

**EXPLANATORY MEMORANDUM TO
THE VENTURE CAPITAL TRUST (WINDING-UP AND MERGERS) (TAX)
(AMENDMENT) REGULATIONS 2011**

2011 No. 660

1. This explanatory memorandum has been prepared by HM Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Purpose of the instrument**

- 2.1 This statutory instrument amends the Venture Capital Trust (Winding up and Mergers) (Tax) Regulations 2004 (S.I. 2004/2199) (“the principal Regulations”), as a consequence of changes to the primary legislation which affect Venture Capital Trusts. It also updates legislative references in the principal Regulations to reflect the rewriting of the primary legislation into the Income Tax Act 2007.

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

- 3.1 None

4. **Legislative Context**

- 4.1 These Regulations amend the Venture Capital Trust (Winding up and Mergers) (Tax) Regulations 2004 (S.I. 2004/2199).

5. **Territorial Extent and Application**

- 5.1 This instrument applies to all of the United Kingdom.

6. **European Convention on Human Rights**

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 Venture Capital Trusts exist to encourage investment into small, higher-risk companies. The Finance (No 3) Act 2010 made some changes to the legislation relating to Venture Capital Trusts in order to

comply with European Commission State aid requirements. One of these changes increases the percentage of its qualifying holdings which a Venture Capital Trust must hold in equity instruments, from 30% to 70%. This statutory instrument updates the principal Regulations to reflect that change.

- ***Consolidation***

7.2 This instrument amends the Venture Capital Trust (Winding up and Mergers) (Tax) Regulations 2004. There are no plans to consolidate the revised Regulations in the future.

8. Consultation outcome

8.1 The primary legislative changes which have given rise to this Instrument were consulted on both at draft stage with a working group representing the Venture Capital Trust sector, and with the sector as a whole on publication. The sector understands that the changes are made as a condition of the European Commission granting State aid approval for the Venture Capital Trust scheme.

9. Guidance

9.1 The changes to both the primary legislation and the principal Regulations will be reflected in HM Revenue and Customs' Venture Capital Schemes Manual.

10. Impact

10.1 The impact on business, charities or voluntary bodies and the public sector were recorded in an Impact Assessment covering the primary legislation which this instrument helps implement. The Impact Assessment can be found at:
<http://www.hmrc.gov.uk/budget2010/vent-cap-ent-man-ia-2540.htm>.

11. Regulating small business

11.1 The legislation may apply to some Venture Capital Trusts which are small businesses.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is to provide appropriate guidance on the effect of the legislation.

12. Monitoring & review

12.1 Impacts will be assessed on an ongoing basis. It is anticipated that any significant impact on VCT fundraising will be seen by 2011/12.

13. Contact

Kathryn Robertson at HM Revenue and Customs Tel: 020 7147 2589 or email: kathryn.robertson@hmrc.gsi.gov.uk can answer any queries regarding the instrument.