The 2016 Autumn Statement

Chancellor's Statement of 23 November 2016

Venture Capital Tax reliefs

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

Summary

- SEIS, EIS and VCT technical changes
- Advance assurance
- Replacement capital
- Expansion of Social Investment Tax Relief

PhilipHare&Associates

4-6 Staple Inn, High Holborn, London, WC1V 7QH

Tel: 020 3141 9108
philiphareassociates.tax

Philip:	philip@philiphareassociates.tax
Andrew:	andrew@philiphareassociates.tax
Mike:	mike@philiphareassociates.tax
Alison:	alison@philiphareassociates.tax

Philip Hare & Associates LLP is a limited liability partnership registered in England and Wales under number OC394844. Its registered office address is 4-6 Staple Inn, High Holborn, London, WC1V 7QH.

Chancellor's 2016 Autumn Statement

This was the first Statement by the new Chancellor, Philip Hammond MP. In his Statement, he sought to balance downward revisions of the economic outlook with the Government's intention to prioritise improvements in productivity and 'high value investment' in the UK economy. The Chancellor's support for small business in a time of increased economic uncertainty is welcome.

Venture capital tax reliefs

The Statement announced a number of measures designed to smooth some of the technical difficulties of the SEIS, EIS and VCT rules.

Share conversions for SEIS and EIS

The Finance Bill 2017 will include amendments to clarify the EIS and SEIS rules for share conversion rights, for shares issued on or after 5 December 2016. Share conversions may take place prior to a flotation or where share capital needs to be reorganised for a fund raising round. A conversion of shares is regarded by HMRC as a disposal of shares, and this can lead to a loss of the tax reliefs claimed. We have discussed this with HMRC on many occasions, and we are pleased that this matter is being considered.

VCT technical matters

The Finance Bill 2017 will also:

- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures; this will apply for investments made on or after 6 April 2017. This is to align the VCT rules with the EIS provisions; and
- make provision for the VCT regulations to be amended in respect of certain share for share exchanges. The VCT (Exchange of Shares and Securities) Regulations have not so far been updated to reflect changes to the VCT legislation made in recent years. Updating the Regulations should provide more certainty to VCTs where investments are restructured or acquired.

Advance assurances

Since 2012, the volume of advance assurance applications has increased, and there are additional legislative requirements to meet. With pressure on HMRC resources, this has led to some significant delays in companies obtaining advance assurance for proposed investments. We welcome the announcement that a consultation will be carried out into options to streamline and prioritise the advance assurance service provided by HMRC. We are aware the delays have caused problems for some companies, and we hope that quicker responses will assist smaller businesses in taking their expansion plans forward.

HMRC guidance on the Finance (No. 2) Act 2015 changes were published for consultation in May 2016. HMRC have said they will be considering the consultation responses by the end of this year.

Replacement capital

Although in 2015 the Government stated that it would consider allowing an element of replacement capital for VCT and EIS investments, it will not be introducing provisions for replacement capital at this time. However this will be reviewed over the longer term. It is recognised that any new legislation allowing replacement capital is likely to be complex, and may require State aid approval. The ability to introduce this may be easier after Article 50 is triggered. Whilst the ability to use replacement capital to help businesses scale up is desirable, many may regard it as a lower priority compared with share conversions and improving the advance assurance process.

Expansion of the Social Investment Tax Relief

SITR was introduced in 2014. The amounts which can be invested are relatively small, as the scheme has to meet the requirements of de minimis State aid. In the 2014 Autumn Statement, the Government announced it would apply for EU State aid clearance for an enlarged SITR scheme, with a view to increasing the limit on the amount of SITR investment an organisation can receive to £5 million per year and £15 million in total.

Today it was announced that from 6 April 2017:

- the amount of investment that a social enterprise, which is less than seven years old, can raise through SITR will increase to £1.5 million - up from €344,827 (about £250,000) over 3 years;
- certain activities, including asset leasing and on-lending to other social enterprises, will no longer be a qualifying trade for SITR purposes. Investment in nursing homes and residential care homes will be excluded initially, however the Government intends to introduce an accreditation system to allow such investment to qualify for SITR in the future; and
- the limit on full-time equivalent employees will be reduced to fewer than 250.

The Government will undertake a review of SITR within two years of its enlargement. It seems that the review and the age and employee limits are in line with State aid obligations.

In accordance with the usual practice, an initial draft of the Finance Bill for 2017 will be published for consultation.

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

Philip Hare & Associates LLP is a limited liability partnership registered in England and Wales under number OC394844. Its registered office address is 4-6 Staple Inn, High Holborn, London, WC1V 7QH.