

**EXPLANATORY NOTE**

**CLAUSE 38 SCHEDULE 6: SEED ENTERPRISE INVESTMENT  
SCHEME**

**SUMMARY**

1. Clause 38 and Schedule 6 introduce the Seed Enterprise Investment Scheme.
2. Amendments [xx] to [xx] make a number of changes to an anti-abuse provision in the Schedule, to ensure that the provision has the intended effect.

**DETAILS OF THE AMENDMENTS**

3. Amendment [1] replaces the words “in consequence” on page 211, line 14 with the words: “nor any money raised by the issue spent, in consequence or in anticipation”. This is to ensure that the legislation has effect whether the “disqualifying arrangements” are entered into before or after the relevant share issue.
4. Amendment [2] removes reference to the purpose of any person who is party to the arrangements in question, and replaces it with reference to the purpose of the arrangements. This is to prevent the legislation catching “innocent” arrangements merely by virtue of the fact that an investor in SEIS shares will almost always have the purpose of ensuring that tax relief is available and that the company can carry on its business. The re-wording is to make it clear that the intention is to disqualify investment in companies which would be unlikely to exist in the first place, or would be unlikely to carry on the proposed activities, were it not for the disqualifying purpose which is the subject of the test.
5. Amendment [3] changes Condition A of the test to ensure that it will apply where, in the course of the arrangements in question, the monies raised by the relevant share issue are paid to a relevant person or relevant persons. This will prevent a company from failing to be caught by the legislation by virtue of the fact that payments are made to more than one party.
6. Amendments [4] and [5] change Condition B of the test to ensure that the test will apply where it is reasonable to expect that, in the absence of the arrangements in question, the whole or greater part of the company’s activities would be carried on by a relevant person or relevant persons.

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**CLAUSE 38**  
**SCHEDULE 6**

7. Amendment [6] defines “relevant person” as a person who is a party to the arrangements, or a person connected with such a party.
8. Amendments [7] and [8] remove from the list of minor definitions at section 257HJ(1) two terms which are already defined elsewhere in Part 5A.
9. Amendment [9] adds a number of terms used in the SEIS legislation to the index of defined terms in Schedule 4 of the Income Tax Act 2007.

**BACKGROUND NOTE**

10. The Seed Enterprise Investment Scheme is being introduced to incentivise equity investment in small, high-risk early stage companies which typically struggle to raise such financing. It complements the existing Enterprise Investment Scheme and the Venture Capital Trust scheme.

**EXPLANATORY NOTE****CLAUSE 39 SCHEDULE 7: ENTERPRISE INVESTMENT SCHEME****SUMMARY**

1. Clause 39 and Schedule 7 make a number of changes to the Enterprise Investment Scheme. One of these changes is the introduction of an anti-abuse provision, intended to ensure that the scheme remains appropriately targeted.
2. Amendments [xx] to [xx] make a number of changes to the anti-abuse provision in the Schedule, to ensure that the provision has the intended effect.

**DETAILS OF THE AMENDMENTS**

3. Amendment [x] replaces the words “in consequence” on page 211, line 14 with the words: “nor any money raised by the issue spent, in consequence or in anticipation”. This is to ensure that the legislation has effect whether the “disqualifying arrangements” are entered into before or after the relevant share issue.
4. Amendment [x] removes reference to the purpose of any person who is party to the arrangements in question, and replaces it with reference to the purpose of the arrangements. This is to prevent the legislation catching “innocent” arrangements merely by virtue of the fact that an investor in EIS shares will almost always have the purpose of ensuring that tax relief is available and that the company can carry on its business. The re-wording is to make it clear that the intention is to disqualify investment in companies which would be unlikely to exist in the first place, or would be unlikely to carry on the proposed activities, were it not for the disqualifying purpose which is the subject of the test.
5. Amendment [x] changes Condition A of the test to ensure that it will apply where, in the course of the arrangements in question, the monies raised by the relevant share issue are paid to a relevant person or relevant persons. This will prevent a company from failing to be caught by the legislation by virtue of the fact that payments are made to more than one party.
6. Amendments [x] and [x] change Condition B of the test to ensure that the test will apply where it is reasonable to expect that, in the absence of the arrangements in question, the whole or greater part of the

company's activities would be carried on by a relevant person or relevant persons.

