**TAX BRIEFING - 1/2012**

# Sowing seeds for tax efficient investment under SEIS

Many will agree that the Enterprise Investment Scheme (EIS) has been reasonably successful in raising risk capital for owner managed companies. However, from 6 April 2012, there will be greater tax incentives for investment in smaller businesses, which typically find it difficult to attract outside investment.

Individuals will be able to obtain 50% income tax relief (even if they do not pay income tax at the 50% rate!) under the new "Seed Enterprise Investment Scheme" (SEIS).

The SEIS aims to attract equity investment in smaller companies for new 'start-up' trades and provides greater relief than the existing EIS scheme. SEIS relief is available provided the investee company is less than two years old when the SEIS investment is made.

## SEIS v EIS

The key features of SEIS relief are compared with the existing EIS regime below

| | SSEIS (from 6 April 2012) | EIS |
|---|---|---|
| **Individual's income tax relief on amount invested** | 50% | 30% |
| **Maximum share subscription per tax year** | £100,000 | £500,000 (currently) £1,000,000 (from 6 April 2012) |
| **Capital gains deferral** | Gains from 6 April 2012 can be held-over against SSEIS investment | Gains can be held-over against EIS investment |

## Start-up conditions for companies

The total amount a company can raise under SEIS is limited to £150,000 (to satisfy the EU State Aid rules).

The SEIS conditions broadly follow the EIS regime but also have the following additional 'targeted' restrictions which must be met when the SEIS shares are subscribed for:

- the investee company's gross assets (balance sheet value) must not exceed £200,000, and it must have fewer than 25 employees;
- the investee company must not be more than two years old;

- the investee company must not have raised any money under the EIS or Venture Capital Trust schemes.

Thus, once a company has raised its £150,000 maximum capital under SEIS, it can then also seek EIS investment.

Investors cannot obtain their income tax relief until the company has spent (at least) 70% of the monies raised under the scheme on its qualifying business activities.

## Directors

The SEIS rules enable directors of the investee company to invest under the scheme provided their equity interest does not exceed 30%. One key attraction is that as few as four directors could, between them, qualify for 50% income tax relief on up to the maximum £150,000 SEIS company limit.

However, in contrast to the EIS rules, the 30% interest test does not include the holdings of close relatives or business partners, which is very helpful and provides greater flexibility in arranging shareholding structures

However, directors making SEIS investment need to ensure that remuneration taken by them during the first three years is 'reasonable'. Furthermore, dividends must be restricted to a normal commercial return on the investment.

**SEIS relief is available from 6 April 2012. Those contemplating starting a new business should watch this space. But remember investing in a start up company is relatively high-risk and requires appropriate consideration.**