

The October 2018 Budget

Chancellor's Statement of 29 October 2018



Venture Capital Tax reliefs

Seed Enterprise Investment Scheme
Enterprise Investment Scheme
Venture Capital Trusts
Social Investment Tax Relief

Summary

- EIS “knowledge intensive” funds
- Digitalisation
- Entrepreneur’s Relief

Chancellor's Budget Statement of 29 October 2018 venture capital tax reliefs

Finance Act 2018 introduced a number of new requirements for the venture capital reliefs, designed to ensure that the reliefs provided value for money for the Exchequer. These changes included the new risk-to-capital condition for all the tax reliefs, and additional requirements for VCTs. This year it was not expected that there would be major changes to the conditions for tax relief.

There are welcome and positive statements made within HM Treasury's accompanying policy documents, which help to demonstrate the Government's clear commitment to the longevity of the reliefs. It is clear however that the reliefs will be kept under review.

Today's main announcement for the venture capital tax reliefs is the Government's response to the consultation on the new EIS fund for "knowledge intensive" investments, first announced in the 2017 Budget.

The documents also note that there has been a 15% reduction in the number of advance assurance applications, indicating that the targeting measures introduced last year are effective in focussing investment in line with Government policy.

EIS "knowledge intensive" approved fund

It was announced that this new fund will be introduced in the Finance Bill of 2019-20 and is intended to take effect from 6 April 2020. Its main features are expected to include:

- 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

Many respondents to the consultation were of the view that the method of claiming tax relief should be simplified, and advocated an upfront relief to give investors certainty in order to encourage investment. One particular respondent is quoted arguing otherwise. The Government has taken the decision not to provide an upfront relief, but instead to allow the carry back of the relief to the tax year before the date the fund closes.

It should be noted that the fund would be subject to EU State aid requirement, and so the outcome is dependent on EU exit negotiations.

We welcome the Government's further support for "knowledge intensive" companies. It seems that it will be necessary for HMRC to confirm specifically whether companies are "knowledge intensive".

Digitalisation

It is pleasing to see that the Government has proactively engaged with the industry on improving the administrative process associated with the EIS. Using the new online forms released this month, HMRC will now accept digital EIS1 certificate submissions from applicant companies, and have committed to issuing digital EIS2 and EIS3 compliance certificates to businesses and their investors. This digitalisation comes as a result of industry engagement and will help to remove reliance on signed paper certificates for investors and fund managers. We have already fed comments back to HMRC on the new digital forms.

We hope the new process will significantly reduce the administrative burden on companies and EIS fund managers.

You may also be interested in one other announcement:

Entrepreneurs Relief

The period for which shares must be held in order to benefit from the reduced rate of capital gains tax of 10% is increased from one year to two years.

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

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