HMRC consultation: Tax-advantaged venture capital schemes – streamlining the advance assurance service

Management of taxes **OMB**

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The CIOT welcomes the fact that HMRC have chosen to consult on the future of the advance assurance service prior to making significant changes to the service, but we are concerned that the consultation is not addressing the root causes of why demand for the service is increasing so much.

The consultation paper suggests several options for streamlining the service for companies using tax-advantaged venture capital schemes: the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs), as well as the Social Investment Tax Relief (SITR).

HMRC state that in recent years the advance assurance service has been under increasing pressure due to rising demand. This accords with the experience of our members who have sought to use the service on behalf of clients. According to the consultation document, demand has trebled since 2011/12, and HMRC are concerned that if this trend continues it will have an impact on the service they can deliver. HMRC have already taken a number of steps to improve the service, including a doubling of resources, and state that response times have improved since April 2016 as a result. The consultation paper is looking at how to direct the service more effectively at those who most need it.

The CIOT is concerned that seeking to streamline the service may lead to some potential investors not being able to receive an assurance which it should be possible for HMRC to deliver on technical grounds, whilst not having any significant

impact on the causes of increasing demand, thus leading to a less efficient tax system for those using it.

Our view is that HMRC should be taking a closer look at addressing the reasons why demand for the advance assurance service is increasing so much rather than consulting only on how they may need to restrict or refocus the service because of the increasing demand.

The legislation in this area is becoming increasingly complex and the consequences of getting it wrong are severe. Taxpayers and advisers have never needed certainty quite so much as now when making commercial decisions to invest using the tax-advantaged venture capital scheme route, investments that ultimately help drive the UK economy.

We think that withdrawing the advance assurance service completely would have a detrimental impact on investment. There may be an argument for withdrawing some aspects of the service, but only if the legislation was made significantly shorter, and less open to different interpretations.

Another option might be for HMRC to explore improving their published guidance, for example in considering if there could be any ‘safe harbours’ on more common types of transactions and problem areas.

It is also worth considering the option of whether the service could be limited to discrete aspects of the rules in certain cases, perhaps with incentives, but this should be alongside continuing to offer, not instead of, the full service. Additionally, we think there is merit in looking at whether a set of fairly standardised documents could be produced by HMRC.

The full text of our submission can be found on the CIOT website.