7. Amendment [x] defines "relevant person" as a person who is a party to the arrangements, or a person connected with such a party.

#### **BACKGROUND NOTE**

8. The Enterprise Investment Scheme exists to incentivise equity investment in small, high-risk early stage companies which typically struggle to raise such financing. Clause 39 makes a number of changes to the scheme, including: extending the scope to larger companies and larger amounts of investment; some minor simplifications to the rules on the definition of connection and of eligible shares; the exclusion of trades benefiting from feed-in tariffs; preventing companies from using EIS monies to acquire shares in another company; and introducing a "no disqualifying arrangements" requirement, intended to ensure that the scheme remains appropriately targeted.

**EXPLANATORY NOTE****CLAUSE 40 SCHEDULE 8: VENTURE CAPITAL TRUST SCHEME****SUMMARY**

1. Clause 40 and Schedule 8 make a number of changes to the Venture Capital Trust Scheme. One of these changes is the introduction of an anti-abuse provision, intended to ensure that the scheme remains appropriately targeted.
2. Amendments [xx] to [xx] make a number of changes to the anti-abuse provision in the Schedule, to ensure that the provision has the intended effect.

**DETAILS OF THE AMENDMENTS**

3. Amendment [x] replaces the words “in consequence” on page 211, line 14 with the words: “nor any money raised by the issue spent, in consequence or in anticipation”. This is to ensure that the legislation has effect whether the “disqualifying arrangements” are entered into before or after the relevant share issue.
4. Amendment [x] removes reference to the purpose of any person who is party to the arrangements in question, and replaces it with reference to the purpose of the arrangements. This is to prevent the legislation catching “innocent” arrangements merely by virtue of the fact that a VCT manager will almost always have the purpose of ensuring that an investment forms part of the VCT’s qualifying holdings and that the company can carry on its business. The re-wording is to make it clear that the intention is to disqualify investment in companies which would be unlikely to exist in the first place, or would be unlikely to carry on the proposed activities, were it not for the disqualifying purpose which is the subject of the test.
5. Amendment [x] changes Condition A of the test to ensure that it will apply where, in the course of the arrangements in question, the monies raised by the relevant share issue are paid to a relevant person or relevant persons. This will prevent a company from failing to be caught by the legislation by virtue of the fact that payments are made to more than one party.
6. Amendments [x] and [x] change Condition B of the test to ensure that the test will apply where it is reasonable to expect that, in the absence of the arrangements in question, the whole or greater part of the

company's activities would be carried on by a relevant person or relevant persons.

7. Amendment [x] defines "relevant person" as a person who is a party to the arrangements, or a person connected with such a party.
8. Amendment [x] replaces the definition of "relevant qualifying activity" at section 299A(6) with a definition of "qualifying activity", to ensure consistency of definitions throughout the VCT legislation.

### **BACKGROUND NOTE**

9. The Venture Capital Trust (VCT) scheme exists to incentivise equity investment in small, high-risk early stage companies which typically struggle to raise such financing. A VCT is a type of quoted company, similar to an investment trust company, which uses monies raised from investors to make qualifying investments in companies in the target sector. Clause 40 makes a number of changes to the scheme, including: extending the scope to larger companies and larger amounts of investment; the removal of the £1m limit which a single VCT may invest in a company; the exclusion of trades benefiting from feed-in tariffs; preventing monies being used to acquire shares in another company; and introducing a "no disqualifying arrangements" requirement, intended to ensure that the scheme remains appropriately targeted.

