



HM Treasury

# Tax-advantaged venture capital schemes:

response to the consultation on ensuring continued support for small and growing businesses

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response to the consultation on  
ensuring continued support for small  
and growing businesses

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# Foreword

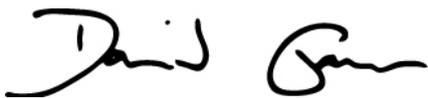
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The government's aim is to make Britain the best place in Europe to do business. The tax-advantaged venture capital schemes continue to be an important part of meeting this aim, providing valuable support to small and growing businesses seeking finance to develop and grow. To date they have supported over 22,000 businesses to gain access to finance, with over £17.5 billion of funding provided.

The changes announced at the Summer Budget and set out in further detail in this document will ensure that the schemes continue to offer significant support to businesses that would otherwise struggle to access finance.

The creation and application of new ideas is critical for long term productivity growth. The introduction of a new definition of knowledge intensive companies allows us to offer greater levels of support for firms seeking to innovate, supporting our ambition for the UK to be the best place in Europe for business innovation. The changes also bring the schemes into line with new State aid rules in a way that reflects the latest research into the equity gap in the UK.

I am very grateful to all those who have engaged with and responded to the consultation. We will continue to work closely with interested parties to ensure that the schemes deliver a business environment in which entrepreneurial small and growing businesses can thrive.



David Gauke,  
Financial Secretary to the Treasury

July 2015



# 1 Introduction

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**1.1** The government is committed to ensuring continued support for small and growing businesses that are key to the UK economy. The tax-advantaged venture capital schemes are an important part of the government's growth strategy, facilitating access to finance and providing support for smaller companies which would otherwise have difficulty finding the necessary finance to develop and grow.

## **The consultation**

**1.2** In July 2014 the government launched a consultation "*Tax-advantaged venture capital schemes: ensuring continued support for small and growing businesses*". The consultation sought views on a number of issues, including: the key parameters of the schemes and the alignment with the updated State aid rules; how best to support smaller companies to access finance in the current market; the impact of the recent expansions and changes to the schemes; and options on convertible loans. The proposals in the consultation were at stage 1 (setting out objectives and identifying options) of the government's tax consultation framework.

**1.3** The consultation closed on 19 September 2014. The government received 80 responses from a range of organisations and individuals. Respondents included investors, investee companies, fund managers, financial advisers and trade bodies. Officials also held 10 roundtable discussions, in London, Manchester and Edinburgh. Chapter 2 of this document summarises the views of respondents to the consultation.

**1.4** The government is grateful to everyone who responded to, or participated in, the consultation process. A list of respondent organisations is set out in Annex A.

## **Next steps**

**1.5** This document sets out the government's response to the consultation.

**1.6** The government is committed to ensuring that the Seed Enterprise Investment Scheme (SEIS), the Enterprise Investment Scheme (EIS) and the Venture Capital Trust scheme (VCT) continue to provide appropriate support for small and growing businesses across the UK.

**1.7** The March 2015 Budget announced a number of changes to the rules for the EIS and VCT scheme. A technical consultation on draft legislation was held from 24 March to 15 May 2015 and 13 responses were received from fund managers, representative bodies and advisers. Revised legislation will be published in the Summer Finance Bill taking into account the comments received and the changes announced at the Summer Budget 2015.

**1.8** Updated guidance will be issued to provide more information on the changes to the schemes and to address areas of common concerns that were raised in the consultation.

**1.9** The government will launch a stakeholder forum to provide an opportunity for formal engagement on the operation and use of the tax-advantaged venture capital schemes. The terms of reference are published in Annex B. The first stakeholder forum will take place the week commencing 21<sup>st</sup> September 2015. An agenda will be published closer to the time. To register interest, please email: [venturecapitalconsultation@hmtreasury.gsi.gov.uk](mailto:venturecapitalconsultation@hmtreasury.gsi.gov.uk).



## 2 Summary of Responses

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**2.1** The consultation sought views on a range of questions related to the schemes. This chapter provides a summary of the key points and suggestions made by participants in the consultation, and provides the government's response.

### **Main design of the scheme: overarching principles and new limits**

**2.2** The government wants to ensure that the tax-advantaged venture capital schemes continue to support eligible companies in an effective and well-targeted way, and that they continue to provide value for money for the UK taxpayer. The principles behind the schemes are that they remain: effective and targeted, affordable, as simple and straightforward to administer as possible, sustainable and not subject to abuse, and compliant with State aid rules. This part of the consultation considered whether the schemes were meeting these principles, and in particular whether the limits were appropriate and proportionate in light of the updated State aid rules.

