

THE SAPPHIRE GUIDE TO SEED ENTERPRISE INVESTMENT SCHEMES

Everything an entrepreneur needs to know about the
Seed Enterprise Investment Scheme

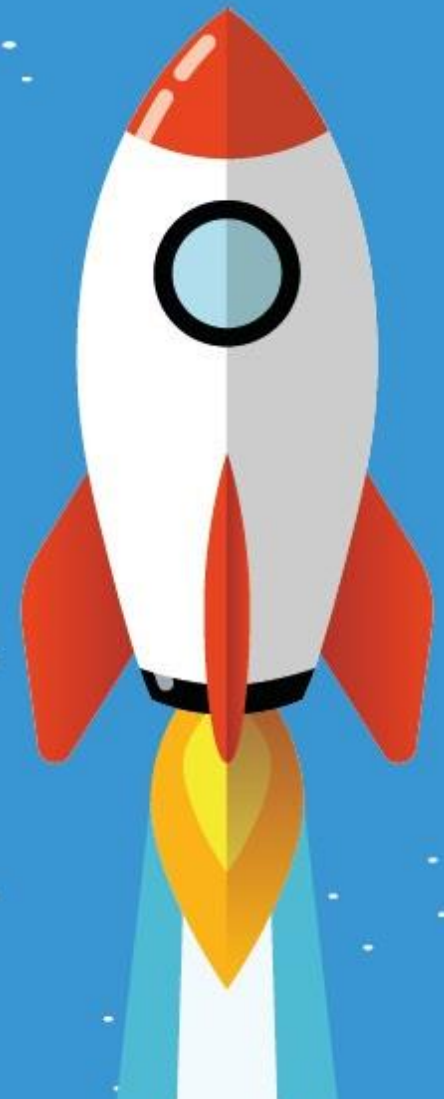


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Introduction

There has never been a better time to start a new company in the UK. The government support offered by both the Seed Enterprise Investment Scheme (“Seed EIS”) and the Enterprise Investment Scheme (“EIS”) provide start-ups with an excellent method to attract much needed seed capital in order to start the company. In particular, the Seed EIS offers a start-up company the ability to raise up to £150,000 from investors in a very tax efficient manner. The Seed EIS is one of the most promising ways a company can raise seed capital we have seen for a long time.

Why is the introduction of the Seed EIS so important?

According to our research there are **three** key findings:

1. **Start-up companies find it hard to raise money** – the Seed EIS helps start-up companies attract early stage equity investment.
2. **Seed EIS can be combined with an EIS** – once a company has raised £150,000 from a Seed EIS it can go on to raise further finance, up to £4,850,000, from an EIS.
3. **Easier to obtain** – advance approval from HMRC is easier to obtain for the Seed EIS than the existing EIS.



What is a Seed EIS?

The **Seed Enterprise Investment Scheme (“Seed EIS”)** came into effect on the 6 April 2012. The Seed EIS is a UK government backed investment scheme that is specifically designed to help small start-up companies raise equity finance.

The Seed EIS scheme was originally due to expire on 5 April 2017 but in the 2014 budget the chancellor made it a permanent part of the financial planning landscape.

The Seed EIS provides a range of tax incentives to investors. At the core is an emphasis on reducing the amount of capital at risk by the investor in order to make the investment more attractive. The Seed EIS offers tax relief at a higher rate (50% income tax relief) than that offered by the existing Enterprise Investment Scheme (“EIS”).

Companies which raise money under the Seed EIS have the opportunity to raise further finance using EIS. Consequently the rules for Seed EIS are similar to that of the EIS.

A company can currently raise up to £150,000 using Seed EIS.



Why do investors like Seed EIS?

The **Seed EIS** offers generous tax reliefs. Qualifying investors may attract the tax reliefs, depending on their circumstances. The Seed EIS investment offers income tax relief, capital gains tax deferral and inheritance tax relief.

