Budget 2014: SEIS & SITR

This briefing sets out the changes relating to SEIS and the new SITR relief as announced by the Chancellor in the Budget 2014.

The good news for startups is that SEIS and EIS have been retained and a new equivalent scheme for social enterprises has been created.

SEIS

The Government has permanently extended the Seed Enterprise Investment Scheme (SEIS). A qualifying company can raise up to £150,000 under SEIS. Investors who invest using SEIS can receive income tax relief equal to up to 50% of the amount of their investment (meaning that they receive a reduction or rebate on income tax payable) in the year of the investment, the year before or the year after.

Investors must hold their shares for three years after investment, but on a sale of their shares thereafter (on condition that the rules of the scheme have been complied with throughout the three year period) no capital gains tax is payable on any realised gain.

Convertible Loans

Currently convertible loans do not qualify for tax relief under either SEIS or the Enterprise Investment Scheme (EIS). The Chancellor announced that the Government will investigate options for SEIS and EIS to apply where individuals make investments in the form of convertible loans.

This would be a very significant improvement in both SEIS and EIS and would correct an anomaly in the application of the schemes.

SITR

The Chancellor has announced a new tax relief scheme similar to EIS specifically for charities and social enterprises. The scheme is called Social Investment Tax Relief (SITR) and will offer an income tax rebate and capital gains tax deferral to investors making unsecured investments in asset-locked bodies including charities, community interest company, community benefit societies and social impact bonds.

SITR is available from 6 April 2014 and applies to the first £290,000 raised by a qualifying company over three years. Organisations will be required to be “small” with less than 500 staff and gross assets of £15,000,000 or less.

Unlike EIS, investments need not be made by way of equity – unsecured debt is also available under SITR. In addition

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Social Impact Bonds are qualifying so long as the investment is made through a SIB special purpose vehicle structured as a company limited by shares which is accredited via a Government process.

Specific tax reliefs for investors are:

(i) 30% income tax relief;

(ii) capital gains tax deferral relief;

(iii) loss relief which will only be applicable to investments in shares.

As with SEIS and EIS, there will be a minimum investment period of 3 years.

Conclusion

These changes represent good news for startups. SEIS is vital to the London startup community and has driven a marked expansion in the number of startups successfully seeking investment. SITR will begin to level the playing field for social enterprise businesses and make them more attractive to investors.