**Question 1:** Are the tax-advantaged venture capital schemes currently meeting the overarching principles? Have the recent reforms to the schemes resulted in more effective and well-targeted support?

**Question 2:** Does the current limit for tax-advantaged investment into qualifying companies, of £5 million per year, achieve the same effect as a total limit of €15 million? Please provide details where you have experience with companies receiving more than €15 million under any of the schemes, and explain the need for that level of investment.

**Question 3:** Would a total investment limit of €15 million actually offer more flexibility and simplicity than an annual investment limit?

**Question 4:** Do the qualifying companies rules and limits on company size effectively target the investment towards less established companies? How would a limit on the time that a company had been trading in the market impact on any investments made? Please provide details where you have experience with older companies, or companies with more established trades, receiving investment under the schemes, and explain the need for that investment.

### **Consultation responses**

**2.3** The vast majority of respondents agreed that the schemes were generally meeting the overarching principles, and that the recent reforms had helped to ensure this. Some respondents highlighted that the schemes were not always straightforward to administer, highlighting delays in the advance assurance process and the complexity of parts of the legislation.

**2.4** There were mixed views on the limits, with many respondents raising concerns that the more innovative companies might be unable to access sufficient finance with a total investment limit of €15 million. Many stated that an age limit may cause problems for older companies which were seeking to undergo substantial change. However, other respondents felt that in practice few companies would reach the limit but that those likely to be affected would be in hi-tech sectors where capital costs would be high and revenue generation might not be possible for many years after the company had started.

## Government response

**2.5** The government is grateful for the number of detailed case studies which were submitted in answer to the questions and the call for evidence. In line with the latest evidence and independent academic research on the size of the equity gap, **the Summer Budget announced the following changes, subject to State aid approval and with effect from the date of Royal Assent of the Summer Finance Bill 2015:**

- New qualifying criteria **to limit eligibility for companies receiving their first risk finance investment (SEIS, EIS or VCT). The limit will be 10 years after the first commercial sale took place for knowledge intensive companies and 7 years for other qualifying companies.** There will be no time limit for companies receiving follow-on funding after their first risk finance investment. This rule will also not apply where the total investment represents more than 50% of the average of the company's (or group's) turnover over the preceding 5 years. The higher limits for knowledge intensive companies will support hi-tech and innovative firms, which was a concern raised by respondents.
- **A new cap on the total risk finance investment that a company may receive will be introduced of £20 million for knowledge intensive companies and £12 million for other companies.**
- To be deemed a knowledge intensive company, a company:
  - A) **must have relatively high research and development (R&D) or innovation spend of either:**
    - (i) at least 15% of total operating costs in at least 1 of the company's 12 month accounting periods ending in the 3 years preceding the accounting period in which the investment is made; or
    - (ii) at least 10% of total operating costs per year in each of the accounting periods ending in the 3 years preceding investment;
  - B) **must also meet one of the following criteria relating to the skills and ambition of the company – defined as:**
    - (i) requiring highly skilled staff to carry out the innovative activity – defined as at least 20% workforce with higher education qualifications (Masters or above, or equivalent); or
    - (ii) intending to innovate, or develop new patents, where the exploitation of these innovations will represent the greater part of their business activity within the next 10 years.

**2.6** The Summer Budget also announced changes to the rules on acquisitions to ensure that the schemes continue to be targeted at firms that need funding to grow and develop, discussed in more detail later in the chapter. In addition, **the March Budget announced the introduction of the growth and development test and the requirement that investors must be independent of the company when they make their first risk finance investment in a company<sup>1</sup>** in order to better target the schemes.

**2.7** An executive summary of the latest research on the equity gap in the UK is published at <https://www.gov.uk/government/consultations/tax-advantaged-venture-capital-schemes-draft-legislation-and-explanatory-notes>.

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<sup>1</sup> With an exception if the existing shares are "founder shares".

## Main design of the scheme: existing limits

**2.8** The reforms introduced in 2012 sought to ensure that the venture capital schemes continued to serve the needs of the market. The intention of increasing the limits on investment (to £5 million annual investment for a company) and company size (to £15 million gross assets before investment, and fewer than 250 employees) was to allow the market to operate more efficiently, stimulating more investment and in turn supporting job creation, innovation and growth. The following questions sought to understand the impact of the 2012 reforms and the impact of SEIS on the wider venture capital market.

