



HM Revenue
& Customs

Income tax: Future Fund – Seed Enterprise Investment Scheme and Enterprise Investment Scheme relief

Who is likely to be affected

Companies and individuals using the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS), fund managers, and other promoters and advisers associated with the SEIS and EIS.

General description of the measure

The government's Future Fund has been set up to invest in companies facing financial difficulties due to the coronavirus outbreak. The Future Fund investment will be in the form of a loan that can either be redeemed or converted into shares and requires private investors to provide match funding under the same terms. This measure modifies the current SEIS and EIS rules to ensure that existing individual shareholders who also invest in the same company using a Future Fund convertible loan note (CLN) will not lose relief on any SEIS or EIS investments made prior to the Future Fund investment if that CLN is redeemed, repaid or converted.

Policy objective

This measure intends to ensure that existing investors in a company who have previously used the EIS or SEIS are not discouraged from providing investment through the CLN under the government's Future Fund scheme because of the potential loss of previous tax reliefs claimed.

Background to the measure

As part of the government's response to COVID-19 the Future Fund scheme was announced by the Chancellor on 20 April 2020. The fund is intended to make investments in new, innovative companies that may be unable to access other COVID-19 business support programmes because they are either pre-revenue or pre-profit.

As part of the development of the Future Fund design, stakeholders identified that the nature of the Future Fund's CLN investment instrument could mean that SEIS and EIS investors in a company may lose their reliefs depending on how and when the loan ends.

To ensure that these investors would not be discouraged from providing match funding support under the Future Fund it was announced at the launch of the Future Fund on 20 May 2020 that the government would take action to protect investors' reliefs on SEIS and EIS investment made prior to any Future Fund investment.

Detailed proposal

Operative date

This measure will have effect on or after 20 May 2020.

Current law

Part 5 Income Tax Act (ITA) 2007 and Schedule 5B of the Taxation of Chargeable Gains Act (TCGA) 1992 contain the rules for the EIS and part 5A ITA 07 and Schedule 5BB TCGA 1992 contain the rules for the SEIS. These rules contain provisions that withdraw relief in particular circumstances where an investor receives value from the company.

Proposed revisions

Legislation will be introduced in Finance Bill 2020 to modify the “value received” provisions in the ITA and TCGA so that the redemption, repayment or conversion of a CLN will not restrict the relief given in relation to preceding EIS or SEIS qualifying investments.

Summary of impacts

Exchequer impact (£m)

2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025	2025 to 2026
nil	nil	nil	nil	-	-

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure is expected to have an impact on those individuals, in particular ‘business angels’, who have invested in a company using the SEIS and EIS and may be considering a further investment in the company as part of the Future Fund. These individuals are a minority of the approximately 40,000 investors who use the SEIS and EIS annually. This measure amends the current SEIS and EIS rules to ensure that individual investors who also invest in the same company using a Future Fund CLN will not lose relief on any SEIS or EIS investments made prior to the Future Fund investment when that loan ends. Customer experience is expected to remain broadly the same as this measure does not change how individuals interact with HMRC.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that there will be impacts on those in groups sharing protected characteristics.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on up to 1,500 businesses associated with the SEIS and EIS by making Future Fund investment available without withdrawing reliefs from their investors. One-off costs will include familiarisation with the change. There are not expected to be any continuing costs. Customer experience is expected to remain broadly the same as this measure does not change how businesses interact with HMRC. There are not expected to be any impacts on civil society organisations.

Operational impact (£m) (HMRC or other)

The additional costs for HMRC in implementing this change are anticipated to be negligible.

Other impacts

Other impacts have been considered and none has been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Alex Buckley on Telephone: 03000 586048 or email: venturecapitalschemes.policy@hmrc.gov.uk

Declaration

The Rt Hon Jesse Norman, MP Financial Secretary to the Treasury, has read this tax information and impact note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.