HM Revenue & Customs

Venture capital trusts return of capital

Who is likely to be affected?

Individuals who invest in venture capital trusts (VCTs) and the VCTs in which they invest.

General description of the measure

This measure will prevent VCTs from returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares.

Distributions made from realised profits will not be affected by this change.

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, which also raised questions about the use of share premium accounts. A summary of responses was published on 12 December 2013, setting out policy options to address the use of share premium accounts to return capital to investors. A number of technical working groups were held to consult on these options.

Detailed proposal

Operative date

This measure will have effect in respect of shares issued on or after 6 April 2014.

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 prevent VCTs from returning share capital to investors within three years of the end of the accounting period in which the VCT issued the shares. This amendment will take effect in respect of shares on or after 6 April 2014.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	+5	+5	+5	+5
	These figures form part of the venture capital tax package set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. This measure, when combined with, the measure to exclude companies already receiving specific government subsidies from the tax advantaged venture capital schemes (the Seed Enterprise Investment Scheme, the Enterprise Investment Scheme, and VCTs), have the following combined exchequer impact that appears in Table 2.1.				
	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	+35	+65	+55	+45
Economic impact	The measure is not expected to have any significant economic impacts. However investments in VCT should support growth and development of SMEs.				
Impact on individuals and households	There may be some impact in terms of a reduction in available tax reliefs on any individual VCT investors who seek to participate in arrangements where a VCT returns capital to them within a short period after fund raising.				
Equalities impacts	This measure is not expected to have a disproportionate impact on any protected group.				
Impact on business including civil society organisations	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 there are only very slight changes to the way they have to keep their accounts. This measure is expected to have no impact on civil society organisations.				
Operational impact (£m) (HMRC or other)	It is not expected that implementing this change will incur any significant additional costs for HM Revenue & Customs.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The measure will be monitored through the amount of funds raised by VCTs 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).