



## Venture capital trusts

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### Who is likely to be affected?

This measure will affect individuals who invest in venture capital trusts (VCTs) and the VCTs in which they invest.

### General description of the measure

This measure prevents investors refreshing income tax relief on investments into VCTs by disposing of VCT shares and reinvesting the proceeds in new shares. The legislation will ensure that new investment into VCTs is still eligible for income tax relief. However, investments that are:

- conditional on a share-buy buy-back, or where a share buy-back is conditional upon the investment; or
- made within a six month period of a sale of shares in the same VCT, will not qualify for income tax relief.

The measure will not affect subscriptions for shares where the monies being subscribed represent dividends which the investor has elected to reinvest.

The legislation will also be changed to allow individuals to subscribe for shares in a VCT via a nominee.

### Policy objective

This measure is intended to ensure that the tax reliefs offered to investors making VCT investments are well-targeted, so that VCTs can continue to operate effectively and provide support to high-growth potential small and medium-sized companies. The change is intended to ensure that investments through the tax-advantaged venture capital schemes continue to support growth, but that the tax reliefs operate in a fair and sustainable way.

### Background to the measure

The Government signalled in Budget 2013 that it was concerned that particular forms of share buy-back and reinvestment arrangements offered by VCTs were not in keeping with the intention of the legislation.

A technical consultation ran from July to September 2013. A summary of responses will be published on 12 December 2013.

## Detailed proposal

### Operative date

The restrictions relating to share sales and reinvestments will affect claims to relief for investment in VCT shares, by reference to shares issued on or after 6 April 2014.

The change relating to nominee investments will apply in respect of shares issued on or after the date that Finance Bill 2014 receives Royal Assent.

### Current law

The current VCT legislation is at Part 6 of Income Tax Act 2007.

## Proposed revisions

Legislation will be introduced in Finance Bill 2014 to ensure that income tax relief will not be available in respect of a subscription for shares in a VCT where the investor has sold shares in that VCT and the sale was conditional upon the subscription, or the subscription was conditional upon the sale, or the subscription was made within six months of the sale. This will also have effect in relation to a subscription for shares in a VCT which is deemed to be a successor or predecessor of the VCT because there has been a merger of VCTs, or a restructuring of a group of companies of which the VCT is a member.

The measure will not affect subscriptions for shares where the monies being subscribed represent dividends which the investor has elected to reinvest.

The legislation will also be changed to allow individuals to subscribe for shares in a VCT via a nominee.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	+50	+35	+10	+20	+25
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement.					
<b>Economic impact</b>	The measure is not expected to have any significant economic impacts. However investments in VCT should support growth and development of SMEs.					
<b>Impact on individuals and households</b>	There may be some impact in terms of a reduction in available tax reliefs on any individual VCT investors who seek to participate in particular share buy-back and reinvestment arrangements, or where an investment in VCT shares is made within six months of the disposal of shares in that VCT.					
<b>Equalities impacts</b>	This measure is not expected to have a disproportionate impact on any protected group.					
<b>Impact on business including civil society organisations</b>	This measure is expected to have a negligible impact on businesses. There will be a negligible impact on VCT fund managers, and some tax and wealth advisors may face some one-off administrative cost to update any guidance for use of VCTs. It is expected that this measure will have no ongoing administrative burden for VCT's as they are unlikely to operate 'enhanced' share buy-backs going forwards. This measure is expected to have no impact on civil society organisations.					
<b>Operational impact (£m) (HMRC or other)</b>	It is not expected that implementing this change will incur any significant additional costs for HM Revenue & Customs.					
<b>Other impacts</b>	Other impacts have been considered and none have been identified.					

**Monitoring and evaluation**

The Government will monitor this measure through the amount of funds raised by VCT's and the amount claimed by VCT investors.

**Further advice**

If you have any questions about this change, please contact Kathryn Robertson on 03000 585729 (email: [kathryn.robertson@hmrc.gsi.gov.uk](mailto:kathryn.robertson@hmrc.gsi.gov.uk)).

**1 Venture capital trusts**

Schedule 1 contains provision about venture capital trusts.

## SCHEDULE 1

Section 1

## VENTURE CAPITAL TRUSTS

*Linked sales*

1 (1) After section 264 of ITA 2007 insert –

**“264A Restricting relief where there is a linked sale**

- (1) This section applies where –
  - (a) an individual subscribes for shares (“the relevant shares”) in a VCT (“the VCT”), and
  - (b) there is at least one linked sale of other shares by the individual.
- (2) For the purposes of this Part, the amount the individual subscribes for the shares is to be treated as reduced (but not below nil) by the total consideration given for the linked sales of other shares.  
This is subject to subsection (3).
- (3) If a sale is linked in relation to more than one subscription for shares –
  - (a) the consideration for it is to be applied to reduce subscriptions under subsection (2) in the order in which the subscriptions are made, and
  - (b) accordingly, to the extent that any consideration has been used to reduce an earlier subscription, it is not available to reduce a later one.
- (4) A sale of shares (“the sold shares”) is “linked” if conditions A and B are met.
- (5) Condition A is that the sold shares are in –
  - (a) the VCT, or
  - (b) a company which is (or later becomes) a successor or predecessor of the VCT.
- (6) Condition B is that –
  - (a) the individual subscribes for the relevant shares in circumstances where –
    - (i) the purchase of the sold shares from the individual was conditional upon the individual subscribing for shares in the VCT, or
    - (ii) the individual’s subscription for shares in the VCT was conditional upon that purchase, or
  - (b) the subscription for the relevant shares and the sale of the sold shares are within 6 months of each other (irrespective of which came first).

