PhilipHare&Associates

The March 2017 Budget

Chancellor's Statement of 8 March 2017

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
- Expansion of Social Investment Tax Relief
- Patient capital review

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Chancellor's Budget Statement of 8 March 2017

Today's Budget is the first for the Chancellor, Philip Hammond MP. It was also the last Budget to be given in the Spring; going forward all Budget announcements will take place in the Autumn. This will give more time for consultation on legislation and allow more time to adjust for changes. Generally, new tax legislation will now come into force during the Summer on what will be known as Legislation Day.

As expected, it was very quiet in relation to the tax advantaged venture capital schemes, with the Budget statement confirming the announcements made in the Autumn Statement. It is not long since the changes were made in 2015, and a time of stability is welcome.

Here is a reminder of the proposed changes.

Share conversions for SEIS and EIS

The Finance Bill 2017 includes amendments to clarify the EIS and SEIS rules for share conversion rights for shares issued on or after 5 December 2016. Examples of where shares in a company are converted may be prior to a flotation or where share capital needs to be reorganised for a fund raising round. HMRC's position continues to be that a conversion of shares is a disposal of shares, and so a conversion of shares can lead to a loss of the tax reliefs claimed.

VCT technical matters

The Finance Bill 2017 will also:

- bring consistency between the EIS and VCT rules where a new 'mirror image' holding company is superimposed over a company which has EIS or VCT investors. Under the EIS rules, HMRC have treated a new holding company as inheriting the funding history of the old company, which then can allow it to receive further follow on funding. This has not been the case for VCTs, but the Finance Bill 2017 aims to give the equivalent provisions for VCT investment for investments made after 5 April 2017; and

- make provision for the VCT regulations to be amended in respect of transactions for certain investments held by VCTs. The VCT (Exchange of Shares and Securities) Regulations have not been updated to reflect changes to the VCT legislation made in recent years, and they do not apply to non-qualifying holdings. Updating the Regulations and bringing non-qualifying holdings within the scope of the Regulations should provide more certainty to VCTs where investments are restructured or acquired. The amendments to the Regulations are expected to come into force in the second half of 2017.

Advance assurance consultation

Following the Autumn Statement, HMRC held a consultation with a view to streamlining and prioritising the advance assurance process. A summary of responses will be published in the near future. We look forward to engaging with HMRC further on this; the advance assurance service is critical to small companies raising funds from EIS or VCT investors.

Expansion of the Social Investment Tax Relief

From 6 April 2017:

- the amount of investment that a social enterprise, which is less than seven years old, can raise through SITR over a three year period will increase to £1.5 million - up from about £250,000;

- 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.

SITR relief will not be available where:

- an investor already holds an investment in the social enterprise; or

- there is an arrangement with the main purpose of delivering a benefit to an individual or party connected to the social enterprise.

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.

Patient capital review

The Government are undertaking a review of patient capital with the aim "to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money". A link can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597467/spring_budget_2017_web.pdf

We understand that VCT and EIS funding will be included as part of the review. A consultation will take place in May 2017 with a view to making recommendations to be announced in the 2017 Autumn Budget Statement.

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

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