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Seis has ‘potential to be transformative’

By Duncan Robinson

Last November, George Osborne hatched a plan to give investors up to 78 per cent tax relief on investments into small start-up companies. He called it the Seed Enterprise Investment Scheme (Seis).

But Doug Richard, a former “Dragon” from the BBC TV show *Dragons’ Den* and founder of School For Startups which teaches people how to launch a company, prefers something less prosaic. He calls it “potentially one of the most extraordinary incentives ever created”.

The scheme, however, has just one problem: many potential investors still do not know about it.

“Although I love our Treasury like any loyal citizen, they are economists – and economists are not so big on promotion,” says Mr Richard. “This is how economists promote: they come up with a marvellous tax scheme, they put their pen down, and they go: ‘Done!’ They think that, by some macroeconomic magic, everyone will act as a rational actor, with some kind of Spock-like, mindmeld transfusion of perfect knowledge.”

Seis, which kicked off in April this year, offers upfront income tax relief of 50 per cent, and an exemption from capital gains tax if the investment comes from gains realised in that tax year. On top of this, if the company fails, losses can be offset against an income tax liability.

According to Mr Richard, top-rate taxpayers who combine all of these reliefs can end up with 100.5 per cent of their initial investment protected. “I had HMRC check the numbers,” he adds.

Conditions are attached, though. Companies must be less than two-years-old, with less than £200,000 in assets. Investors are limited per tax year to investing £100,000 and not allowed to put money into a relative’s business.

Risk is plentiful, too – given the high failure rate for young companies. But this scheme slants the game in favour of the investor, Mr Richard argues. “Seis changes the dimensions of the punt,” he says. “It makes an unaffordable risk an affordable risk.”

Using a large tax break to change risk perceptions in this way has led some to fear that the scheme will attract unsophisticated investors – people not capable of performing due diligence on a company before investing in it.

"People often say, reasonably, that they don't want to promote risky activity," says Mr Richard. "But the whole point of Seis is that it makes it less risky. If you don't have an appetite for losing money, you should not be investing. If you can't afford to lose it, you can't afford to put it at risk."

Seis may also encourage investment in companies outside the domineering tech-web nexus, which attracts most venture capital. "I think we're going to have a lot of new start-ups," says Mr Richard. "But it will be broad, not just in tech."

Services such as Seedrs.com – which allows retail investors pump equity into start-ups – have started popping up to give companies the chance to pitch for seed investment.

Jeff Lynn, Seedrs.com chief, says: "The major flaw [with Seis] is that it's been kept a virtual secret! A government desperate for economic growth should be doing vastly more to publicise Seis and the value it can add to the UK's future."

A spokesperson for the Treasury said it was "working hard to promote the scheme to encourage more of this type of investment in companies which would benefit".

"I think this will be the beginning of the golden age in the UK for start-up activity," says Mr Richard. "It has the potential to be transformative – but it doesn't turn in one day."

HMRC will not know the level of take-up until all self-assessment forms have been received. The scheme is expected to cost £50m for 2013 to 2014.

Mr Richard urges patience. "It could take two to three or four years before the full impact of this sea change takes effect. Maybe some other government will inherit benefit. Who knows? Maybe Ed Balls should be dancing in his shower tonight."

He pauses for a moment. "That's an image."