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- (7) A company (“company X”) is a “successor or predecessor of the VCT” if –
- (a) there is a merger of two or more companies for the purposes of Chapter 5 (see section 323) and –
    - (i) the VCT is one of the merged companies and company X is “the successor company” (as defined by that section), or
    - (ii) the VCT is “the successor company” and company X is one of the merged companies, or
  - (b) section 327 (effect of restructuring of VCT) applies and –
    - (i) the VCT is “the old company” and company X is “the new company” for the purposes of that section, or
    - (ii) company X is “the old company” and the VCT is “the new company” for those purposes.
- (8) This section does not apply if, or to the extent that, the subscription for the relevant shares is a result of the individual electing to reinvest dividends payable to the individual on shares in the VCT, in acquiring further shares in the VCT.”
- (2) The amendment made by this paragraph has effect in relation to claims for relief by reference to shares issued on or after 6 April 2014.

### *Nominees*

- 2 (1) After section 330 of ITA 2007 insert –

#### *“Nominees*

#### **330A Nominees**

Shares subscribed for, issued to, held by or disposed of for an individual by a nominee are treated for the purposes of this Part as subscribed for, issued to, held by or disposed of by the individual.”

- (2) In section 284 of that Act (power to make regulations as to procedure), in subsection (1)(d), after “persons” include “(including nominees)”.

## EXPLANATORY NOTE

### VENTURE CAPITAL TRUSTS

#### SUMMARY

1. Clause [X] and Schedule [Y] make several changes to the Venture Capital Trust (VCT) legislation at Part 6 of the Income Tax Act 2007.

#### DETAILS OF THE SCHEDULE

2. Paragraph 1 introduces a new section 264A which imposes restrictions on the availability of VCT income tax relief in respect of a subscription for shares in a VCT, in certain circumstances. New section 264A takes effect in relation to shares issued on or after 6 April 2014.

3. New sections 264A(1), (2) and (3) reduce the amount subscribed for shares in a VCT on which income tax relief may be claimed, by the amount of consideration the investor has received for a sale of shares which is “linked” to the subscription for shares.

4. New sections 264A(4), (5) and (6) explain what is meant by a “linked” sale of shares in this context. A sale is “linked” if an individual has sold shares in the same VCT as the VCT in which the investor has subscribed for shares, or in a VCT which is treated as a successor or predecessor of that VCT, and either the subscription for shares is in any way conditionally linked with the share sale, or the subscription and sale are within 6 months of each other.

5. New section 264A(7) explains what is meant by a “successor” or a “predecessor” VCT for this purpose. Where there has been a merger of two VCTs and section 323 ITA applies to treat one VCT as succeeding another, then for the purpose of section 264A those VCTs are regarded as “successor” or “predecessor” as appropriate. Where a new holding company has been inserted above an existing VCT and section 327 ITA applies to treat the holding company as fulfilling the VCT requirements, then the new holding company and the original VCT are treated for the purpose of section 264A as “successor” and “predecessor” companies as appropriate.

6. New section 264A(8) provides that the restriction does not apply to subscriptions for shares which are funded by the reinvestment of dividends payable by the VCT to the individual in respect of shares already held in the VCT.

7. Paragraph 2 introduces a new section 330A, which provides that an individual will qualify for income tax relief on a subscription in VCT shares if that subscription is made on the individual’s behalf by a nominee. The tax treatment of holdings of shares or disposals of shares in a VCT will follow in the same way whether the shares are held or disposed of by an

individual, or by a nominee acting on behalf of the individual. Section 330A takes effect from the date the Finance Bill receives Royal Assent.

8. New section 330A(2) amends section 284 ITA to ensure that any regulations made as to VCT procedures may apply to nominees as well as to other persons holding VCT shares.

**BACKGROUND NOTE**

9. The VCT regime exists to provide access to finance for qualifying small and medium trading companies, by offering a range of tax reliefs to individuals who invest in VCTs which in turn invest on into such companies. This change will ensure that the regime continues to be well-targeted and to provide value for money.

10. If you have any questions about this change, or comments on the legislation, please contact Kathryn Robertson on 03000 585729 (email: [kathryn.robertson@hmrc.gsi.gov.uk](mailto:kathryn.robertson@hmrc.gsi.gov.uk)).