# Introduction

The Treasury is [consulting on a new fund structure](https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms-enterprise-investment-scheme-knowledge-intensive-fund-consultation) that will provide EIS-like investment incentives and allow individuals to invest in a diversified portfolio. The government intends the fund to be restricted to investing in companies that meet the knowledge-intensive definition (see annex 1) but may permit a small proportion – 10-20% – of the fund to be allocated to non-knowledge intensive companies. For further information please read the short [consultation document](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/689229/PU2158_Financing_growth_in_innovative_firms_web.PDF).

The BIA is responding to the consultation and we are keen that it is informed by your views. **Please use the boxes below to provide your comments and email the completed form to** **mturner@bioindustry.org** **by 20 April.**

# Questions

**Question 1: Comment on the government’s proposals**

Please complete the following table to indicate the impact that the incentives/features (suggested by HM Treasury) would have on the proposed fund’s ability to a) attract investors and b) allocate capital to bioscience companies (typically pre-revenue companies in need of long-term investment) – i.e. would the feature make it more or less advantageous to invest in bioscience compared to other sectors? Note: the government is not proposing for all these incentives to be provided together, it is seeking views on which would be most advantageous.

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| **Investment incentive/feature**  | **Impact on raising an EIS-like fund?** Please provide comments. | **Impact on capital allocation to bioscience companies?** Please provide comments. |
| **Dividend tax exemption**. This may be applied to dividends for shares held for a defined period, say five to seven years. |  |  |
| **Capital Gains Tax relief.** CGT incurred from the disposal of assets (e.g. sale of a house) can be partially written-off if part or all of the proceeds are invested in the EIS fund. |  |  |
| **Extended carry-back of income tax relief.** Investors can claim 30% relief on income tax in any nominated year within a defined period, say three or five years, prior to the fund’s investment in an EIS company. |  |  |
| **Up-front tax relief.** 30% income tax reliefcould be claimed in the year of investing in the fund or the previous year. This would be dependent on the fund investing the capital in a company within two years and shares held for three years. |  |  |

**Question 2: Comment on the BIA’s additional proposals**

The BIA has not yet taken a view on any of the incentives proposed by the government. However, the following are additional incentives and features that the BIA has developed and could put forward in the consultation as well as commenting on the government’s own proposals. We are keen to have your views on these also.

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| **Investment incentive**  | **Impact on raising an EIS-like fund?** Please provide comments. | **Impact on capital allocation to bioscience companies?** Please provide comments. |
| **“Investment top-up bonus”.** UK tax payers would have their investment automatically increased by 30% (equivalent to income tax relief in EIS), paid for by the Exchequer. Precedents in the tax system already exist in the form of Gift Aid and the 25% Lifetime ISA bonus. |  |  |
| **Up-front cash credit**. Rather than being required to file a tax return to claim 30% income tax relief, investors would receive a cheque from HMRC for 30% of their invested capital. This would reduce bureaucracy for investors, especially lower-earners individuals who do not complete self-assessment tax returns. |  |  |
| **CGT relief only.** No up-front relief is given but investors pay no CGT when they withdraw their money from the fund. Shares in the EIS fund would have to have been held for a defined period, say five years. |  |  |
| **Inheritance tax exemption.** Shares in the EIS fund would be IHT-exempt if held for seven years or more.  |  |  |

**Question 3: Further features of the fund structure that the BIA could call for**

The BIA could also propose other features that could be included in the fund. They would have to be similar in approach to those already provided through EIS. Please provide any suggestions in the box below.

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**If you have any questions about the content of this consultation or would prefer to speak to the BIA in person, please call Martin Turner, Policy and Projects Manager, on 0207 630 2192 or email** **mturner@bioindustry.org****.**

# Annex 1 – Knowledge intensive definition

A company **must meet one** **or both** of two operating cost conditions:

* must have spent at least 15% of operating costs on R&D or innovation in one of the three years preceding investment
* must have spent at least 10% of operating costs on R&D or innovation in each of the preceding three years.

*These conditions will amended by the Finance (No 2) Bill 2017-19 so that companies under three years of age can meet one or both of the conditions in the three years following the investment.*

A company **must also** meet either the innovation condition **or** the skilled employees condition.

To meet the innovation condition the company must be creating or have recently created intellectual property, which will be used in future for its main business activities. This can be proven by:

* producing patents or licenses
* or have an independent expert (e.g. a university professor in a relevant field) verify it is producing intellectual property

To meet the skilled employees condition, at the time of investment and for the following three years at least 20% of the company’s full-time equivalent (FTE) employees must be skilled employees with a relevant Master’s (or higher) degree carrying out R&D or innovation activities.