**Question 5:** What do you think the impact of the increase to £5 million as annual limit for investment into qualifying companies has been? Has it unlocked investment throughout early and growth stages of company? Has it allowed for further rounds of funding over time?

**Question 6:** What do you think the impact of the increased employee limit for qualifying companies has been? Has it unlocked investment throughout early and growth stages of company? Has it allowed for further rounds of funding over time?

**Question 7:** Do you believe that these increased limits are now supporting more established companies that are less in need of support? Please provide evidence to support your answer.

**Question 8:** What do you believe the impact of SEIS has been on the market more generally?

## Consultation responses

**2.9** Respondents were very supportive of the increased limits, describing the reforms as “extremely positive” and a “game changer”. Many reported that the changes have enabled “more companies to benefit from the schemes”. A few respondents highlighted considered that an annual limit of £5 million was still too low for some innovative industries. Others questioned the need for an employee headcount test viewing it as “not an appropriate measure for growth” and recommending the removal of the test.

**2.10** Many respondents felt that the SEIS had made a very positive impact on the market overall, with one respondent describing it as an “unmitigated success”. The scheme had also “increased the awareness of the tax-advantaged venture capital schemes more generally”. These respondents also highlighted that the impact had been restricted due to the small nature of the scheme. However, a few respondents suggested that SEIS was “too generous” and that it has “led to the overvaluation of firms and driven the current bubble in London-based firms”. A few respondents suggested that investments were being “made only for the tax reliefs”.

## Government response

**2.11** The government believes that the £5 million annual limit is appropriate and confirms that it will continue to operate alongside the new total investment limits set out in the previous section. The government also believes that for many companies the employee limit of 250 employees remains appropriate, but will increase the limit to 500 employees for knowledge intensive companies.

**2.12** As announced at the March Budget 2015, the government will remove the requirement that 70% of SEIS funds must be spent before money is raised through EIS or VCT. This will benefit investments made from 6<sup>th</sup> April 2015, and will smooth the interaction between SEIS and EIS and VCT.

## Effectiveness of the schemes

**2.13** The tax reliefs are available to all individuals with taxable UK income. In practice though, the venture capital schemes have traditionally tended to be used by relatively wealthy individuals who often invest via wealth managers, and/or have sought advice from independent financial advisers (IFAs). This part of the consultation sought to gain an understanding of the types of investors using the schemes and views on the current mechanisms for claiming tax reliefs.

**Question 9:** Do you believe that the type of investors using the venture capital tax reliefs is changing? What are the risks and benefits of this?

**Question 10:** Is the lack of a minimum investment limit for SEIS, EIS, and VCTs a help or a hindrance for investors, companies and intermediaries including fund managers?

**Question 11:** Do you believe that the recent change to allow VCT shares to be subscribed for by nominees will have a significant impact on the market going forwards?

**Question 12:** Is there more that the government should be doing to facilitate the use of tax reliefs by retail investors?

**Question 13:** Do the current mechanisms for claiming tax relief create difficulties for investors or investee companies? How?

**Question 14:** Do you believe an alternative process, such as that used for Gift Aid, would work more easily? Why? How would HMRC be able to verify the tax liabilities with this type of mechanism?

## Consultation responses

**2.14** It was generally felt that the venture capital schemes were having a positive impact on new and additional investment. Some respondents suggested that an “increasing number of young investors” were being attracted by the benefits of the schemes and the “stability and performance of VCTs”. Many respondents thought that the recent changes to allow VCT shares to be subscribed for by nominees were positive, and “corrected an inconsistency in the EIS and VCT rules” but would be unlikely to have a significant impact on the market. There was near unanimous agreement that the absence of a minimum investment limit was beneficial.

**2.15** However, some respondents expressed concern that there has been a rise in less-experienced investors who may not fully understand the risks of investing in such companies. A few respondents stated their concern that there would be a negative impact on communication as a result of the changes to allow nominee shareholders. One respondent suggested that rules should be amended to allow VCTs to list on AIM rather than the main stock exchange owing to the lower costs of listing on AIM.

