



Hill Business Growth Consultants

Our business is growing

Cheap money? Tax advantaged investment under SEIS and EIS

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About us

- Independent tax and business growth consultancy est. 2009
- Based in NI Science Park
- Big 4 and HMRC experience
- Corporate and personal tax services: compliance + planning
- Advice on structuring including qualification for SEIS/EIS and Entrepreneurs Relief for Founders
- Business plans
- EMI schemes
- R&D tax reports and claims
- Tax enquiry defence
- Mentoring in business and charity sectors

Cheap money?

- Investor gets shares worth £1 for 70p or 50p, with further derisking via loss relief
- Potential for 100% tax-free upside on exit
- Company gets:
 - full £1 value
 - wider + deeper potential investment pool
 - “tamer” investors

SEIS rules for companies I

- New: first two years, no previous trade
- Company maximum £150,000 in total
- De minimis State Aid (not reduced despite €200,000 now being less than £150,000)
- No return of “value” – but dividends okay if co is profitable
- Must not be owned/controlled by another company
- Co must be carrying on a new qualifying trade (and not an “excluded activity”)

Excluded activities I

- dealing in land, in commodities or futures or in shares, securities or other financial instruments
- dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution
- banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities
- leasing (including letting ships on charter or other assets on hire)
- receiving royalties or licence fees (NB: not excluded if co develops its own IP)
- providing legal or accountancy (including tax ☹) services
- property development
- farming or market gardening
- holding, managing or occupying woodlands, any other forestry activities or timber production

Excluded activities II

- shipbuilding
- producing coal
- producing steel
- operating or managing hotels or comparable establishments or managing property used as an hotel or comparable establishment
- operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home
- the subsidised generation or export of electricity
- any activities which are excluded activities under ITA07/S199 (provision of services or facilities for another business)

SEIS rules for companies II

- UK permanent establishment is required (trade can be carried on primarily elsewhere in EU)
- Fewer than 25 Employees/FTEs
- No more than £200,000 gross assets at date of subscription
- Commitment to ongoing observation of rules

SEIS rules for companies III

- Process:
 - Advance clearance application (EIS/SEIS (AA)) – recommended but not obligatory
 - Clearance (“Advance Assurance”) from HMRC
 - Compliance statement (SEIS 1): application for authority to issue tax certificates. More info needed if no AA in place
 - Issue of certificate to company (SEIS 2) and shareholder relief certificates by company (SEIS 3)
 - Claim by individuals

SEIS for individual investors I

- Paying UK Income Tax (not necessarily UK tax resident)
- Relief given at 50% of investment
- Maximum investment(s) per tax year £100,000
- Cannot control more than 30%
- New ordinary shares – no convertible loans or prefs
- Capital Gains Tax free exit after 3 years
- IT relief clawed back if disposal before 3 years
- Loss relief if co fails on amount not previously relieved

