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## VENTURE CAPITAL SCHEMES

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### Who is likely to be affected?

1. Investors under the Enterprise Investment Scheme (EIS), the Corporate Venturing Scheme (CVS) and the Venture Capital Trust (VCT) scheme, companies which qualify to attract investment under those schemes, and venture capital trusts themselves.

### General description of the measure

2. Subject to State aid approval of this change by the European Commission, the limit on the amount invested on which an investor can claim EIS income tax relief in any one year will be increased from £400,000 to £500,000.
3. In addition, the activities of shipbuilding and coal and steel production will be excluded from all three schemes. Companies whose trade consists to a substantial extent of those activities will not qualify under the schemes. As a result, investors will not be able to receive tax relief under these schemes for investments in companies carrying on any of those activities.

### Operative date

4. For EIS, the changes to qualifying activities will have effect for shares issued on or after 6 April 2008, but the change to the investment limit can only have effect once the European Commission has given approval. When State aid approval is received, the new limit will be brought into force but will have effect on and after 6 April.
5. For CVS, the changes to the qualifying activities will have effect for shares issued on or after 6 April 2008.
6. For VCTs, the changes to the qualifying activities will have effect for money raised on or after 6 April 2008 (but not for money derived from the investment of money raised before that date).

## **Current law and proposed revisions**

### EIS income tax relief and investment limit

7. The limit on the amount on which an individual can receive EIS income tax relief is currently in section 158(2) of Income Tax Act 2007 (ITA).
8. Legislation will be introduced in Finance Bill 2008 to raise this limit, but the changes will only have effect when a Treasury order is laid, following State aid approval of the change.

### Qualifying activities

9. The venture capital schemes are intended to support investment in smaller, higher-risk, trading companies. Most trades qualify under the schemes, but not those that consist to a substantial extent of listed 'excluded activities'.
10. These excluded activities are listed in the relevant legislation (for EIS – section 192 of ITA; for VCTs – section 303 of ITA and for CVS – paragraph 26 of Schedule 15 to Finance Act 2000). Where necessary, more detailed explanation and definitions follow the list.
11. The proposed changes would, in each case, add three new activities – shipbuilding, coal production and steel production – to the list, together with definitions. The definitions are based on those provided by the European Commission, for State aid purposes.

## **Further advice**

12. If you have any questions about these changes, please contact David Harris on 020 7147 2562 (email: david.harris@hmrc.gsi.gov.uk), or Richard Kent on 020 7147 2635 (email: richard.kent@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)