SEED Enterprise Investment Scheme

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SEIS Background

- "Seed support" first announced at Budget 2011
- Part of Government Growth agenda
- Complements existing Enterprise Investment Scheme
- Draft legislation consulted on
- Starts April 2012

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Existing tax-advantaged schemes

- Enterprise Investment Scheme (EIS)
  - Introduced 1994
  - Raised £8.1bn for small and medium companies
- Venture Capital Trust (VCT) scheme
  - Introduced 1995
  - Raised £4.3bn for small and medium companies

Tax reliefs for investors in shares - SEIS

- Income tax relief – 50% of investment (max annual investment £100,000)
- May elect for earlier year relief (not 2012/13)
- Capital gains tax 2012/13 exemption
- No capital gains on disposal of SEIS shares at a gain

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2012/13 CG re-investment relief

- Applies only to shares which also qualify for income tax relief
- Subject to same £100K investment limit
- Gains are exempt if both realised and re-invested in 2012/13 – not necessarily in that order
- If IT relief withdrawn or reduced, so is CG relief

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Shares conditions

- Must be ordinary shares which are subscribed for
- Must be fully paid up on issue
- Not redeemable
- No preferential rights on winding up
- Some preferential rights to income allowed

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Investor conditions

- Max £100,000 annual investment
- Must not have more than a 30% stake (inc. associates)
- Must not be an employee of the company
- Directors can qualify providing holding doesn't exceed 30%
- Must hold shares for at least 3 years from date of issue

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Company conditions – size/structure

- Gross assets no more than £200K before investment (no 'after' limit)
- Must be unquoted at time of investment
- Fewer than 25 employees
- May have subsidiaries
- May not be in partnership

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Company conditions – investment limit

- £150,000 in total (not annual)

- Relief apportioned if limit exceeded

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Company conditions - activities

- The carrying on of a new qualifying trade
- The activity of preparing to carry on a new qualifying trade
- Carrying on of R&D which will lead to or which will benefit, a new qualifying trade

Company conditions – new qualifying trade

- A trade is “new” if it’s no more than 2 years old at date of issue of shares
- May be acquired from another person – but still no more than 2 years old
- Company must not have carried on an earlier trade

NEW!

Company conditions - trade

No time limit for

commencement

Excluded activities

•dealing in land, commodities or futures, securities or other financial instruments

•dealing in goods, other than in an ordinary trade of retail or wholesale distribution

•financial activities (banking, insurance, money-lending, debt-factoring, hire-purchase financing or any other financial activities)

•leasing or letting assets on hire

•receiving royalties or licence fees

•providing legal or accountancy services

•property development

•farming or market gardening

•holding, managing or occupying woodlands, any other forestry activities

•shipbuilding

•coal production or steel production

•operating or managing hotels or comparable establishments

•operating or managing nursing homes or residential care homes

•Generating or exporting electricity attracting feed-in tariffs (from April 2012)

•providing services to an excluded business, where both in same control

Company conditions – use of monies raised

- Must be spent for purposes of qualifying business activity
- Must be spent by the 3rd anniversary of share issue
- Insignificant use for another purpose ignored
- Insignificant amount left unspent, also ignored

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Company approval process

- HMRC administers the scheme
- Company can apply for formal approval at the earlier of:
    - Having spent at least 70% of monies raised, or
    - Having traded for at least 4 months

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Interaction with EIS/VCT

- Can't have SEIS investment if already had EIS/VCT investment ✘
- Can have SEIS then EIS/VCT, but only when 70% SEIS monies spent ✓

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Key differences EIS v SEIS

- Directors may qualify
- No time requirement for commencement of trade (providing “new”)
- Monies to be “spent” rather than “employed” (and insignificant amount unspent, ignored)
- CG 2012/13 holiday rather than deferral relief
- Company may apply to HMRC for statutory approval before trade commenced

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Further information

http://www.hmrc.gov.uk/seedeis/index.htm

http://www.hmrc.gov.uk/eis/

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Thank you

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