# PUBLIC BILL COMMITTEE

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## FINANCE BILL

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David Gauke

Schedule 6, page 211, line 14, leave out ‘in consequence’ and insert ‘, nor any money raised by the issue spent, in consequence or anticipation’.

1

David Gauke

Schedule 6, page 211, leave out lines 17 to 27 and insert—  
‘(a) the main purpose, or one of the main purposes, of the arrangements is to secure—  
(i) that a qualifying business activity is or will be carried on by the issuing company or a qualifying 90% subsidiary of that company, and  
(ii) that one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of shares issued by the issuing company which raise money for the purposes of that activity or that such shares may comprise part of the qualifying holdings of a VCT,  
(aa) that activity is the relevant qualifying business activity,’.

2

David Gauke

Schedule 6, page 211, line 33, leave out from ‘is’ to end of line 34 and insert ‘, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.’.

3

David Gauke

Schedule 6, page 211, line 36, after ‘that’ insert ‘the whole or greater part of’.

4

David Gauke

Schedule 6, page 211, line 38, leave out from ‘by’ to end of line 39 and insert ‘a relevant person or relevant persons.’.

5

David Gauke

Schedule 6, page 212, line 6, at end insert—  
“‘relevant person’ means a person who is a party to the arrangements or a person connected with such a party;”.

6

## Public Bill Committee:

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### Finance Bill, *continued*

David Gauke 7  
Schedule 6, page 248, leave out lines 20 and 21.

David Gauke 8  
Schedule 6, page 248, leave out lines 24 and 25.

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David Gauke 9  
Schedule 6, page 258, line 20, at end insert—

- ‘ (1) Schedule 4 (index of defined expressions) is amended as follows.  
(2) Insert the following entries at the appropriate places—

“arrangements (in Part 5A)                      section 257HJ(1)”

“associate (in Part 5A)                      section 257HJ(1)”

“bonus shares (in Part 5A)                      section 257HJ(1)”

“compliance certificate (in Part 5A)                      section 257EC(1)”

“compliance statement (in Part 5A)                      section 257ED(1)”

“director (in Part 5A)                      section 257HJ(1)”

“disposal of shares (in Part 5A)                      section 257HH”

“EIS relief (in Part 5A)                      section 257HJ(1)”

“group (in Part 5A)                      section 257HJ(1)”

“group company (in Part 5A)                      section 257HJ(1)”



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### Finance Bill, *continued*

“issue of shares (in Part 5A)	section 257HI”
“market value (in Part 5A)	section 257HJ(6)”
“new qualifying trade (in Part 5A)	section 257HF”
“ordinary shares (in Part 5A)	section 257HJ(1)”
“parent company (in Part 5A)	section 257HJ(1)”
“period A, period B (in Part 5A)	section 257AC”
“permanent establishment (in Part 5A)	section 257HJ(1)”
“qualifying business activity (in Part 5A)	section 257HG”
“qualifying subsidiary (in Part 5A)	section 257HJ(1)”
“qualifying 90% subsidiary (in Part 5A)	section 257HJ(1)”
“research and development (in Part 5A)	section 257HJ(1)”
“SEIS (in Part 5A)	section 257A(2)”
“single company (in Part 5A)	section 257HJ(1)”
(3) In the entry for “control”, in the second column, after “257(3),” insert “257HJ(3),”.	

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## Public Bill Committee:

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### Finance Bill, *continued*

David Gauke

**10**

Schedule 7, page 261, line 16, leave out ‘in consequence’ and insert ‘, nor any money raised by the issue employed, in consequence or anticipation’.

David Gauke

**11**

Schedule 7, page 261, leave out lines 19 to 29 and insert—

- ‘(a) the main purpose, or one of the main purposes, of the arrangements is to secure—
  - (i) that a qualifying business activity is or will be carried on by the issuing company or a qualifying 90% subsidiary of that company, and
  - (ii) that one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of shares issued by the issuing company which raise money for the purposes of that activity or that such shares may comprise part of the qualifying holdings of a VCT,
- (aa) that activity is the relevant qualifying business activity.’

