

The March 2021 Budget

Chancellor's Statement of 3 March 2021



Venture Capital Tax reliefs

Seed Enterprise Investment Scheme ("SEIS")
Enterprise Investment Scheme ("EIS")
Venture Capital Trusts ("VCT")
Social Investment Tax Relief ("SITR")

Summary

- EMI - consultation
- SITR – extension

Chancellor's Budget Statement of 3 March 2021 venture capital tax reliefs

Like other countries, the UK is suffering from the effects of the Covid-19 pandemic, and so today's Budget has been awaited to see what further measures there will be to assist the recovery. Whilst enabling measures are required to help boost the economy, many people expect that taxes will have to rise over the medium to long term.

The EU-UK Trade and Cooperation Agreement applying from 31 December 2020 brings the EIS and VCT rules outside of EU State aid guidelines. It is expected that there will be a UK based State aid authority, and a consultation is being undertaken for that, please see [here](#) for further information. Subject to this and the reach of the Northern Ireland Protocol, the UK government potentially has the ability (if it is so inclined) to relax some of the restrictions applying to EIS and VCT investment.

The Conservative Party manifesto for the General Election 15 months ago specifically mentioned to the success of the SEIS and EIS, and the Chancellor has referred to the EIS as "world leading" in a recent Parliamentary answer. Many people believe that the venture capital tax reliefs could be usefully expanded to assist in the recovery and the Government's well publicised "levelling up" agenda.

Today's announcements:

It was pleasing to hear the Chancellor's commitment to supporting investment in growing businesses. There are no announcements in today's Budget Statement specific to the SEIS, EIS or VCTs. This is not surprising given that full consideration will need to be given to any new State aid requirements and the Northern Ireland Protocol. The SITR will continue to be available for a further two years.

There is to be a consultation in relation to the EMI share option scheme, which is based on the EIS rules.

The Finance Bill is due to be published on 11 March 2021, and this may contain further measures.

There were a number of other announcements regarding investment in business, including the £375 million Future Fund: Breakthrough, the £150 million Community Ownership Fund, and the £4.8 billion Levelling Up Fund.

The Future Fund: Breakthrough is a new £375 million fund which brings a new direct co-investment fund to support the scale up of innovative, R&D-intensive businesses. The British Business Bank will take equity in funding rounds of over £20 million led by private investors in these companies.

The new £150 million *Community Ownership Fund* does not appear to attract a tax incentive, but instead is a matched funding model, probably to ensure that is not regarded as State aid. From the summer of 2021 community groups will be able to bid for up to £250,000 matched funding to help them to buy local assets to run as community-owned businesses such as pubs, theatres, shops and sports facilities. In exceptional cases up to £1 million of matched funding will be available to help establish a community-owned sports club or buy a sports ground at risk of loss from the community.

The new £4.8 billion *Levelling Up Fund* is intended to invest “in infrastructure that improves everyday life across the UK, including town centre and high street regeneration, local transport projects, and cultural and heritage assets”. Funding will be available in accordance with local need. Further details will be published in a prospectus, including on the process for submitting bids, the projects which will be eligible for funding, and how bids will be assessed.

Enterprise Management Incentive Scheme - EMI

The Chancellor announced that there will be a consultation to make sure that the EMI share option scheme remains internationally competitive. Evidence is sought as to “whether and how more UK companies should be able to access EMI to help them recruit and retain the talent they need to scale up”.

It has also been announced that until 5 April 2022, individuals who are furloughed or who have their working hours reduced below the current statutory working time requirement for EMI as a result of COVID-19 will retain access to the EMI tax advantages. This will apply both to existing participants of EMI schemes and in circumstances where new EMI share options are being granted.

Social Investment Tax Relief - SITR

SITR was introduced in 2014 under the de minimis State aid provisions. In 2017 State aid approval was given for a slight expansion of the scheme, and as part of that approval there was a requirement that a sunset clause was included in the SITR provisions. SITR relief was therefore only available for investments made prior to 6 April 2021.

The Chancellor has today announced that the sunset date will be extended to 5 April 2023.

The SITR has very worthy objectives, assisting social enterprises to raise funds where they might otherwise struggle to do so. However there has been little take up of the SITR, HMRC’s statistics in May 2020 state that since SITR was launched in 2014, 110 social enterprises have raised funds of £11.2 million through the SITR. This may be because the limits for SITR investment are much smaller than for EIS, and so it is generally better if a social enterprise can take advantage of the EIS instead.

There was a consultation in 2019 regarding SITR, and the results of the consultation will be published on 23 March 2021.

Those who tuned into the Chancellor’s Statement may have noticed that the very last question put to the Prime Minister at Prime Minister’s questions immediately before the Budget Statement was about SITR!

This is a summary only, and based on the Budget announcement, rather than on any legislation that will be enacted.

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