A Seed EIS investment is typically most suitable to the following investor profiles:

1. Those with significant income tax liabilities.
2. Those with capital gains made during the tax years 2021/2022 and/or 2020/2021.
3. Those who have disposed of business assets qualifying for Business Property Relief for the purpose of Inheritance Tax within the last three years.
4. Those seeking assets which will qualify for Business Property Relief after two years of ownership.
5. Those UK resident non-UK domiciled persons wishing to remit overseas income and gains to the UK.



Income tax relief

50%

is the amount of income tax relief an investor receives when investing in a Seed EIS.

If an investor had an income tax liability of £50,000 and subscribed for £100,000 worth of ordinary shares in the Seed EIS investment, the resulting income tax liability may be reduced to zero.

The maximum level of investment qualifying for income tax relief is £100,000 per investor per annum in one or more qualifying companies. As a result, up to £50,000 tax relief can be claimed by the investor, providing they have sufficient taxable income to allow the full Seed EIS relief, and make no other Seed EIS investment in the tax year. An investor can carry back 100% of their Seed EIS investment to the previous tax year for income tax purposes. Therefore, an investment made in 2021/2020 can be carried back to the 2020/2021 tax year.



Capital gains tax relief (1)

50%

is the amount of capital gains tax relief an investor receives when **investing** in a Seed EIS

Seed EIS investors got a welcome boost from the chancellor George Osborne in the 2013 budget. In his budget speech, the chancellor extended the capital gains tax re-investment relief on Seed EIS. As a result, any investor into a Seed EIS will receive 50% capital gains tax relief when they re-invest those gains into Seed EIS companies in either the 2020/21 or 2021/22 tax years.

If an investor had an capital gains tax liability of £28,000 and subscribed for £100,000 worth of ordinary shares in the Seed EIS investment, the resulting capital gains tax liability may be reduced to £14,000.



Capital gains tax relief (2)

100%

is the amount of capital gains tax relief an investor receives when **selling the shares** in a Seed EIS

When an investor sells the shares which are held in a **Seed EIS** the resulting gain is 100% exempt from capital gains tax.

If an investor invested £50,000 into a Seed EIS and then subsequently sold the shares for £170,000, the resulting capital gains tax liability on the £120,000 capital gain may be reduced to zero.



Inheritance tax relief

100%

is the amount of inheritance tax relief an investor receives when investing in a Seed EIS

The **Seed EIS** provides 100% inheritance tax relief if the shares in the Seed EIS are held for at least two years.

If an investor invested £50,000 into a Seed EIS and then subsequently passed away two years later, the resulting inheritance tax liability on the £50,000 investment may be reduced to zero.



Meet the author



Boyd Carson is a partner in Sapphire Capital Partners LLP and specialises in Seed EIS and EIS investments, including HMRC advance assurance applications and drafting investor documents. Boyd also helps companies raise finance and invests in selected companies. Boyd previously worked as a Director of PwC corporate finance in New York, is a Fellow of the Institute of Chartered Accountants and is authorised by the Financial Conduct Authority to conduct investment business. He acts as a director for a number of companies in the UK and is the honorary treasurer of a leading cancer charity.

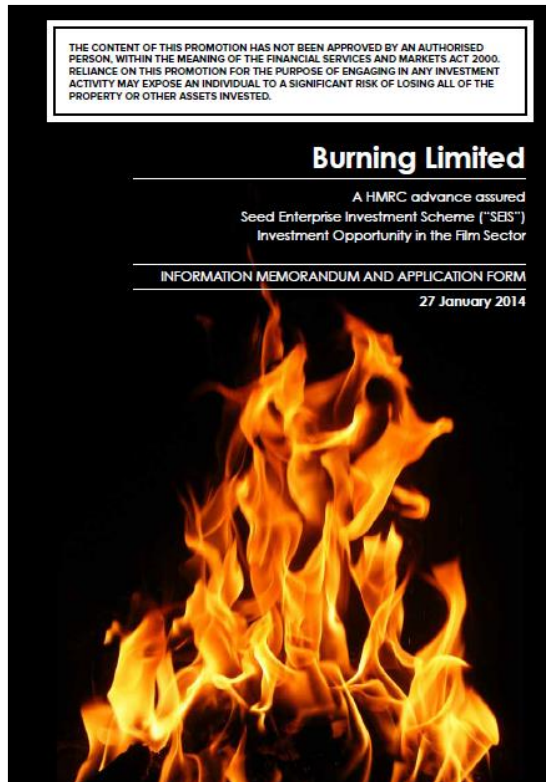
Contact Boyd at boyd@sapphirecapitalpartners.co.uk or by calling 08 707 348 912.

