Seed Enterprise Investment Scheme: CGT re-investment relief

Who is likely to be affected?

Investors in the Seed Enterprise Investment Scheme (SEIS) and companies eligible for receiving SEIS investment.

General description of the measure

The measure will extend to 2013-14 the capital gains tax (CGT) relief for re-investing gains in SEIS shares, providing the gains are re-invested in 2013-14 or the following year. The extension of the relief is for half the qualifying re-invested amount.

Policy objective

The extension is designed to help maintain momentum in SEIS investment.

Background to the measure

SEIS, which was introduced in 2012, is designed to help small, early-stage companies raise equity finance by offering a range of tax reliefs to individual investors who purchase new shares 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).

Detailed proposal

Operative date

The measure will have effect in relation to re-invested gains accruing to individuals in 2013-14.

Current law

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.

Paragraph 1(6) to Schedule 5BB holds that gains are not chargeable to CGT to the extent that they are matched by qualifying SEIS investment.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to extend Condition A to gains accruing to the investor in 2013-14; and to limit the amount that is treated as not being a chargeable gain to an amount that is equal to half the matched re-invested gain.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	-5	negligible	nil	nil
	These figures are set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings documents published alongside Budget.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	Individual investors will be able to access a higher rate of relief than they would if the re-investment relief was not extended. The scheme will also 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 Enterprise Investment Scheme and Venture Capital Trusts). 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)	It is not expected that implementing this change will incur any significant additional costs for HM Revenue & Customs (HMRC).				
Other impacts	<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 due to better incentives. It should not have any impact on competition as it will not affect or limit suppliers' ability to compete. <u>Small firms impact test</u>: the proposed reforms are beneficial and will help to increase the provision of equity available to invest in small businesses. Other impacts have been considered and none have been identified.				

Monitoring and evaluation

HMRC will continue to monitor company applications and use of the scheme to ensure that the legislation is delivering its intended policy intention.

Further advice

If you have any questions about this change, please contact Alan McGuinness on 020 7147 2766 (email: alan.mcguinness@hmrc.gsi.gov.uk).