Clause 1: Enterprise investment scheme: approved investment fund as nominee

Summary

1. This clause amends the existing rules in Part 5 of the Income Tax Act 2007 (ITA 2007) for approved Enterprise Investment Scheme (EIS) funds in order to focus investments on knowledge-intensive companies. It also provides additional flexibility for fund managers to make subscriptions in shares and for investors over the years in which relief is given.

Details of the clause

2. Subsection (1) introduces amendments to section 251 of ITA 2007.
3. Subsection (2) amends subsection (1) of section 251. It changes "an approved fund" to an "approved knowledge-intensive fund" and sets out the requirements that must be met for investments to be considered as made via an approved knowledge-intensive fund:
    - That the amounts which the managers have subscribed for shares on behalf of the investor within 12 months after the closing of the fund represent at least 50% of the individual's investment in the fund.
    - That the amounts which the managers have subscribed for shares on behalf of the investor within 24 months after the closing of the fund represent at least 90% of the individual's investment in the fund,
    - That within that 24 month period at least 80% of an individual's investment in the fund is represented by shares in companies which are knowledge-intensive companies at the time the shares are issued,
    - That the managers of the fund have met the appropriate reporting conditions required by HMRC.
4. Subsection (3) inserts new subsection (1A) into section 251 ITA 2007.
5. New section 251(1A) defines "the managers of an approved knowledge-intensive fund".
6. Subsection (4) amends subsection (2) in consequence to the amendments made to section 251 (1) ITA 2007.
7. Subsection (5) inserts new subsection (2A) into section 251 ITA 2007.
8. New section 251(2A) sets out that where section 251 ITA 2007 applies, for the

purposes of claiming relief in the year preceding that in which the relevant shares were issued, the year in which the fund closes is treated as the year in which the shares were issued.

9. Subsections (6), (8), (9) and (11) replace references to an "approved fund" made in section 251 ITA 2007 with "approved knowledge-intensive fund" and "investment fund" with "knowledge-intensive fund".

10. Subsections (7) and (10) substitute "HMRC Commissioners" for a reference to "Commissioners for Her Majesty's Revenue and Customs" and inserts new subsection (8) that defines "HMRC Commissioners".

11. Subsection (12) provides for the amendments made by this clause to come into force in accordance with regulations made by HM Treasury.

Background note

12. The EIS encourages investment in smaller, higher risk trading companies by offering tax reliefs to individual investors who subscribe for new shares in qualifying companies.

13. The intention to introduce a new knowledge-intensive fund structure was announced at Autumn Budget 2017 as part of the government's response to the Patient Capital Review to re-focus the venture capital schemes on higher risk, growing and innovative firms. The new rules were consulted on in 2018 with the stakeholder consensus that additional tax reliefs were not needed but that new flexibilities would be helpful.

14. If you have any questions about this change, or comments on the legislation, please contact Alex Buckley on 03000 586048 email: venturecapitalschemes.policy@hmrc.gov.uk.