CHAPTER 3

THE CORPORATE VENTURING SCHEME

3.1 The Corporate Venturing Scheme (CVS)

FA 2000, Sch 15

The scheme gave tax relief to companies who invested in small unquoted trading companies **prior to 1 April 2010**. The intention was to encourage larger companies to invest in smaller companies – the tax relief was an incentive for them to do so.

Tax relief was given as a **tax reducer** – i.e. the relief reduced the corporation tax liability of the investing company. The tax reducer was usually **20% of the amount invested** (or a lower amount if the tax relief reduced the CT liability to zero). There was **no upper limit.**

For exam purposes, you need to have a basic understanding of how CVS relief worked because you could be tested on the disposal of CVS shares by the investing company. Where a capital loss is made on disposal of CVS shares, it is reduced by the amount of any CVS tax reducer that was originally given (covered later in the chapter).

Illustration 1

On 1 May 2009, Generous Ltd subscribed for £200,000 of new shares issued by Start-Up Ltd, a company which satisfied the conditions of the Corporate Venturing Scheme. Generous Ltd has taxable profits of £1.8m in the year ended 31 March 2010.

The corporation tax liability of Generous Ltd was:

	£
£1.8m x 28%	504,000
Less: CVS relief	
£200,000 x 20%	(40,000)
Corporation tax liability	£464,000

Note that the CVS relief could reduce a company's tax liability to zero but it could not create a tax repayment.

If the investing company **sold the CVS shares within 3 years, the corporation tax relief was withdrawn**. The examiner has confirmed that you will not be tested on the withdrawal of CVS relief.

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Certain conditions had to be satisfied by both the **investing company** (i.e. the company that acquired the CVS shares) and the **issuing company** (i.e. the company that issued the new shares to the investors) for CVS relief to be available. You do not need to have any knowledge of these conditions for exam purposes.

3.2 Chargeable gains on sale of CVS shares

If the CVS shares are sold at a gain, it is possible that the gain may be **exempt under the substantial shareholdings rules.** This exemption applies broadly where the holding is **at least 10%** and the shares have been **held for at least a year.** The substantial shareholdings rules are explained in more detail in a later chapter.

3.3 Losses on sale of CVS shares

If a company sells shares in a qualifying CVS company and makes a loss on the sale, once again the interaction with the substantial shareholdings rules must be considered. If the **CVS holding qualifies under the substantial shareholdings rules, no capital loss is allowable.**

However, if the holding is not a substantial shareholding, there are two things the company can do with the capital loss. It may:

(1) set the loss **against chargeable gains** in the **same chargeable accounting period** and **carry forward** any remaining losses against future chargeable gains; or

(2) elect to deduct the loss from its **other income,** before deductions for qualifying charitable donations, **in the same chargeable accounting period** and thereafter, of any income in the **preceding 12 months.**

FA 2000, Sch 15 Para 68

Any allowable loss is **reduced** by the corporation tax relief already obtained.

Illustration 2

Williams plc, a large UK quoted company with a 31 March year end, invested £500,000 in shares in Orange Ltd, a qualifying CVS company, in June 2007. The holding was not a substantial shareholding.

In its year ended 31 March 2008, Williams plc would have received corporation tax relief of:

£500,000 x 20% = £100,000

Williams plc sold the Orange Ltd shares in September 2010 for £320,000. As the holding was not a substantial shareholding, the capital loss on the sale of the shares is calculated as follows:

		£
Proceeds		320,000
Less cost	500,000	
Less CVS relief received in y/e 31.3.08	(100,000)	
		(400,000)
Allowable capital loss		£(80,000)

Williams plc can elect to set this loss against its other income in the year ended 31 March 2011 (the CAP in which the loss was actually made).

Assuming other profits are £1.9m, the corporation tax computation for the year ended 31 March 2011 will be:

	£
Profits before loss relief	1,900,000
Less CVS loss relief	(80,000)
TTP	1,820,000
CT @ 28%	£509,600

Example 1

Regan plc has one wholly owned subsidiary and prepares accounts to 31 December each year.

In November 2006, Regan plc subscribed for £120,000 of shares in Waterman Ltd, an unquoted trading company. This represented an 8% holding in Waterman Ltd. CVS relief was available on the subscription.

On 29 December 2010, Regan plc sold its shares in Waterman Ltd for £75,000.

Its results for the year ended 31 December 2010 were as follows:

	£
Trade profit	148,000
Non-trading profit (LR).	47,000
Cash donation paid to charity	(8,000)
Dividend received from ICI plc	13,500

Assuming all relevant claims are made, calculate the TTP for Regan plc for the year ended 31 December 2010.

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Answer 1

Tax relief originally given in y/e 31.12.06 = £120,000 x 20% = £24,000

As the holding is only 8% it is not a substantial shareholding and so there is an allowable loss on the disposal.

Loss relief on sale of Waterman Ltd shares can be claimed against other income for the CAP in which the loss was made. Allowable loss is:

		£
Proceeds		75,000
Less cost	120,000	
Less CVS relief received in y/e 31.12.06	(24,000)	
		(96,000)
Allowable loss		£(21,000)

The corporation tax computation will therefore be:

	£
Trade profit	148,000
Non-trading profit (LR)	47,000
	195,000
Less: CVS loss relief	
(deducted before qualifying charitable donations)	(21,000)
	174,000
Less: Qualifying charitable donation – cash donation paid	(8,000)
TTP	166,000