

## The March 2020 Budget

Chancellor's Statement of 11 March 2020



### Venture Capital Tax reliefs

Seed Enterprise Investment Scheme ("SEIS")  
Enterprise Investment Scheme ("EIS")  
Venture Capital Trusts ("VCT")  
Social Investment Tax Relief ("SITR")

#### Summary

- Entrepreneurs' Relief
- EMI (Enterprise Management Incentive share options)
- Employment Allowance
- EIS "knowledge intensive" funds

## Chancellor's Budget Statement of 11 March 2020 venture capital tax reliefs

This is the first Budget Statement since 2018; it follows the December 2019 General Election and the UK's exit from the EU on 31 January 2020. There has been much speculation regarding changes the new Chancellor would make to the tax reliefs for investment, particularly for Entrepreneurs' Relief. We also have the backdrop of the need for economic support as a result of the Coronavirus and "levelling up" of the economy.

The Conservative Party manifesto for the General Election specifically referred to the success of the SEIS and EIS. With a background of increasing focus on the efficacy of tax reliefs, it was pleasing to read that the National Audit Office's report "the management of tax expenditures" released on 14 February 2020. This report deems the venture capital reliefs to have a positive impact on behaviour and are said to be 'generally working as intended' (see page 40 of <https://www.nao.org.uk/wp-content/uploads/2020/02/The-management-of-tax-expenditure.pdf> )

### *Today's announcements:*

There are no announcements in today's Budget Statement specific to the venture capital tax reliefs. These tax reliefs are risk finance State aid, and the UK is (at least for the time being) still subject to State aid regulations. Certain changes to these reliefs would require approval from the EU, and so it was not expected that there would be major changes to the conditions for tax relief this time.

As well as temporary measures to help small businesses to deal with the effects of Coronavirus, the Chancellor has announced a number of incentives to "unleash the power of business". These include providing the British Business Bank with the resources to make up to £200 million of additional investment in UK venture capital and growth finance in 2020-21, new financial support for British exporters and by investing in additional business support for SMEs through Growth Hubs. The Government will also extend the Start-Up Loans Programme for prospective entrepreneurs.

### **Entrepreneurs' Relief**

With effect from today, the lifetime limit that any individual can claim under this relief is being reduced from £10 million to £1 million. There are anti-forestalling measures to prevent relief being given in certain circumstances, such as where contracts were entered into with connected parties before Budget day. It is said that over 80% of claimants will be unaffected by this change.

### **EMI (Enterprise Management Incentive share options)**

Many companies which raise funds from EIS or VCT investors also meet the requirements to be able to grant tax favoured share options to employees under the EMI.

It has been announced that the Government will review the EMI scheme "to ensure it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively, and examine whether more companies should be able to access the scheme". It may be easier for the Government to expand the EMI scheme once State aid obligations are reduced.

## Employment Allowance

As from 6 April 2020, the National Insurance Contributions Employment Allowance for smaller businesses is being increased from £3,000 to £4,000.

From 6 April 2020, the Allowance will count as de minimis State aid. Therefore, if a Company is raising investment via SEIS and is eligible for Employment Allowance, it may not be able to raise the full £150,000 under the SEIS. Companies should therefore be mindful of the timing of receiving the Allowance and the overall de minimis State aid limits. For more information on this, please see [here](#).

## EIS “knowledge intensive” approved fund

We expect the Finance Bill to be published on 19 March 2020, and that it will contain amendments to the legislation dealing with EIS approved funds. It has previously been announced that there will be a new EIS approved fund for investment in “knowledge intensive” companies.

It is expected that the new provisions will take effect from 6 April 2020, with the main features including:

- at least 80% of the funds raised will need to be invested in “knowledge intensive” companies within two years
- at least half of the funds raised will need to be invested within 12 months of the fund closing
- uninvested money must be held in cash
- the fund will be required to submit annual statements to HMRC to demonstrate that it continues to meet the relevant conditions
- investors can elect to claim the income tax relief in the tax year in which the fund closes, or the previous tax year

These would replace the current approved EIS fund arrangements, and the only approved funds will be those which invest in “knowledge intensive” companies. It will remain to be seen how popular this fund will be. Although there is the ability to carry back the tax relief, it seems likely that investors would not be able to make a claim for relief until the fund is fully invested, which could take two years or more. Investors will generally have to claim the tax relief by amending a previously submitted income tax return.

It should be noted that the fund may be subject to EU State aid requirements.

This is a summary only, and based on the Budget announcement, rather than on any legislation that will be enacted.

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