The Second Budget of 2015

Chancellor's Statement of 8 July 2015

Venture Capital Tax reliefs

Seed Enterprise Investment Scheme
Enterprise Investment Scheme
Venture Capital Trusts

Summary

- Amended legislation for EIS and VCT investments

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Today's Budget Statement is the first following the General Election. It includes significant announcements regarding the legislation governing investments by VCTs and by individuals under the EIS. The Government have been negotiating with the EU regarding the VCT and EIS regimes, and the proposed changes to the legislation are designed to ensure that the VCT and EIS legislation is compliant with Articles 107 and 108 of the Treaty on the Functioning of the European Union.

Today's announcements in relation to the 'age limit' and 'lifetime limit' are different from those proposed in March, no doubt due to the negotiations. It is proposed that:

- the 'age limit' will be seven years, not twelve years (but ten years for 'knowledge intensive' companies)
- the 'lifetime limit' will be £12 million, rather than £15 million (but £20 million for 'knowledge intensive companies)

There has been a new announcement about the use of EIS and VCT money. Since 6 April 2012 it has not been possible to fund management buyout (MBO) transactions using EIS money or VCT funds raised after that date. That rule also affects buy and build strategies. It is now proposed that EIS or VCT money cannot be used to acquire shares in another company or the trade of another company (including goodwill and other intangibles) – this is a wider prohibition than before, and also includes VCT funds raised before 2012.

As previously announced, the new rules will require that all investments are made with the intention to grow and develop a business, and that EIS investors are 'independent' from the company when EIS shares are issued.

The Government intends that the restrictions should take effect in relation to investments, and additions to existing investments, made on or after Royal Assent to the Finance Act, expected in the Autumn of 2015, so investments made before Royal Assent will be subject to current legislation.

We expect the Finance Bill to be published next week, when further details of the changes will be apparent. We will be preparing a summary of the changes when they are publicly available.

Funding following SEIS investment

One change that takes effect from 6 April 2015 is the removal of the requirement that at least 70% of funds raised from SEIS investments must be spent before any qualifying investment can be made by VCTs or shares issued to individuals seeking EIS tax reliefs.

If the proposed legislation for this is the same as that published in March, the qualifying VCT or EIS investment still cannot be made on the same day as an SEIS investment.

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

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