves, debt and core ISA/pension planning already appropriate? What are the total fees, valuation process, diversification and exit assumptions? How much eligible Income Tax liability is available in the relevant year? When are shares actually issued and certificates expected? What happens if company or investor conditions fail? [4,6,12]

Claims and suitability

Keep subscription, share-allotment and relief certificates. EIS/SEIS claims normally require the relevant EIS3/SEIS3 or permitted fund certificate; a manager receipt is not enough. Early sale, disqualifying events or value returned can reduce or withdraw relief. Never invest only to reduce a tax bill, and do not treat advance assurance, FCA authorisation of a manager or tax relief as a guarantee of investment performance. [1,4,12]

Primary sources | Checked 24 November 2026

1 Investor relief comparison
2 2026 scheme changes
3 VCT rate legislation
4 EIS Income Tax HS341
5 EIS CGT relief HS297
6 EIS qualifying companies
7 VCT qualifying holdings
8 VCT disposal relief HS298
9 EIS investor conditions
10 SEIS company conditions
11 Business Relief
12 FCA high-risk investment warning
13 Share loss relief HS286

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