Seed Enterprise Investment Scheme

Who is likely to be affected?

Smaller, early stage companies raising equity, and individuals investing in such companies.

General description of the measure

This measure introduces a new tax-advantaged venture capital scheme, similar to the Enterprise Investment Scheme (EIS).

The new scheme – the Seed Enterprise Investment Scheme (SEIS) – will be focused on smaller, early stage companies carrying on, or preparing to carry on, a new business in a qualifying trade. The scheme will make available tax relief to investors who subscribe for shares and have a stake of less than 30 per cent in the company.

The relief will apply to investments made on or after 6 April 2012.

For the first year of the new scheme, the Government will offer a capital gains tax (CGT) holiday – gains realised on the disposal of assets in 2012-13 that are invested through SEIS in the same year will be exempt from CGT.

Policy objective

The measure will support the Government's growth agenda by helping smaller, riskier, early stage UK companies, which may face barriers in raising external finance, to attract investment, making it easier for these companies to be established and to grow.

Background to the measure

The Government announced at Budget 2011 that it would bring forward proposals to support investment in smaller, early stage companies. A consultation document, *Tax-advantaged venture capital schemes: a consultation* was published on the Treasury website on 6 July 2011 setting out in detail a number of design issues concerning the new scheme. The Government's consultation response document was published on 6 December 2011.

Detailed proposal

Operative date

The relief will apply to shares issued on or after 6 April 2012.

Current law

The EIS legislation is in Part 5 of the Income Tax Act (ITA) 2007.

Sections 150A and 150B of the Taxation of Chargeable Gains Act 1992 make provision for exemption from capital gains tax of gains on disposals of shares in companies within the scope of the EIS. Schedule 5B of that Act provides for deferral of gains on disposals of assets where those gains are reinvested in shares under the EIS.

Proposed changes

Legislation will be included in Finance Bill 2012 to provide for a new tax advantaged venture capital scheme. This will:

- apply to smaller companies, those with 25 or fewer employees and assets of up to £200,000, which are carrying on or preparing to carry on a new business;
- give income tax relief worth 50 per cent of the amount invested to individual investors with a stake of less than 30 per cent in such companies, including directors who invest in their companies;
- apply to subscriptions for shares, using the same definition of eligible shares as EIS (which it is proposed will be widened in Finance Bill 2012);
- apply to an annual amount of investment of £100,000 per investor, with unused annual amounts able to be carried back to the previous year, as under EIS;
- provide for relief within an overall tax favoured investment limit of £150,000 for the company. To give the greatest degree of flexibility, this will be a cumulative limit, not an annual limit;
- provide for an exemption from CGT on gains on shares within the scope of the SEIS; and,
- provide for an exemption from CGT on gains realised from disposals of assets in 2012-13, where the gains are reinvested through the new SEIS in the same year.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td></tr>
<tr><td>-</td><td>nil</td><td>-50</td><td>-25</td><td>-20</td><td>-20</td></tr>
<tr><td colspan="6">These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Autumn Statement.</td></tr>
<tr><td>Economic impact</td><td colspan="6">Tax relief is provided to incentivise investment in companies that may face barriers in raising equity finance, including seed level companies. This relief will provide a more generous rate of relief than offered under EIS and will increase the incentive for individuals to invest in small companies and help new businesses to establish. This is likely to increase investment in these companies, which will contribute to wider economic growth.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Individual investors will be able to access a higher rate of relief than they would if they invested in qualifying companies under EIS or VCTs from April 2012. The scheme will also encourage individuals to become entrepreneurs with the backing of SEIS investors.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">Compared to the self-assessment population, EIS and Venture Capital Trust (VCT) investors tend to be male, located in the south of England and have higher overall income levels; users of SEIS are likely to share these characteristics. No further data is available to suggest that there will be impacts on other groups. From the data available it is therefore envisaged that these changes will not have any further impact on those groups affected by equality legislation.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="6">The change should increase the amount of equity investment available to smaller companies (including potentially some in civil society organisations). The relief is claimed by investors rather than the investee companies, therefore there is unlikely to be any additional administrative burden on companies.</td></tr>
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	It is estimated that 300 or more companies will benefit from investment under the scheme in its first year.
Operational impact (£m) (HMRC or other)	It is currently proposed that the scheme will be administered in a similar way to the EIS. There will therefore be a small increase in the work done by the offices that currently administer EIS and VCT work. There will also be some small costs in updating computer systems, forms and guidance.
Other impacts	Competition assessment: There will be a positive impact for small early stage companies receiving investment under SEIS, as more individuals will look to invest in such companies. It should not have any impact on competition as it will not affect or limit suppliers' ability to compete. Small firms impact test: the proposed reforms are beneficial and will help to increase the provision of equity available to invest in small businesses.

Monitoring and evaluation

Uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment will be regularly monitored and published. The Government will evaluate the scheme in 2016 to determine whether or not it should continue.

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk) or Des Ryan on 020 7147 0818 (email: des.ryan@ hmrc.gsi.gov.uk).