Enterprise Investment Scheme and Venture Capital Trusts: Increases to Thresholds

Who is likely to be affected?

Companies raising money under the Enterprise Investment (EIS) and Venture Capital Trust (VCT) schemes, and individuals investing under the schemes.

General description of the measure

This measure will increase the annual amount that an individual can invest under the EIS.

Subject to State aid approval, legislation will also be introduced in Finance Bill 2012 to increase:

- the thresholds for the maximum size of qualifying company for both EIS and VCTs; and,
- the maximum annual amount that can be invested in an individual company under all the venture capital schemes.

To ensure compliance with State aid obligations, the legislation will also cap the amount of investment which a company may receive under the schemes, where it has received other State-aided risk capital investment in the preceding 12 months.

Policy objective

The aim of this measure is to help smaller, riskier UK companies, which face barriers in raising external equity finance, to compete for finance, making it easier for these companies to be established and to grow.

Background to the measure

Budget 2011 announced a number of changes to the EIS and VCT rules, including increases to the company size limits, the rate of EIS income tax relief and the annual EIS investment limit, as well as proposals to focus the reliefs better and simplify the rules, which were consulted on in summer 2011.

State aid approval for the increases in the rate of EIS relief and the EIS annual amount was received in September 2011.

This Tax Information and Impact Note updates and replaces the note published on 6 December 2011.

Detailed proposal

Operative date

The increases to the company size limits, and the annual amount of investment that a company may receive will, subject to State aid approval, have effect for investee company shares issued on or after 6 April 2012.

The increase in the annual amount that an individual can invest under the EIS has already received State aid approval and will apply to the tax year 2012-13 and subsequent years.

Current law

The EIS and VCT legislation is in Parts 5 and 6 (respectively) of the Income Tax Act (ITA) 2007.

The limit (currently £500,000) on the annual amount which an individual can invest under EIS) is set by section 158 ITA.

The company size threshold (gross assets of no more than £7million immediately before the share issue and £8 million after) is set by section 186 ITA (for EIS) and section 297 ITA (for VCTs).

The limit on the number of employees (currently, fewer than 50) is at sections 186A ITA and 297A ITA.

The £2 million limit on the amount of investment that a company can raise under both schemes is defined at section 173A ITA (for EIS) and section 292A ITA (for VCTs).

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to increase:

- the employee limit to fewer than 250 employees;
- the size threshold to gross assets of no more than £15 million before investment and £16 million after; and,
- the maximum annual amount that can be invested in an individual company, to £5 million.

Subject to State aid approval these changes will apply to shares in investee companies that are issued on or after 6 April 2012. There is provision for the legislation to take effect subject to a Treasury appointed day order, once State aid approval has been received.

Legislation will also restrict to £5 million in total the amount of investment which a company may receive in a 12-month period from any State-aided risk capital measure, including EIS and VCT.

Legislation will also increase the annual amount that an individual can invest under the EIS to £1 million. This has already received State aid approval and will apply to the tax year 2012-13 and subsequent years.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	The figures were set out as part of a wider reform to the EIS and VCTs in Table 2.1 of Budget 2011 and have been certified by the Office for Budget Responsibility. More detail can be found in the policy costings document published alongside Budget 2011. This element of the reform is expected to reduce receipts by approximately £45 million per annum.				
Economic impact	Smaller, higher risk companies tend to face barriers in raising equity finance, and tax relief is given under the EIS and VCT schemes to address this market failure and incentivise such investment. The Government is proposing to increase company size and investment thresholds because of evidence that the market failure goes wider than the companies and investments included by the current limits.				

Impact on individuals and households	Around 10,000 individual investors and households invested through EIS in 2008-09, the last year for which figures are available and around 6,300 through VCTs. Individuals investing under the schemes benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies and favourable capital gains tax treatment on eligible investment.
Equalities impacts	Analysis of self-assessment returns indicates that EIS and VCT investors tend to be male, located in the South of England and have higher overall income levels. The changes to the schemes are not likely to change that position. The Government has no data to suggest that there will be impacts on other groups. From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.
Impact on business including civil society organisations	Around 2,000 companies raise funds under EIS each year and in total around 1,600 through VCTs for all years up to 2007-08. The change is expected to increase the amount of equity investment in smaller companies, potentially including some civil society organisations. There may be some on-going administrative impact on companies who have to advise HMRC of any other State-aided risk capital investment in the preceding twelve months. However, as this is information which they will already have, the impact is expected to be negligible. VCTs have to apply the rules to determine whether or not a potential investee company will qualify. However, as they already apply limits, albeit lower ones, there should be only a one-off compliance cost of familiarisation with the higher limits, which is expected to be negligible. Overall the impacts on businesses and civil society organisations is expected to be negligible.
Operational impact (£m) (HMRC or other)	There will be some small costs in updating the forms and guidance.
Other impacts	<u>Small firms impact test:</u> There will be a positive impact for smaller firms receiving investment under the Enterprise Investment Scheme, as individuals will be able to invest higher amounts and a wider range of companies will be able to benefit from investment. <u>Competition assessment:</u> The changes should not have any impact on competition as they do not affect or limit suppliers' ability to compete.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment, are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@ hmrc.gsi.gov.uk).