



Making the Seed Enterprise Investment Scheme and the capital gains tax reinvestment relief permanent

Who is likely to be affected?

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

General description of the measure

This measure makes permanent the tax-advantaged Seed Enterprise Investment Scheme (SEIS) and the associated capital gains tax (CGT) relief for re-investing chargeable gains in SEIS shares.

Policy objective

The measure will support the Government's growth agenda by continuing to help small, riskier, early stage UK companies, which may face barriers in raising external finance, to attract investment, making it easier for these companies to become established and to grow. Making SEIS and SEIS CGT reinvestment relief permanent provides more certainty for early stage companies raising equity, and individuals investing in such companies.

Background to the measure

SEIS, which came into effect from 6 April 2012, is designed to help small, early-stage companies raise equity finance by offering a range of tax reliefs to individual investors who subscribe for shares and have a stake of no more than 30 per cent in these companies. It complements the Enterprise Investment Scheme (EIS), which also offers tax reliefs to investors in higher-risk small companies. SEIS recognises the particular difficulties that very early-stage companies face in attracting investment, by offering tax relief at a higher rate than that offered by EIS.

To help kick-start the scheme and encourage investment in SEIS, CGT relief was given to chargeable gains accruing to an investor in 2012-13 where the gain is re-invested in shares that qualify for SEIS income tax relief. The amount re-invested was exempt from CGT. This was subject to a £100,000 investment limit (which matches a similar cap on SEIS-related income tax relief). In 2013 the CGT relief was extended to chargeable gains accruing in 2013-14. The extended relief was given to half the qualifying re-invested amount.

Detailed proposal

Operative date

The removal of the sunset clause will take effect from the date that Finance Bill 2014 receives Royal Assent. The permanent extension of the CGT re-investment relief will have effect in relation to re-invested gains accruing to individuals in 2014-15 and subsequent years.

Current law

Section 257A Income Tax Act 2007 provides for SEIS relief to be available in respect of shares issued on or after 6 April 2012 and before 6 April 2017.

Section 150G of and Schedule 5BB to the Taxation of Chargeable Gains Act 1992 provides the CGT relief for re-investment in SEIS shares. Condition A at paragraph 1(2)(a) to Schedule 5BB holds that the relief is limited to gains accruing to the SEIS investor in 2012-13 or 2013-14.

Paragraph 1(5) and (6) to Schedule 5BB hold that the relevant percentage of gains matched by qualifying SEIS investment is not chargeable to CGT. Paragraph 1(5A) holds that the relevant percentage is 100 per cent for gains accruing to the investor in 2012-13 and 50 per cent for gains accruing in 2013-14.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to provide for SEIS relief to be available without time limit.

Legislation will also be introduced in Finance Bill 2014 to extend Condition A and the 50 per cent relevant percentage to gains accruing to the investor in 2014-15 and subsequent years.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	nil	-5	-10	-5	-40
	These figures are set out in Table 2.1 of Budget 2014 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget.				
Economic impact	Tax relief is provided to incentivise investment in companies that may face barriers in raising equity finance, including seed level companies. The extension of this scheme will provide a generous rate of relief and will continue to provide increased incentives 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.				
Impact on individuals and households	Individual investors will be able to continue to access a higher rate of relief than they would if they invested in qualifying companies under Enterprise Investment Scheme or Venture Capital Trusts from April 2017, or if the re-investment relief was not extended. The extension of the scheme will also continue to encourage individuals to become entrepreneurs with the backing of SEIS investors.				
Equalities impacts	Compared to the Self Assessment population, it is anticipated that SEIS investors will tend to be male, located in the south of England and have higher overall income levels (based on users of the EIS and VCT). 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.				

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. Businesses will incur a negligible one off implementation cost of familiarising themselves with the measure, but there will be no changes to their administrative burdens because the relief is claimed by investors rather than investment companies.
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue and Customs in implementing this change are anticipated to be negligible.
Other impacts	<p><u>Competition assessment:</u> 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.</p> <p><u>Small and micro business assessment:</u> the proposed reforms are beneficial and will help to increase the provision of equity available to invest in small businesses.</p> <p>Other impacts have been considered and none have been identified.</p>

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 continue to be regularly monitored and published.

Further advice

If you have any questions about this change, please contact Alex Buckley (for SEIS) on 03000 586048 (email: alex.buckley@hmrc.gsi.gov.uk) or Alan McGuinness (for CGT reinvestment relief) on 03000 585256 (email: alan.mcguinness@hmrc.gsi.gov.uk).