



In his Autumn statement George Osborne announced the introduction of a Seedling Enterprise Investment scheme (SEIS) to help new businesses to obtain finance. The draft legislation was published on 6th December.

How does it work?

The proposal is to apply for qualifying investments made from April 2012. Income tax relief at the rate of 50% would be available on amounts subscribed for shares in qualifying companies. No capital gains tax will arise on the disposal of SEIS shares and it will allow a deferral of capital gains made in the year prior to the investment to be deferred until the SEIS shares are sold.

The steps

The Investor

- Annual limit of £100,000
- Can be directors but not employees
- Must have no more than a 30% interest in the business by the value of shares or loans

The Shares

- Subscribe for ordinary shares
- With no preferential rights to dividends or exits
- Subscribed for cash, fully paid up
- The cash has to be used within the business, 70% must be used before a claim can be made.

The Company

- Incorporated no more than 2 years before shares were issued
- Unquoted
- New trade, cannot purchase existing business
- UK establishment
- Cumulative limit of £150,000 SEIS investment
- Less than 25 employees when SEIS shares are issued
- Gross assets less than £200,000 before SEIS share issue

Our view

The Seedling Enterprise Investment scheme will dramatically reduce the risks to outside investors in small businesses. Many businesses set up with the assistance of money from relatives or friends could well benefit from this. If it follows the basis that is applied for Enterprise Investment Scheme relief the administration costs of making the claim might lessen the merits for investment levels below the company maximum of £150,000. We will watch for supplementary documentation on this subject provided by HM Revenue & Customs in the following months.

If you are thinking of starting a new business you should at least consider whether this could apply to your situation given that the tax benefits are likely to be considerable.

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