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Government Venture Capital Tax Reliefs

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Wider Context to reforms

- Small and Medium sized companies (SMEs) form the backbone of the UK economy

- They are responsible for:
  - almost half of private sector output in the UK
  - 14 million jobs

- Government priority: tackle the fiscal deficit
- Recovery – built on private sector enterprise, innovation and export

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Access to finance

- SMEs face a challenging environment:
  - Tough lending environment – banks are not lending, but deleveraging
  - Eurozone crisis – uncertainty
  - Venture Capital investment falling

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Government intervention

- Government provides support (interventions) to the market via:
  - grant schemes
  - loan guarantees
  - tax reliefs on investment

- Rationale for intervention - <u>equity gap</u>

- Demand for equity from high-risk SMEs exceeds supply from investors

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Enterprise Investment Scheme

- Since 1994 – incentivised over £7.5 billion of investment
- Supports around 2,000 companies ever year

- Reforms:
  - Rate of tax relief increased to 30%
  - Investment per investor increased to £1 million p.a.
  - Investment per company increasing to £5 million p.a.
  - Expanding to allow investment into medium sized enterprises

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Seed EIS

- Launched in April
- Start-ups can access up to £150,000 through the scheme
- For Investors: 50% tax relief on £100,000 investment p.a.
- For the first year – CGT holiday on gains reinvested through SEIS

- Aims:
  - Encourage angel investing
  - Encourage people to create start-ups

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The future...