The Autumn 2024 Budget
Chancellor's Statement of 30 October 2024

Venture Capital Tax reliefs

Seed Enterprise Investment Scheme
Enterprise Investment Scheme
Venture Capital Trusts

Summary

- No changes announced to the SEIS, EIS and VCT tax reliefs
- Increase in capital gains tax rates
- Reduction in Business Property Relief and Agricultural Property Relief from Inheritance Tax

Philip Hare & Associates LLP is a limited liability partnership registered in England and Wales under number OC394844. Its registered office address is 6 Snow Hill, London, EC1A 2AY.

Chancellor's Budget Statement of 30 October 2024

This was the first Budget Statement of the new government. There has perhaps been more speculation in advance of this Statement than for any recent Budget. Over recent days the government has indicated that they would introduce tax increases and that some tax reliefs would be reduced.

The Chancellor began her statement affirming the vital importance of investment to drive economic growth, and the need to raise revenues to fund public services.

SEIS, EIS and VCT related considerations

The previous government applied to the EU for the extension of the EIS and VCT income tax relief for a further 10 years. During the summer it was confirmed that the EU had no objection to this extension, and in early September the requisite Treasury Order was laid in Parliament confirming that the new sunset date for these tax reliefs is 5 April 2035.

No changes to the EIS or VCT rules were made at that time. Given the recent EU approval, it is not surprising that there are no changes to the venture capital tax reliefs in today's Budget Statement.

The Chancellor mentioned the EIS and VCTs positively and said: "we will continue to work with leading entrepreneurs and venture capital firms to ensure that our policies support a positive environment for entrepreneurship in the UK."

Other taxes and reliefs for investment

Capital Gains Tax

The Chancellor announced that the rates of Capital Gains Tax (CGT) will increase from 10% to 18% (for basic rate taxpayers), and from 20% to 24% (for other taxpayers). The rates of CGT on real estate remain unchanged.

There are CGT reliefs which are designed to support entrepreneurship, such as Business Asset Disposal Relief and Investors' Relief, which give a reduced rate of CGT for gains of up to £1 million; currently this 10%. The rate of CGT on assets which qualify for these reliefs is to be increased to 14% from 2025/26 and 18% from 2026/27. Shares which have been received on the exercise of Enterprise Management Incentive (EMI) share options will also have a higher rate of CGT.

Shares which have SEIS and EIS income tax relief attributed to them are not subject to CGT if they are disposed of at a profit after a three-year restricted period. Share loss relief against income tax can be obtained where SEIS and EIS shares are disposed of at a loss. Profits and losses on VCT shares are exempt from CGT. These important tax reliefs will continue.

It should be noted that where capital gains have been deferred into existing EIS investments (and by subscriptions for VCT shares before April 2004), those capital gains will crystallise at the prevailing rate of CGT at the time those deferred gains revive.

Inheritance Tax

Business Property Relief (BPR) from Inheritance Tax is available for certain unquoted shares, a business or an interest in a business (subject to a minimum holding period). There is a similar Agricultural Property Relief for agricultural business assets (APR).

One of the main purposes of BPR and APR was to enable family businesses and farming assets to pass to the next generation without having to be broken up to pay inheritance tax.

SEIS and EIS shares will generally also meet the requirements for their shares to attract BPR. Shares in VCTs do not attract BPR since VCT shares are listed on a main stock exchange.

The current rate of BPR is to give 100% relief on qualifying business assets and shares and was introduced by Finance (No 2) Act 1992.

It was disappointing that the Chancellor announced effective reductions in APR and BPR from 6 April 2026. The Budget documents says that the changes restrict "the generosity of agricultural property relief and business property relief for the wealthiest estates".

- Assets which are worth more than £1 million will attract only 50% relief (rather than 100% relief). This will apply to unquoted SEIS and EIS investments. These changes are likely to mean it is more likely that family businesses will have to be split up on the death of the owners.

- Shares listed on the Alternative Investment Market (AIM), and other junior markets which are not designated as "recognised stock exchanges" such as Aquis, will in all circumstances only obtain relief at 50%, rather than the current 100%. This means that companies will find it more difficult to raise funds on the junior public markets.

This is a summary only, issued on 30 October 2024 based on the Budget Statement, rather than on legislation that will be enacted.

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