

Seed Enterprise Investment Scheme: eligible companies

Who is likely to be affected?

Companies seeking investment under the Seed Enterprise Investment Scheme (SEIS) and investors in those companies.

General description of the measure

This measure will amend the 'independence' condition to be met by a company hoping to qualify under SEIS, to ensure that companies established by corporate formation agents will not inadvertently be disqualified from taking advantage of the Scheme.

Policy objective

SEIS was introduced from 6 April 2012 to incentivise equity investment in early-stage companies carrying on, or intending to carry on, qualifying trading activities. This measure aims to simplify the legislation so that some eligible companies will not inadvertently be disqualified from taking advantage of the regime, by virtue of having been established by a corporate formation agent.

Background to the measure

This measure was announced at Budget 2013 following representations from a number of interested stakeholder bodies and individual companies.

Detailed proposal

Operative date

The measure will have effect in relation to shares issued to individuals on or after 6 April 2013.

Current law

In order for an investment in company shares by an individual to be eligible for tax relief, the company issuing the shares must meet certain conditions as provided for in Chapter 4 of Part 5A Income Tax Act (ITA 2007). Section 257DG(2) requires that the company must be 'independent': that is, that it must not be controlled by another company at any time from incorporation to the end of the qualifying period for the shares in question. There must also be no arrangements in place by virtue of which the independence requirement could fail to be met.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend section 257DG(2) ITA 2007 so that companies which are established and controlled initially by another company will not be disqualified, providing that that control exists only during a period where the company has issued only subscriber shares and has not yet begun, or begun preparations for, its trade or business. This will ensure that companies established in the first instance by corporate formation agents before being sold onto their ultimate owners, will not inadvertently be disqualified from taking advantage of SEIS.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.				
Economic impact	The measure is not expected to have any economic impacts.				
Impact on individuals and households	Individual investors who invest in eligible companies inadvertently disqualified because they were set up by corporate formation agents will now be able to benefit from the scheme.				
Equalities impacts	HM Revenue & Customs (HMRC) does not hold data on the protected characteristics of those who have invested in SEIS. However investing individuals are likely to be of above average income and therefore investors are likely to be from groups which are overrepresented in higher income groups.				
Impact on business including civil society organisations	This measure relaxes the eligibility conditions for small companies including some civil society organisations, making access to the scheme easier for those organisations. There may be some one-off negligible savings for companies which might otherwise have incurred some costs in restructuring in order to comply with the legislation.				
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HMRC.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact Kathryn Robertson on 020 7147 2589 (email: kathryn.robertson@hmrc.gsi.gov.uk); or contact Alex Buckley on 020 7147 0083 (email: alex.buckley@hmrc.gsi.gov.uk).