**2.16** Many respondents commented that “delays in receiving advance assurance were causing problems for small businesses”. Some respondents felt that the scheme “rules were complex and cumbersome at a stage where companies cannot afford professional advice”. On the whole, people felt that the current process for claiming relief worked well, with some suggesting that tax relief on EIS investments should be available immediately after the company commenced trading rather than having to wait for 4 months. The overwhelming majority felt that there was a need for an electronic version of the SEIS and EIS forms.

## Government response

**2.17** As announced at the Autumn Statement 2014, **the government will introduce a new digital process for companies and investors using SEIS, EIS and the Social Investment Tax Relief (SITR) by the end of 2016.** This should allow for more accurate submissions of applications for advance assurance and compliance statements and do away with the need for companies to issue special paper certificates to their investors. VCTs are indirect investment vehicles and therefore the processes that investors and fund managers use are slightly different. The government also **intends to work with VCTs to develop a standard format for the annual VCT returns.** This will be discussed at the new stakeholder forum.

**2.18** The government recognises that the rigorous compliance checks undertaken through the advance assurance process can be time-consuming and, although it is not a requirement to be eligible for SEIS, EIS or VCT, many investee companies prefer to receive advance assurance before receiving an investment. The government intends to work with the industry to agree priorities for handling advance assurances to ensure that the process remains sustainable in the light of increasing applications for advance assurance and reducing resource within HM Revenue & Customs (HMRC).

**2.19** The government believes that the condition requiring companies to wait for 4 months after starting to trade before submitting a compliance statement is important to ensure that the reliefs remain well-targeted and are not subject to misuse.

**2.20** The government believes that, overall, the schemes are effective, and that the new rules will ensure that the schemes remain effective and well-targeted. As with all tax policy, the government is determined to counter any abuse of these important tax reliefs and will keep the schemes under review and make changes where necessary.

## Convertible loans

**2.21** The government recognises that it can be difficult and time consuming to value and purchase shares in companies at certain points in their development. Stakeholders have previously suggested that because the scheme rules do not directly accommodate convertible loans, some important investments cannot be made and companies may be unable to access finance at crucial points. This issue is said to be particularly relevant for SEIS and EIS investments.

**2.22** In this context, the government explored options for the tax reliefs to apply where investments are made in the form of convertible loans.

**Question 15:** Do you agree with the summary of the issues relating to convertible loans set out at paragraphs 3.22 and 3.24 in the consultation document?

**Question 16:** Have you used an advance purchase agreement to facilitate investment? If not, would you consider doing so if the process were formalised? Why?

**Question 17:** Do you believe that a change in legislation to enable shares received on the conversion of a loan note to qualify is necessary? If so, what conditions do you believe are reasonable to ensure that the use of loans in this circumstance does not create significant opportunities to mitigate risk?

**Question 18:** Are there other approaches that you believe would be preferable? Why?

## Consultation responses

**2.23** The responses to this part of the consultation contained a variety of suggestions, with no consensus emerging. The majority of respondents broadly agreed with the summary and welcomed the desire to explore options. Some stated that it was “almost impossible to value early stage pre-revenue businesses” and so the “natural instrument is a convertible loan note”. Respondents agreed that the main situations where convertible loans would be most useful were for pre-revenue and early-stage businesses and those in temporary distress which needed a bridging loan.

**2.24** Most respondents had not used advance purchase agreements but welcomed further guidance with one respondent stating that the “main advantage is to enable pricing of an issue to be balanced with demand”.

**2.25** However, a small minority questioned the need for convertible loans and suggested that the schemes should remain pure equity schemes. Some also highlighted the risk of misuse stating that there was a “danger that investment through loan instruments can be used to structure low-risk asset-backed investments”. The need to take great care in designing the conditions around convertible loans featured heavily in responses, and a wide range of suggestions were received.

## Government response

**2.26** The government notes that this part of the consultation did not produce a consensus view. As making provision for convertible loans would be a significant change to the schemes, requiring extensive rewriting of the legislation and greatly increasing its complexity, the government does not propose to pursue any change at this time but will continue to keep the option under review.

**2.27** The arguments made by some respondents for allowing convertible loans, for example to provide emergency funding, can be satisfied by the use of advance purchase agreements. HMRC will work with **the stakeholder forum** (see Annex B) **to draft a guidance note to address advance purchase agreements**.

## Qualifying investments

**2.28** In general, the tax reliefs are available for investment in full risk ordinary shares, to ensure that the investor cannot protect against the risk of the investment (thereby suggesting that the tax relief intended to mitigate the risk was not required), and to align the investor with the interests and shareholding rights that company founders might typically hold. The government was concerned that there may be some misunderstanding among investors and companies who may not realise the intention of the current rules or the flexibilities within them.

