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**AMENDMENT NOTE**

Mr Stephen Timms

**175, Schedule 16, page 210, line 27,**

leave out ‘wholly for money’ and insert ‘,

(aa) the consideration for the disposal does not consist wholly of new qualifying holdings’.

Mr Stephen Timms

**176, Schedule 16, page 210, line 35,**

after ‘disposal’ insert ‘(but see subsection (3A))’.

Mr Stephen Timms

**177, Schedule 16, page 210, line 37,**

leave out ‘money obtained from’ and insert ‘any monetary consideration for’.

Mr Stephen Timms

**178, Schedule 16, page 210, line 41,**

at end insert-

‘(3A) If the consideration for the disposal includes new qualifying holdings, subsection (2)(a) has effect as if the reference to the holding

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were to the appropriate proportion of the holding (the value of which is that proportion of the value of the holding, determined in accordance with subsection (3)).

(3B) The appropriate proportion is-

$$\frac{TC - NQH}{TC}$$

where-

TC is the market value (at the time of the disposal) of the total consideration for the disposal, and

NQH is the market value (at that time) of the new qualifying holdings.’.

Mr Stephen Timms

**179, Schedule 16, page 211, line 4,**

at end insert-

‘(4A) “New qualifying holdings” means shares or securities which (on transfer to the company) are comprised in the company’s qualifying holdings.’.

Mr Stephen Timms

**180, Schedule 16, page 211, line 7,**

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at end insert-

‘(6) Nothing in this section applies in relation to disposals between companies that are merging (within the meaning of section 323).’.

## **EXPLANATORY NOTE**

### **SUMMARY**

1. Amendments 175 to 180 amend paragraph 19 of Schedule 16 Finance Bill 2007 concerning disposals by a VCT of investments comprised in its qualifying holdings.

### **DETAILS**

1. Paragraph 19 of Schedule 16 introduces a new Section 280A to Income Tax Act 2007 (ITA). New Section 280A modifies the 70% qualifying holdings condition (Section 274 ITA) that the VCT must meet to gain and retain its approval and applies where it disposes of a qualifying holding wholly for money. These amendments extend this treatment to disposals whose proceeds include non-monetary components. They also disapply Section 280A for disposals between companies undergoing a merger within the meaning of Section 323 ITA.
2. **Amendment 175** amends subsection (1) of the new section 280A, removing the requirement that the disposal must be wholly for money, and inserting a new requirement that the

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consideration for the disposal must not consist wholly of new qualifying holdings.

3. **Amendment 176** amends subsection (2)(a) of the new section 280A, so that its application is subject to new subsection (3A).
4. **Amendment 177** amends subsection (2)(b) of the new section 280A so that where the section applies the value of the VCT's investments will, for six months, be reduced by the value of any monetary consideration for the disposal.
5. **Amendment 178** introduces two new subsections, (3A) and (3B), to section 280A.
6. **New subsection (3A)** states that if part of the consideration received by a VCT is in the form of new qualifying holdings only the 'appropriate proportion' of the holding disposed of is deemed to be retained.
7. **New subsection (3B)** sets out how the 'appropriate proportion' is calculated.
8. **Amendment 179** introduces a new subsection (4A) to section 280A.
9. **New subsection (4A)** defines 'new qualifying holdings' as shares or securities which on transfer to the VCT become part of its qualifying holdings.
10. **Amendment 180** introduces a new subsection (6) to section 280A.
11. **New subsection (6)** states that nothing in section 280A applies to disposals between companies that are merging within the meaning of section 323 ITA.

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## **BACKGROUND**

12. These amendments originate in representations made by the Association of Investment Companies.
13. VCTs are companies, listed on the Stock Exchange, that specialise in investing in small, higher-risk unquoted trading companies of the same kind that qualify under the EIS. By investing in a VCT, individuals are able to spread the risk of investment over a number of such qualifying companies. The investor is entitled to various income tax and capital gains tax reliefs, including:
  - income tax relief at 30 per cent on the amount invested in new ordinary shares up to an annual limit of £200,000 in any tax year;
  - exemption from income tax on dividends on ordinary shares on acquisitions of VCT shares up to £200,000 per tax year ("the permitted maximum"); and
  - exemption from capital gains tax for gains on the disposal of ordinary VCT shares that were within the permitted maximum when acquired.
14. In order to qualify as a VCT the company must fulfil the conditions set out in Section 274(2) ITA 2007. One of these conditions requires that at least 70 per cent by value of the company's investments has been represented by shares or securities comprised in qualifying holdings.