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UK Individual Shareholders Society

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Tax-Advantaged Venture Capital Schemes Consultation
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16 September 2014

Sharesoc response to consultation on Tax-advantage Venture Capital Schemes

Dear Sirs,

Sharesoc is the UK Individual Shareholders society, a non-profit organisation representing over 3,000 individual investors. Our website can be found at www.sharesoc.org. Many of our members invest in EIS or VCT companies, or related funds in addition to publicly listed companies, and I have personal experience of doing so.

I have restricted our comments to those questions where our members are likely to have a particular view as there are many questions more directed at market participants.

Question 11. Do you believe that the recent change to allow VCT shares to be subscribed for by nominees will have a significant impact on the market going forwards?

We accept that this will have a significant impact on the market for VCT shares in future, but we opposed the change on the grounds that offering VCT shares via nominee accounts (which in reality means via a simple electronic platform sign up process) will attract the wrong kind of investor. Venture Capital Trusts are complex and risky investments that very few investors understand in full. The risks of such investments and the taxation implications for investors are such that only sophisticated investors are likely to fully understand what they are investing in. Requiring an investor to at least receive a prospectus and make a specific commitment to the terms thereof at least made it likely that they would give proper consideration to the matter or take some advice on it. The use of a nominee account undermines this principle.

Question 12: Is there more that the government should be doing to facilitate the use of tax reliefs by retail investors?

Many investors would prefer VCTs to qualify in addition for capital gains deferral, as they originally did. Income tax relief by itself is not a major incentive, particularly as many potential investors with capital are retired and hence do not have much earned income.

Question 13: Do the current mechanisms for claiming tax relief create difficulties for investors or investee companies? How?

The complexity of the tax reliefs for EIS and SEIS investments are problematic. For example, it is not at all clear why raising money from both schemes at the same time is ruled out when the amount that can be raised under SEIS alone is limited. Some otherwise qualifying companies and their advisors do not seem to understand the rules which mean they raise subscriptions which do not qualify.

In general we would like to see a simplification of the rules for EIS, SEIS and VCT companies because the complexity creates much additional work for investors and their advisors.

The taxation of EIS, SEIS and VCT investments for individual investors is so complex that it deters the individual private investor from using them as they are almost bound as a result to use an accountant to look after their tax affairs. Indeed even if you have knowledge of the rules, unless you have access to relevant software to use to calculate tax liabilities it is difficult to do so. This clearly limits the pool of investors who may consider such investments.

Yours sincerely

Roger Lawson
Deputy Chairman