

# Financing Growth in Innovative Firms: HMT consultation

Large Corporate

OMB

01 September 2017

The CIOT would welcome your comments on HMT's consultation on 'patient capital' which is defined as 'long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses'. This includes consideration of many tax reliefs which play a role in promoting entrepreneurship including EIS, SEIS, VCTs, Entrepreneurs' Relief and Business Property Relief.

The CIOT is intending to respond to the HMT consultation: Financing growth in innovative firms, which is looking at the availability of long term finance and barriers that investors face in providing 'patient capital' ('patient capital' being defined for the purposes of the consultation as 'long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses'). The consultation is published as part of the [Treasury's Patient Capital Review](#).

Chapter 6 (page 43 onwards) looks at current tax interventions that play a role in promoting entrepreneurship and encouraging patient capital including:

- Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs)
- Social Investment Tax Relief (SITR)
- Entrepreneurs' Relief (ER) and Investors' Relief (IR) (the consultation refers at 6.6 to qualitative research being undertaken to further understand the impact on behaviour of Entrepreneurs Relief)
- Business Property Relief (BPR).

Questions 7-12 at the end of Chapter 6 ask:

*7. Which programmes (investment programmes, tax reliefs and tax-incentivized investment schemes) have most effectively supported the investment of patient*

*capital to date?*

*8. Are there areas where the cost effectiveness of current tax reliefs could be improved, for example reducing lower risk 'capital preservation' investments in the venture capital schemes?*

*9. Are there other ways the venture capital schemes could support investment in patient capital, in the context of State aid restrictions and evidence on cost effectiveness?*

*10. When is it more appropriate for government to support patient capital through investment rather than through a tax relief?*

*11. Is there an optimum minimum length of time of investment for entrepreneurs and investors to focus on the long-term growth of their company and, if so, what is it?*

*12. What other steps could government take to make current tax reliefs more efficient and effective, to provide the best support in line with their policy objectives?*

We would be interested in your thoughts on all of these questions, but are particularly interested to hear from members with regard to Question 12. The CIOT responded to the HMRC consultation: [Tax-advantaged venture capital schemes - streamlining the advance assurance service](#). We propose to draw on our submission to that consultation.

In addition, Chapter 7 considers ideas that have been suggested for increasing retail investment including a possible expansion of Business Investment Relief (the CIOT has held a number of meetings with HMRC/HMT on the deficiencies of this relief and our most recent submission can be found on the [CIOT website](#)) and removal of stamp taxes from the purchase of shares in closed ended funds which have a minimum level of investment in unquoted equities. The review's current view is that focusing new resources on increasing investment via a fund may be preferable to changes in the tax environment but seeks views on whether this is the right approach.

The consultation period is short, running only until 22 September as responses will inform the Autumn Budget. Therefore, if you have comments on the taxation aspects of this consultation, and specifically Question 12, please send them to

[technical@ciot.org.uk](mailto:technical@ciot.org.uk) by 11 September.