**2.29** The government does not intend that the current rules on qualifying investments should limit opportunities for growth and development, but wants to ensure that the rules are targeted on the points where companies most require support. The government sought views on whether the current rules on qualifying shares strike a sensible balance.

**Question 19:** Has the recent change in shares allowed to qualify under EIS been beneficial? Have investors continued to make investments in line with the overarching principles of the schemes?

**Question 20 and 22:** Are there cases where the current rules on qualifying shares have created barriers to investments being made? What changes to the rules could prevent these cases without creating opportunities for investors to benefit from tax relief on investments where they are protected against risk?

**Question 21:** Have the current rules relating to the creation of intangible assets facilitated investments?

**Question 23:** Are there other areas where current rules have created barriers to investments being made? What changes to the rules could prevent these cases while continuing to ensure that the overall principles, are maintained?

## Consultation responses

**2.30** Respondents had mixed views on how beneficial the change in the types of shares allowed to qualify under EIS had been. Some regarded the change as broadly positive as it would allow “EIS investors to co-invest on the same terms as non-EIS venture capital”, although some suggested that there would be little impact as “shares carrying non-cumulative preferred dividend rights were rarely issued”. A minority cautioned against extending the eligible class of shares further stating that “anti-dilution was not in the spirit of EIS investment” and highlighting the increase in complexity that this brought.

**2.31** As with convertible loans, there was limited consensus on preferred changes to the schemes in relation to qualifying investments. In regard to current rules on qualifying shares which create barriers to investment, respondents provided some examples of where the rules have prevented investment, including in relation to acquisitions of existing trading companies, royalties and licences, and rules relating to financial services. Many respondents stressed that the most important thing was to ensure that any changes to the schemes were kept to the minimum necessary for operation and that the schemes remained simple to the extent that this was possible.

## Government response

**2.32** The government believes that the current rules on qualifying investments help to ensure the schemes are targeted at smaller businesses which would otherwise struggle to access finance. The investments are intended to support the growth and development of the company itself and not expansion by the acquisition of existing companies or trades.

**2.33** To ensure the tax reliefs are properly targeted, the **Summer Budget announced new rules preventing the use of EIS and VCT funds for acquiring existing trades**. VCTs will not be able to use ‘protected monies’ under the grandfathering provisions to fund buyouts, or to fund the acquisition of a trade, whether or not the VCT’s investment would be a non-qualifying holding.

**2.34** Responses to question 21 highlighted a number of areas of uncertainty. The March Budget 2015 announced a **new stakeholder forum** (Annex B). It is the government’s intention that this will give investors a further way to raise queries and concerns about the operation and use of the venture capital schemes.

## Current rules to target the reliefs: the excluded activities list

**2.35** The tax reliefs exist to incentivise the provision of finance from private individuals to companies that cannot otherwise access finance. The venture capital schemes have been very successful in encouraging individuals to support small and growing companies, and are used by

many business angels as well as a significant number of retail investors. The government was keen to understand how the rules for qualifying companies and excluded activities are working in practice and whether companies and investors feel that they set sensible parameters.

**Question 24:** Do the current rules for determining qualifying companies work effectively overall?

**Question 25:** Do you find the flexibility offered by the interpretation of “substantial” useful in determining whether a trade can qualify? Or, would it be helpful to set this out in legislation, with rules explaining both the proportion of activities that can qualify and determining the criteria to which that applies (turnover, capital etc.)?

**Question 26:** Considering the existing exceptions to the excluded activities list for community energy projects, anaerobic digestion (AD), and hydro, do you believe there is still a strong justification for these exclusions? To what extent are these projects reliant on venture capital tax reliefs?

**Question 27:** What impact, if any, would the removal of tax relief under EIS and VCT for investment in companies receiving energy subsidies, together with the absence of the Social Investment Tax Relief (SITR), have on community energy schemes?

**Question 28:** Are there any areas where the excluded activities list precludes investment into genuinely high risk investments?

## Consultation responses

**2.36** On the whole, respondents felt that the schemes were working effectively with one respondent stating that in their experience “the rules have not prevented any genuine company from qualifying”. Some suggestions for changes were provided in terms of reconsidering some excluded activities and changes in the qualifying limits. In regards to the flexibility provided by the interpretation of “substantial”, the majority of responses welcomed the current approach but requested further guidance on the use and examples of test cases. Some respondents made suggestions for clear tests which could be passed to determine whether or not a company qualified.