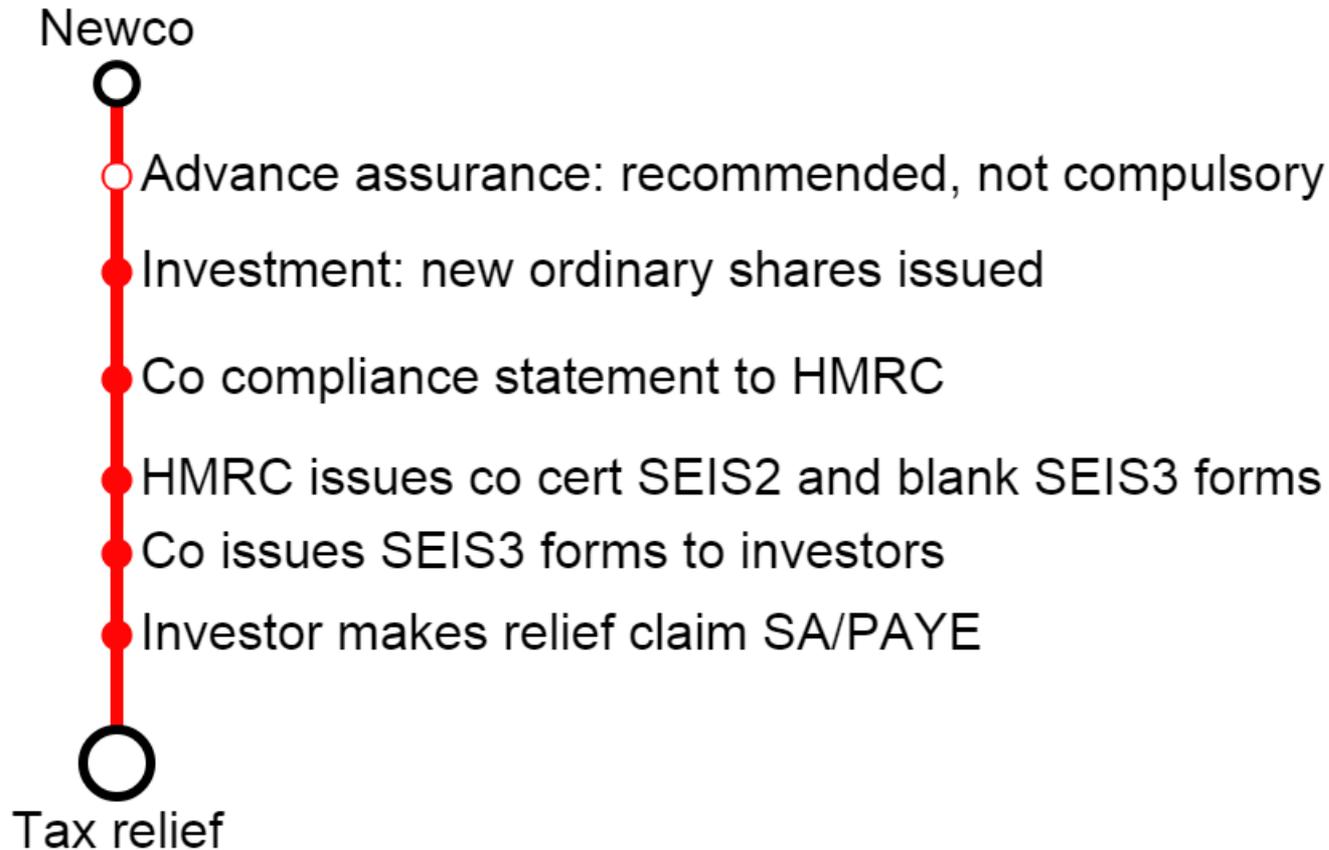
SEIS for individual investors II

- Inheritance Tax shelter after two years
- Ability to cut in half Capital Gains Tax on an unrelated disposal
- No employee of the company is eligible – exemption for Directors for SEIS only, Angel NEDs for both
- Spouse, children and parents/grandparents are connected persons – but siblings are not

SEIS for individual investors III

- Process:
 - Advance Assurance from HMRC gives comfort reliefs will be available
 - Investment is made: subscription for new ordinary shares
 - Co applies to HMRC for authority to issue certificates
 - Co issues shareholder relief certificate SEIS 3
 - Investor claims Income Tax relief via amended in-year PAYE coding or Self Assessment (Box 10, page Ai 2/Box 19 page TR6) using certificate
 - Choice of tax years: year of investment or previous or mix

SEIS process



EIS features I

Largely as SEIS except for the following:

- 30% up front income tax relief in-year/previous year
- Deferral of taxable Capital Gain if amount of gain reinvested
- Invest up to £1m p.a.; company can raise up to £5m p.a.
- Must hold for 3 years from issue or commencement of trading if later
- Free of Capital Gains Tax on sale (unless used to defer gain)

EIS features II

- Co assets no more than £15m before/£16m after share issue
- Fewer than 250 FTEs
- You cannot issue SEIS and EIS shares on the same day
- However, current rule that 70% of SEIS investment or 4 months of trading must elapse before issuing EIS shares will go when FA2 2015 is passed (late October 2015) and will be retrospective to 6 April 2015

About these slides

These slides are intended to give a flavour of the legislation and practice relating to Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS) at the date writing (24/09/15). They do not constitute tax advice and no responsibility can be taken for any consequences arising from actions taken on the basis of these slides. The management of your financial and tax affairs should always take into account your personal and business circumstances in a way that these slides cannot, so please ensure that you take professional taxation or investment advice as appropriate before taking any action.

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