David Gauke

**12**

Schedule 7, page 261, line 35, leave out from ‘is’ to end of line 36 and insert ‘, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.’.

David Gauke

**13**

Schedule 7, page 261, line 38, after ‘that’ insert ‘the whole or greater part of’.

David Gauke

**14**

Schedule 7, page 261, line 40, leave out from ‘by’ to end of line 41 and insert ‘a relevant person or relevant persons.’.

David Gauke

**15**

Schedule 7, page 262, line 10, at end insert—

“‘relevant person’ means a person who is a party to the arrangements or a person connected with such a party;’.

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David Gauke

**16**

Schedule 7, page 266, line 33, leave out ‘in consequence’ and insert ‘, nor any money raised by the issue employed, in consequence or anticipation’.

David Gauke

**17**

Schedule 7, page 266, line 36, leave out from beginning to ‘and’ in line 8 on page 267 and insert—

- ‘(a) the main purpose, or one of the main purposes, of the arrangements is to secure—
  - (i) that a qualifying business activity is or will be carried on by the company or a qualifying 90% subsidiary of the company, and

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### **Finance Bill, *continued***

- (ii) that one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of shares issued by the company which raise money for the purposes of that activity or that such shares may comprise part of the qualifying holdings of a venture capital trust,
- (aa) that activity is the relevant qualifying business activity.’

David Gauke

**18**

Schedule 7, page 267, line 13, leave out from ‘is’ to end of line 14 and insert ‘, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.’.

David Gauke

**19**

Schedule 7, page 267, line 16, after ‘that’ insert ‘the whole or greater part of’.

David Gauke

**20**

Schedule 7, page 267, line 18, leave out from ‘by’ to end of line 19 and insert ‘a relevant person or relevant persons.’.

David Gauke

**21**

Schedule 7, page 267, line 36, at end insert—  
“‘relevant person’ means a person who is a party to the arrangements or a person connected with such a party;’.

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David Gauke

**22**

Schedule 8, page 271, line 30, leave out ‘in consequence’ and insert ‘, nor any money raised by the issue employed, in consequence or anticipation’.

David Gauke

**23**

Schedule 8, page 271, line 33, leave out from beginning to end of line 1 on page 272 and insert—

- ‘(a) the main purpose, or one of the main purposes, of the arrangements is to secure—
  - (i) that a qualifying activity is or will be carried on by the relevant company or a qualifying 90% subsidiary of that company, and
  - (ii) that shares or securities issued by the relevant company may be comprised in any company’s qualifying holdings or that one or more persons may obtain relevant tax relief in respect of such shares which raise money for the purposes of that qualifying activity,
- (aa) that qualifying activity is the relevant qualifying activity by reference to which the requirement in section 293(1)(b) (money raised to be employed within two years for relevant qualifying activity) is met in relation to the relevant holding,’.

David Gauke

**24**

Schedule 8, page 272, line 7, leave out from ‘is’ to end of line 8 and insert ‘, in the

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### **Finance Bill, *continued***

course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.’.

David Gauke

**25**

Schedule 8, page 272, line 10, after ‘that’ insert ‘the whole or greater part of’.

David Gauke

**26**

Schedule 8, page 272, line 11, leave out ‘business’.

David Gauke

**27**

Schedule 8, page 272, line 12, leave out from ‘by’ to end of line 13 and insert ‘a relevant person or relevant persons.’.

David Gauke

**28**

Schedule 8, page 272, line 26, at end insert—

“‘relevant person’ means a person who is a party to the arrangements or a person connected with such a party;’.

David Gauke

**29**

Schedule 8, page 272, leave out lines 27 to 31 and insert—

“‘qualifying activity’ has the same meaning as in section 291;”.