**2.37** Many respondents to question 26 focused on the anomaly of allowing AD and hydro to continue to benefit from the tax-advantaged venture capital schemes when other technologies which were arguably higher risk were excluded. The current exceptions were described by some as “arbitrary” and unnecessary as the market and technology had now matured and “risk was absent in energy projects”. Nevertheless, others argued that the high upfront capital costs and the lack of maturity compared to solar and wind justified the use of tax reliefs. The additional risks of location, construction costs and performance were also highlighted. The particular challenges faced by community energy schemes were also highlighted as, unlike commercial projects, locations were limited to the local area and there were higher operational costs.

**2.38** In response to other areas where the excluded activities list precluded high-risk investment, respondents highlighted hotels, nursing homes, companies leasing assets where they held the IP such as software, property development and financial services.

## Government Response

**2.39** The government intends to retain the excluded activities list and will make changes to it as and when they are required. The **Finance Act 2015 removed the exemption for anaerobic digestion and hydroelectric companies benefiting from subsidies for the generation of renewable energy**. The government announced at the March Budget 2015 that there will be a

transition period of 6 months following the confirmation of State aid approval for the expansion of SITR before eligibility for all community energy organisations benefiting from subsidies for the generation of renewable energy is withdrawn. Thereafter, the organisations will only qualify for SITR.

**2.40** The government remains concerned about the potential for the schemes to be used as a tax mitigation product with the aim of capital preservation or as a means to reducing tax on capital gains. **The government will continue to monitor how the schemes are used to ensure that the schemes target higher-risk companies that genuinely struggle to access finance** and that the schemes continue to provide value for money for the UK taxpayer. The Summer Budget announced that the government will continue to monitor the use of SEIS, EIS and VCT for investments in community energy organisations benefiting from subsidies for the generation of renewable energy to ensure that support for community energy through the venture capital schemes provides good value for money for the taxpayer and is not subject to misuse.

**2.41** The government recognises that most respondents preferred the flexibility within the current rules in respect of the interpretation of “substantial” and so there will be no change to the rules. However, the government acknowledges that this issue might require more consideration. HMRC will work with **the stakeholder forum** (see Annex B) to **clarify this further, and will revisit this when reviewing the guidance.**

## **Alternative approaches to target the tax reliefs**

**2.42** The government wanted to consider potential options for a more principled approach to determine qualifying companies that could create more certainty for users of the venture capital schemes going forwards. The government wanted to explore approaches that might better limit investment into lower-risk opportunities, and could continue to ensure that the schemes support risky, innovative and high-growth potential companies.

**2.43** In asking these questions, the government sought to ensure that the approach being used was the most appropriate. The government provided some broad options for how other approaches could be designed, seeking stakeholders’ views on whether or not these would be more preferable.

**Question 29:** Are there particular areas where low-risk investment activity is taking place and that may be diverting investment away from higher-risk, innovative companies?

**Question 30:** Are there particular areas where high-risk investment activity into innovative companies with growth potential is not taking place? Are there any common features that could be used to identify these sectors, or investment opportunities?

**Question 31:** Do you believe that a new “principled” approach is necessary?

**Question 32:** Do any of the options outlined in paragraphs 4.19 to 4.22 in the consultation document appeal to you? Why?

**Question 33:** Are there any other approaches that you believe would be preferable? Why?

## **Consultation Responses**

**2.44** Respondents listed some examples of areas where better targeting of the rules was required. These included where government procurement contracts were in place and where

revenues were derived to a substantial extent from secure government funding. Examples were also provided of circumstances where companies were using exemptions to package tax mitigation products where the risk had already been substantially removed before investment takes place. However, many felt that the steps taken to exclude renewable energy generation benefiting from subsidies had sufficiently tightened the schemes.

**2.45** There was almost unanimous agreement that the introduction of a 'principled' approach would lead to uncertainty owing to its subjectivity. Concerns were also raised about the difficulty in defining and legislating the principles. Respondents also stated there would be a risk that some deserving companies would struggle to pass a principled approach test, despite being in need of finance. None of the proposed options gained much support among respondents, and the overwhelming majority of respondents to this question supported the continued use of the excluded activities list rather than an alternative.

