LOUCAS

ADDING MORE TO YOUR BUSINESS

Seed Enterprise Investment Scheme (SEIS)

Whether you are an entrepreneurial investor or a new company looking to attract investment you cannot afford to ignore the generous tax reliefs being offered under the new Seed Enterprise investment scheme (SEIS) introduced by HM Revenue and Customs (HMRC).

The scheme applies to subscription for shares after 6 April 2012 in SEIS qualifying companies, broadly speaking these are start up companies or companies that have been trading for less than two years, have assets of less than £200,000 and fewer than 25 employees.

The tax reliefs available to the investor for SEIS investments up to £100,000 in the tax year are as follows:-

- Income tax relief on the investment at 50%
- If shares are held for three years then any capital gain on the investment is free of tax.
- In the unfortunate situation where a loss is made on the investment you are able to offset the loss against your other income.
- Reinvestment relief – if an individual makes a capital gain during 2012/13 and the gain is reinvested in a SEIS company the gain is exempted.

Both the first and last reliefs may be clawed back if the shares are sold within three years.

Although a company will not be able to issue SEIS shares if it has previously raised funds under the Enterprise Investment Scheme (EIS) or Venture Capital Trust (VCT) regimes, it can raise EIS or VCT monies after a SEIS funding round, albeit not until the company has spent at least 75% of the SEIS monies raised.

There is a limit of £150,000 on the funds which can be raised under SEIS. All funds must also be used in a qualifying activity within three years of the date of the original investment.

Investors are able to claim the tax relief once 70% of the funds raised from the share issue have been used.

In order for a company to qualify for the scheme it must meet a number of requirements and it is important to get these right from the outset to ensure the tax relief is not lost.

Example

Peter sells an asset in April 2012 for £150,000 and makes a capital gain of £50,000.

In June 2012 he makes a £50,000 SEIS qualifying investment.

In August 2015 he sells the SEIS shares for £100,000.

Peter will avoid paying tax of £14,000 on the initial capital gain (28% X £50,000). He will then get income tax relief of £25,000 (50% X £50,000). Finally, he will avoid paying tax of £14,000 on the disposal of the SEIS shares (50% X £50,000).

Peter’s total tax relief on the £50,000 investment…..a staggering £53,000!

For larger or established companies the original EIS scheme is still in place that has less generous but still significant tax reliefs available. If you would like to discuss either of the schemes in more detail please contact Stuart Shaw on 01622 758257 or via email at stuart@loucas.org.uk.

Further Information

As a firm, we are able to provide a wide range of services tailored to your particular industry. We believe by staying up to date with not only current but changing legislation and industry news we are better placed to help our clients and their businesses succeed.

If you would like to discuss any of the topics in this update or how Loucas can assist you please do not hesitate to contact us.

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