For further information and advice on the Seed EIS or EIS, please contact Sapphire Capital Partners LLP at the following:

- *Office phone: 08 707 348 912 or mobile phone: 07 917 767 362*
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- *Or visit our website at www.SapphireCapitalPartners.co.uk*
- *Twitter at @SapphireCap*



Example Seed EIS client



Burning Limited.

A HMRC advance assured Seed EIS.

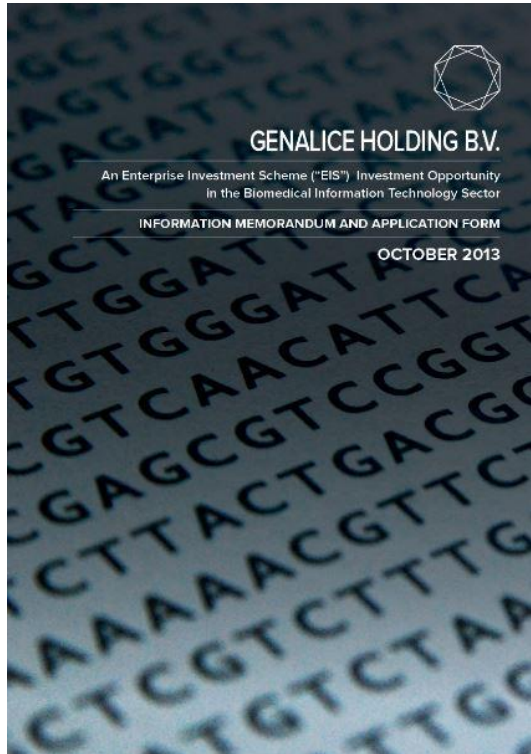
A movie about a former bomb disposal expert who is suffering from post-traumatic stress disorder. The Company obtained HMRC Seed EIS advance assurance.

Company highlights:

1. Company is based in London.
2. Sapphire Capital obtained HMRC Seed EIS advance assurance for the Burning Limited.
3. Film is backed by Film Engine Limited based in London.
4. SEIS qualifying investors receive 50% income tax relief.
5. Advisory work by [Sapphire Capital Partners LLP](#).



Example EIS client



Genalice Holding B.V.

A HMRC advance assured EIS.

Genalice Holding B.V. is an EIS approved biomedical company based in the Netherlands. Genalice has developed a unique solution, which provides resolutions to a number of bottlenecks in the preprocessing of next generation sequencing data processing.

Company highlights:

1. Company is based in the Netherlands.
2. Sapphire Capital obtained HMRC EIS advance assurance for Genalice.
3. EIS qualifying investors receive 30% income tax relief.
4. Advisory work by [Sapphire Capital Partners LLP](#).
5. Company raised significant investment capital.



Our services

A

SEIS AND EIS SERVICES

We help our clients regarding SEIS and EIS schemes and raise finance.

B

UK PATENT BOX

We help our clients take advantage of the UK Patent Box.

C

REIT SERVICES

We help our clients set up Real Estate Investment Trusts (REITs).

D

INVESTMENT MANAGEMENT

We are authorised by the FCA to act as a fund investment manager.

E

CORPORATE FINANCE

We help our clients with the ongoing management.

F

PROPERTY

We help our clients in regard to property development.



Learn more about our services [request more information](#).