Second Finance Bill of 2017

8 September 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
- Expansion of Social Investment Tax Relief
- Patient capital review

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Second Finance Bill 2017

A number of amendments to the venture capital tax relief regimes were originally announced in the 2016 Autumn Statement, and included in the draft 2017 Finance Bill. All of those provisions were dropped from the truncated Finance Act, which was passed prior to the General Election.

The Finance Bill published today reinstates those proposed provisions, with retrospective effect.

Share conversions for SEIS and EIS

The Finance Bill permits shares issued under the SEIS and EIS to have conversion rights, without those rights to conversion being treated as a pre-arranged exit. This relaxation will apply to shares issued on or after 5 December 2016. Examples of where shares in a company are converted are:

- prior to a flotation; or
- where share capital needs to be reorganised for a fund raising round or an exit.

We welcome this amendment. 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 also:

- brings 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, and this can allow it to receive further follow on funding after the initial seven years (or ten years if the company is "knowledge intensive") following its first commercial sale. This has not been the case for VCTs, but the Finance Bill aims to give the equivalent provisions for VCT investment for investments made after 5 April 2017; and

- makes 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 towards the end of 2017 or early 2018.

These proposals will give some more flexibility for VCT investments.

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;
- 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, however the Government has previously said it intends to introduce an accreditation system to allow such investment to qualify for SITR in the future;
- a financial health requirement will apply to a social enterprise raising funds under the SITR; 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, unless that investment benefited from SITR relief; or
- there is an arrangement with the main purpose of delivering a benefit to an individual or party connected to the social enterprise; or
- there are disqualifying arrangements, similar to those prohibited for EIS and VCT investment.

Patient capital review

It is expected that further changes will be made to the schemes in the Autumn Statement, following the current consultation regarding patient capital. It is likely that the schemes will be more narrowly focussed, to target innovative and higher growth businesses.

This is a summary only, and based on the draft Finance Bill, rather than on any enacted legislation.