

**EXPLANATORY MEMORANDUM TO**  
**THE VENTURE CAPITAL TRUST (AMENDMENT) REGULATIONS 2016**  
**2016 No. 1192**

**1. Introduction**

- 1.1 This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC), on behalf of HM Treasury, and is laid before the House of Commons by Command of Her Majesty.

**2. Purpose of the instrument**

- 2.1 The instrument specifies additional information a venture capital trust (VCT) must provide to HMRC when making its return of information after the end of an accounting period.

**3. Matters of special interest to Parliament**

*Matters of special interest to the Select Committee on Statutory Instruments*

- 3.1 None.

*Other matters of interest to the House of Commons*

- 3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

**4. Legislative Context**

- 4.1 The instrument is being made to enable HMRC to obtain more information from VCTs to support monitoring and compliance with the VCT scheme rules in Part 6 of the Income Tax Act 2007, including additional rules introduced by Schedule 6 to the Finance (No. 2) Act 2015.

**5. Extent and Territorial Application**

- 5.1 The extent of this instrument is the United Kingdom.  
5.2 The territorial application of this instrument is the United Kingdom.

**6. European Convention on Human Rights**

- 6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

**7. Policy background**

*What is being done and why*

- 7.1 On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to

negotiate, implement and apply EU legislation. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

- 7.2 The information VCTs must provide to HMRC at the end of an accounting period is being increased.
- 7.3 VCTs are listed companies approved by HMRC. VCTs and their individual investors receive a range of generous tax reliefs, provided the VCT meets a number of conditions, including investing at least 70% of its funds in qualifying companies. Qualifying companies are generally small, early stage, higher-risk companies that would otherwise struggle to access funding from the market to help them grow and develop.
- 7.4 VCTs are required to provide HMRC with a return of information within 12 months after the end of an accounting period. The information to be provided in a return is specified in the Venture Capital Trust Regulations 1995 (SI 1995/1979). The specified information includes certain information about the VCT itself and the companies in which it has invested during the accounting period. HMRC needs VCTs to provide additional information in a return for a number of purposes.
- 7.5 The VCT scheme is a State aid. Additional rules were introduced by Finance (No.2) Act 2015 to align with new European Union rules and target the scheme better on higher-risk, newer companies. Additional information about the investee companies, such as their trade sector, age and number of employees will be required.
- 7.6 HMRC needs further information about how VCTs manage their funds. The new information includes details of the VCT's fund manager and how they manage "protected monies" which are monies invested in line with the rules that applied at the time the original funds were raised by the VCT.
- 7.7 The additional information will be used to support HMRC's compliance monitoring and a full evaluation of the scheme in 2018-19. It was a condition of receiving State aid approval for VCTs in 2015 that an independent evaluation of the scheme should be carried out. A report is due to be provided to the European Commission by March 2019.
- 7.8 The record keeping requirement will be extended from six years to 10 years to meet European regulations on record keeping.

#### ***Consolidation***

- 7.9 The Venture Capital Trust Regulations 1995 are not being consolidated by this instrument, owing to time and resource constraints. HMRC is planning to consolidate the regulations in 2018.

### **8. Consultation outcome**

- 8.1 There has been no public consultation on this measure. The instrument amends the information required on a return and ensures that HMRC can monitor VCTs' compliance with the VCT rules.
- 8.2 There are fewer than 100 VCTs and HMRC has written to each one. It has also held a meeting with VCT representatives (generally the VCTs' fund managers and other advisers). HMRC will continue to work with the VCTs and their representatives as the new return process is developed.

## **9. Guidance**

- 9.1 HMRC will be working closely with VCT representatives on the development and implementation of the new return process.
- 9.2 At present VCTs provide their returns on paper in a non-standard format making it difficult to analyse and compare. HMRC will introduce a new standard format of return in 2017 that VCTs will be able to submit electronically.

## **10. Impact**

- 10.1 The impact on business, charities or voluntary bodies is confined to VCTs only. The VCTs will need to provide more information to HMRC and may need to adjust their systems to enable them to submit returns in a standard electronic format.
- 10.2 The impact on the public sector is the development of a new process and IT to enable VCTs to submit their returns electronically so that HMRC can effectively receive and process the increased information required by this instrument. The new process will save the costs of manually entering non-standard return information on an electronic database.
- 10.3 A Tax Information and Impact Note covering this instrument will be published on the website at <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.

## **11. Regulating small business**

- 11.1 The legislation does not apply to activities that are undertaken by small businesses.

## **12. Monitoring & review**

- 12.1 The information requirements will be reviewed as part of the work to support the independent evaluation in 2018-19.

## **13. Contact**

- 13.1 Cathy Wilson at HM Revenue and Customs Telephone: 03000 536678 or email: [venturecapitalschemes.policy@hmrc.gsi.gov.uk](mailto:venturecapitalschemes.policy@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.