



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Sir Roger Gale MP and Albert Owen MP
Chairs of the Public Bill Committee
House of Commons
London
SW1A 0AA

21 December 2017

Dear Roger, Albert,

Finance Bill: Government Amendments

I am writing to inform you of proposed government amendments to the current Finance Bill.

Amendment 1 to Clause 15, Schedule 5, Venture Capital Trusts: non-qualifying loans

Amendment 1 will help to ensure investments by Venture Capital Trusts (VCTs) support the long term growth and development of investee companies. It was announced in the government's response to the consultation *Financing Growth in Innovative Firms* which was published on Budget day.

VCTs can lend money to qualifying companies alongside making equity investments so long as the loan is not repayable within five years. Some VCTs have been using arrangements to minimise risk by ensuring loan and equity capital is in effect repaid before the end of that minimum five year period. The amendment will require loans provided by VCTs to be unsecured and subject to no more than a commercial rate of return on the amount of the loan. A 'safe harbour' deems loans with returns of no more than 10% a year to be commercial, where there are no other unusual arrangements.

The new rule will come into force in accordance with commencement regulations (as with most other measures relating to the venture capital schemes in Schedules 4 and 5 to the Finance Bill) and is intended to take effect from Royal Assent.

Amendments 2-32 to Clause 35, Schedule 10, Settlements: anti-avoidance etc.

Clause 35 and Schedule 10 introduce anti-avoidance provisions relating to offshore trusts.

The Schedule closes three tax loopholes when money is withdrawn from offshore trusts for the benefit of a UK resident. Those are where the capital payments are made to non-residents; to close family members of the person who set the trust up; or where the payments are routed to the intended beneficiary via a chain of persons.

The government is proposing minor amendments to Schedule 10.

The amendments 2-32 amend new provisions within the Income Tax (Trading and Other Income) Act 2005 to ensure that they work as intended. In particular they:

- ensure that there is no income tax charge on the recipient where a benefit paid to a settlor or close family member is matched to protected foreign-source income at a time when he or she is non UK resident;
- clarify that the new benefits charge can apply to benefits paid out of both capital and income of the trust and how it will apply in cases where the settlor or close family member is entitled to the income of the trust as it arises;
- ensure that there is no double charging in cases where the trustees have distributed income or made payments out in relation to trust expenses or where the recipient is already liable to tax on that income;
- amend the ordering rules to ensure that they match income with benefits as intended in a case where income is treated as arising to the settlor. The amendment will also clarify how items will be deducted in the calculations

in respect of earlier charges under either the settlements benefits code or the transfer of assets code;

- ensure that where there is a chain of gifts to which the onward payment rule applies the original beneficiary will be absolved from tax liability on the original benefit to the extent it is taxed on a subsequent recipient; and
- ensure that where the onward gift of the benefit is provided to someone other than the settlor or a close family member, no tax charge arises on a subsequent recipient where the original recipient was taxed on the original benefit.

I am copying this letter to other members of the Public Bill Committee, and depositing a copy of this letter in the Library of the House. The ENs for the amendments and the TIINs and notes on resolutions for the clauses that they relate to are also available on the Finance Bill 2017-18 gov.uk webpage.

A handwritten signature in black ink, reading "Mel Stride". The signature is written in a cursive, flowing style.

RT HON MEL STRIDE MP