EXPLANATORY MEMORANDUM TO

THE VENTURE CAPITAL TRUST (AMENDMENT) REGULATIONS 2014

2014 No. 1929

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

2. Purpose of the instrument

The instrument amends the Venture Capital Trust Regulations 1995 (SI 1995/1979) (the "Principal Regulations") to ensure that where shares in a venture capital trust (a "VCT") are subscribed for by a nominee, HMRC is able to identify the beneficial owner and require the VCT, the nominee and the beneficial owner to provide information to, and make records available for inspection by, HMRC.

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

None.

4. Legislative Context

4.1 The instrument supplements a change made by Finance Act 2014 to the primary VCT legislation in Part 6 of the Income Tax Act 2007. That change allows individual investors to subscribe for VCT shares via a nominee. Previously, investors had to subscribe directly, although having done so they were then permitted to transfer their shares to a nominee.

4.2 The Principal Regulations already require VCTs to make returns to HMRC of investors who have subscribed for shares (allowing HMRC to ensure that the tax relief available on subscription for shares in a VCT is being given to those who are eligible to receive it). The amendments to the Principal Regulations ensure that where shares in a VCT are issued to a nominee for an investor, HMRC is able to identify the beneficial owner of those shares. The amendments also ensure that the VCT, the nominee and the beneficial owner may be required to provide information to, and make records available for inspection by, HMRC.

5. Territorial Extent and Application

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

7.1 The VCT regime exists to improve access to finance for small and growing companies by providing a range of income and capital gains tax reliefs for individuals who invest in a VCT. The VCT is then required to invest the monies in the small and growing companies which are the target of the policy, subject to certain requirements as to the nature and timing of those investments.

7.2 The change in Finance Act 2014 which allows individuals to invest via nominees is intended to increase the attractiveness of VCT investment as an asset class by providing flexibility for individual investors as to how they make and manage their investments.

8. Consultation outcome

A representative sample of VCT managers and their advisors have been consulted informally, and they have confirmed that the change brought about by this instrument is unlikely to give rise to any administrative or implementation problems for VCTs.

9. Guidance

HMRC will publish guidance material on the effect of the new legislation in line with its existing practices for all tax legislation.

10. Impact

A Tax Information and Impact Note covering this instrument was published on 10 December 2013 alongside draft legislation for Finance Bill 2014 and is available on the HMRC website at https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to small businesses.

11.2 A minority of VCTs are small businesses. The legislation applies to them as it applies to other VCTs. It is not anticipated that the change will affect those VCTs which are small businesses in a way which could be considered disproportionate.

12. Monitoring & review

HMRC will monitor the effect of the legislation as part of its overall monitoring of the VCT regime as a whole.

13. Contact

Kathryn Robertson at HM Revenue and Customs (tel: 03000 585729; or email: kathryn.robertson@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.