SQUIRE PATTON BOGGS

Autumn Statement 2016
Private Equity

In an Autumn Statement focussed on the new Industrial Strategy and the launch of a New National Productivity Investment Fund, there were a few announcements which are directly relevant for those involved in private equity.

- **Employee Shareholder Status (ESS) has been abolished.** The change applies to shares issued on or after 1 December 2016. Since there has to be a minimum seven clear days' notice between the individual employee being advised on the implications of employee shareholder status and the issue of the shares, this effectively means that unless employees have already received that advice, no further issues of ESS shares will be possible from today. Shares which have already been issued will be grandfathered and continue to benefit from either the full CGT exemption or the capped £100,000 CGT exemption, depending on whether they were issued on or before 16 March 2016.
- **Restriction on interest deductibility.** The government has confirmed that it is going to push ahead with the planned restriction on the amount of tax deduction that can be claimed by large groups for their interest expense. It had been widely hoped that the government might delay the changes which will come into effect in April 2017 to give businesses more time to plan. However, Mr Hammond today announced that the measure will come into effect. The rules will limit the deduction which companies can claim for corporation tax purposes where the group has interest expenses of more than £2 million per year, net interest expenses exceed 30% of UK taxable earnings and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. This is inevitably going to involve some reflection on how transactions are structured to ensure traditional debt-based structures are still appropriate in the new world.
- **Restriction on the use of losses.** The government also confirmed that it will limit the amount of profit that can be offset by carried forward losses. This was previously announced in Budget 2016. From April 2017, there will be a restriction to 50% of profit, with each standalone company or group benefiting from a £5 million allowance.

VCTs and EIS. A consultation will be launched to consider options to streamline and prioritise the advance assurance service. This will be welcome given the backlogs which can sometime occur. In addition, Finance Bill 2017 will include some changes to the VCT, EIS and SEIS rules to:

- Clarify the EIS and SEIS rules for share conversions
- Provide additional flexibility for follow on investments made by VCT funds in companies with certain group structures
- Introduce a power to enable VCT regulations to be made in relation to certain share for share exchanges

And finally, this was Philip Hammond's first and last Autumn Statement. We will have two budgets to look forward to next year – one in spring 2017 and one in autumn 2017. From 2018 onwards, the main fiscal Budget will be in autumn. There will be a statement in the spring which will usually not contain any major fiscal changes, although Mr Hammond has reserved the right to make urgent changes when necessary. The purpose of the change in dates is to allow for a more rigorous parliamentary scrutiny of changes before they come into effect in a new tax year. We will see.

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