### **Government Response**

**2.46** The government acknowledges that respondents preferred the certainty of the current approach. **The government has no intention to change this approach and will continue to monitor activities to identify any that may need to be added to the excluded activities list.** However, the government recognises that certain companies require more support than others and that the need is not sector specific, but related to innovation. Therefore, **the Summer Budget 2015 announced that the government will introduce changes to provide additional support to knowledge intensive companies.**

**2.47** As stated earlier, at the March Budget **the government announced the introduction of a new growth and development condition requiring investments to be used with the intention to grow and/or develop a business.** This will ensure that the schemes are well-targeted and that investments receiving generous tax incentives are made in line with the policy rationale and the principles of the schemes. HMRC will publish guidance on how the condition is to apply which will include examples recognising the different indicators of growth.

# Annex A List Of Respondents

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**A.1** The Government is grateful to all those who took the trouble to respond to this consultation. Their names are below:

Abundance Generation  
Amati  
The Association of Investment Companies  
The Association of Taxation Technicians  
Baker Tilly  
BDO  
The BioIndustry Association  
The British Film Institute  
The British Private Equity and Venture Capital Association  
Cambridge Angel Network  
Community Development Finance Association  
Climate Change Matters  
ClubFinance  
Coalition for a Digital Economy  
Communities for Renewables  
Community Energy England  
Community Spark  
Co-operatives and Mutual Societies Ltd  
Co-operatives UK  
Crowdcube  
DFJ Esprit  
Enterprise Investment Scheme Association  
Energy4all  
Gabelle LLP  
Grant Thornton LLP  
GT Energy  
Guinness Asset Management  
Harcourt Capital LLP  
Haymacintyre  
The Institute of Chartered Accountants in England and Wales  
The Institute of Chartered Accountants of Scotland  
Ingenious  
The Institute of Financial Accountants  
KuberVentures  
LivingBridge (formerly ISIS)  
London Business Angels  
Mercia Fund Management  
MMC Ventures  
Mobeus Equity Partners  
Nexus Investment Ventures Ltd  
NVM Private Equity  
OBN

Octopus Investments  
Oxford Capital Partners  
Parisi Tax LLP  
Pure Leapfrog  
PricewaterhouseCoopers  
Quoted Companies Alliance  
Regen SW  
Saffery Champness  
Seedrs  
ShareSoc  
Smith & Williamson  
Social Finance  
Sustainable Harborough  
Triangle Growth Partners  
Triple Point  
UK Co-operative  
UK Music  
UK Business Angels Association  
UK Interactive Entertainment  
Wiggins LLP

We also received seventeen responses from individual respondents. In addition to these we received two emails in support of submissions made by others.

# Stakeholder Forum: Terms

## Annex B of Reference

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### Purpose

To provide a forum in which HMRC, HMT and users of the tax-advantaged venture capital schemes, tax advisers and the accountancy profession, law societies and others, can discuss and review in a frank and open manner the operation of the various tax issues that arise through the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and the Venture Capital Trust scheme (VCT).

### Organisation

The meeting will be chaired by HMRC and take place under 'Chatham House' rules. The minutes will be agreed by those attending the meeting before being published.

HMRC will provide the secretariat for the group. Agenda items will be compiled by the secretariat from suggestions by any group member. Agenda items and papers will be circulated to members of the group one week in advance of the meeting.

Meetings will be held quarterly or more often as agreed. The next meeting will normally be scheduled under 'Any Other Business', although any member of the group may request an earlier meeting should there be reason.

Members may send one representative to each meeting unless additional representation is agreed in advance with the Chair. All members will be invited to each meeting unless a specific sub-group is set up with the agreement of the meeting. Any sub-groups will report to the meeting as a whole.

Requests to join the group should be made to the Chair.

Expressions of interest should be made by emailing [venturecapitalconsultation@hmtreasury.gsi.gov.uk](mailto:venturecapitalconsultation@hmtreasury.gsi.gov.uk) by 24<sup>th</sup> July. HMT and HMRC will then contact all interested parties by 31<sup>st</sup> July, and arrange for the selection of representatives if places are oversubscribed. HMT and HMRC would welcome any offers to host this forum, and will confirm the location of the first meeting closer to the time. The first meeting will take place in the week commencing 21<sup>st</sup> September.

### Membership:

Her Majesty's Revenue & Customs (HMRC)  
Her Majesty's Treasury (HMT)  
30 industry representatives



### **HM Treasury contacts**

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