

Cathy Wilson
HMRC Venture Capital Schemes
CTIS, 3/63
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London, SW1A 2BQ

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31 August 2016

Dear Ms Wilson,

New Guidance on Finance (No.2) Act 2015 EIS and VCT Rules

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Tax Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to comment on HMRC's draft guidance on the Changes to the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) rules introduced by Finance Act (No.2) 2015.

We generally believe that the guidance to the rules is adequately drafted and much needed in order to explain how some rules apply, particularly as there was some uncertainty among market participants when the new rules came into force. We welcome that examples have been included in some instances.

Whilst we appreciate the hard work provided by the Inspectors within the Small Companies Enterprise Centre and the contribution they provide in respect of the Venture Capital Schemes, it is worth noting the added burden the new rules have placed on many advance assurance applications. This has led to increased waiting times for responses, which have now stretched to seven weeks and have placed additional constraints on companies seeking to raise financing for their businesses. We believe that increased resources should be injected into the department to ensure that the service allows the venture capital schemes to achieve its objective of supporting small, growing companies that are vital to the UK economy.

We have commented below in more detail to the contents of the guidance from the point of view of our members, small and mid-size quoted companies.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

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8130 – Growth and development

We support the requirement that any money raised from EIS and VCT investments must be for the company's organic growth and development or, where the company is a parent company, the group's. However, we note that venture capital schemes such as EIS and VCT should be targeted at growing companies, regardless of its age.

8140 – Use of money: no business acquisitions

Example 12 suggests the need for whole new clientele when occupying existing pub or bar premises. However, whilst it is often seen in the food and beverages sector for the same premises to be used again and again with extensive refurbishment and rebranding taking place, we believe that it can be difficult to establish whether a new clientele has been established. We therefore ask that this point is clarified or omitted entirely.

8150 – Maximum age limit for companies receiving risk finance investments

As we have mentioned before, we continue to believe that venture capital schemes such as EIS and VCT should be targeted at growing companies, regardless of their age. We have seen examples of growth companies that have sought and received investment, which would be ineligible if the time limit is imposed.

We note that a longer history of trading is not an impediment to growth as opportunities may not have been previously available and the potential for growth may well still be dependent on obtaining funding for longer established companies.

We believe that the time limit imposed could exclude companies that would genuinely benefit from investment and the funding of which would be in line with the overarching principles.

8151 – The basic age condition: first commercial sale

Example 17 makes reference to funding being available until 31 May 2016. However, this would not be eligible due to the 'sunset clause' in Section 157 of the Income Tax Act 2007. We ask that examples used in the manual do not fail any tests that they are not intended to assess.

8157 – New product or geographical market

Determining whether a business has entered a new geographical market is difficult for technology companies, particularly those that do not have a defined geographical region. We therefore ask that more examples be used for companies operating in this sector in order to provide clarity for those businesses operating over the internet as to whether a new geographical region has been entered.

8158 – Follow-on funding: condition A and C

The manual states the need for follow-on funding to be anticipated in the company's business plan at the time of the initial investment. However, there is no reference to this within the legislation. We believe that it therefore becomes difficult for those companies seeking additional funding to also show it was needed at the initial investment when there was no requirement to do so at that time. We therefore seek clarification if this was intended by parliament to be included within the legislation.

8160 – Knowledge intensive companies

We support the increased employee limit for qualifying knowledge-intensive companies to 500. We note that a number of our members have close to 250 employees and therefore believe that this will have a beneficial impact in helping eligible small and mid-size quoted companies raise equity finance and grow.

8167 – The skilled employees condition

The manual states that a skilled employee is one who holds a higher education qualification of a Master's degree or above. However, this is often not the case for small and mid-size quoted companies, where many employees will hold up to a Bachelor's degree. We believe that there are also few job roles within these companies that will require them to hold a qualification at Master's level or above. This can therefore make it difficult for many companies to satisfy the skilled employees condition. We therefore seek clarification as to the level of qualification required and ask that this be more reflective of many jobs within the workplace.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'T. Ward', with a stylized flourish at the end.

Tim Ward

Chief Executive

Quoted Companies Alliance Tax Expert Group

Neil Pamplin (Chairman)	Grant Thornton UK LLP
Paul Fay (Deputy Chairman)	Crowe Clark Whitehill LLP
Ray Smith	Clyde & Co LLP
Sam Dames	CMS Cameron McKenna LLP
Daniel Hawthorne	Dechert
Vijay Thakrar	Deloitte LLP
Emma Bailey	Fox Williams LLP
Shofiq Miah	
Neil Armstrong	Frontier Developments PLC
Holly Edwards	
Matthew Rowbotham	Lewis Silkin
Tim Davies	Mazars LLP
Tim Crosley	Memery Crystal LLP
Nick Burt	Nabarro LLP
Mark Joscelyne	Olswang
Michael Bell	Osborne Clarke
Tom Gareze	PKF Littlejohn LLP
Catherine Heyes	
Alf Orban	PricewaterhouseCoopers LLP
Aidan Sutton	
Richard Jones	RSM
Dan Robertson	