Explanatory Note

Amendment 135 to Clause 31: VCTs: requirements for giving approval

Summary

1. This amendment adds short term deposits of money, including bank deposits, to the list of non-qualifying investments a venture capital trust (VCT) may make. The amendment has effect for deposits made on or after 6 April 2016.

Details of the amendment

2. Amendment 135 omits subsections (5) and (6) of clause 31 and inserts new subsections (5), (5A) and (6).

3. Subsection (5) amends subsection (3A) of section 274 of the Income Tax Act (ITA) 2007. Subsection (5)(a) makes a consequential amendment to subsection (3A).

4. Subsection (5)(b) inserts new subsection (3A)(d) in section 274 ITA 2007. Subsection (3A)(d) lists a short term deposit of money as a permitted non-qualifying investment. The VCT must be able to withdraw the money within 7 days after giving notice to the person with whom the money is deposited.

5. Subsection (5A) inserts new subsection (3B) in section 274 ITA 2007. Subsection (3B) clarifies that investments listed in subsection (3A)(a), (b) and (d) which may be repurchased, redeemed or paid out on 7 days' notice includes investments for which the notice period is less than 7 days.

6. Subsection (6)(a) inserts subsection (5)(ba) in section 274 ITA 2007. This provision enables consequential amendments (including repeal) to be made to section 274(3B) ITA 2007 if amendments are made to the list of investments in section 274(3A) under the power in section 274(5)(b) ITA 2007.

7. Subsection (6)(b) makes a consequential amendment to section 274(5)(c) ITA 2007.

Background note

8. Clause 31 introduces a new non-qualifying investments condition that a company must meet to receive approval as a VCT under section 274 ITA 2007. A VCT may not make investments unless the investment is a qualifying investment or one of the non-qualifying investments listed in section 274(3A) ITA 2007.

9. VCTs are expected to invest their funds in qualifying holdings as quickly as possible. However non-qualifying investments are permitted for liquidity management purposes only before they are able to invest their funds in qualifying investments.

10. Deposit accounts are deemed to be investments under section 285 ITA 2007 but they are not qualifying investments. The amendment ensures that VCTs may continue to use short term deposit accounts by listing such accounts as non-qualifying investments in section 274(3A) ITA 2007. Longer term deposit accounts would not be considered to be necessary for liquidity management purposes.

11. The provision would take effect retrospectively from 6 April 2016, the date from which the non-qualifying investments condition would take effect.