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Tax relief extended for angel investors

By Jonathan Moules, Enterprise Correspondent

Wealthy investors are being offered more incentives to put money into start-up ventures as part of the government's push to promote Silicon Valley-style "angel investment".

A waiver on capital gains tax (CGT) for investors in early stage enterprises is being extended for another year, a senior official at HM Revenue & Customs said.

The move should increase the number of people benefiting from George Osborne's seed enterprise investment scheme (SEIS) – a package of measures to aid angel investment – announced in last year's Budget.

It will please those involved in the UK's angel community, increasing the potential gain they can make from successful investments and enabling them potentially to write off more than 100 per cent of any money put into failed ventures.

There has been concern that the message about the potential payback from SEIS has not been reaching the wealthy individuals that the government would like to convert into angel investors.

Doug Richard, the former Dragons' Den panellist, undertook a nationwide roadshow with other prominent business angels last year to promote the scheme because he felt too few people had taken up the tax relief.

The extension to the deadline for full SEIS relief was revealed by Kathryn Robertson, HMRC's senior policy adviser on venture capital schemes, during a presentation to technology investors at the Google Campus in Shoreditch.

She explained that individuals can avoid paying CGT on money put into companies before April 2014, 12 months longer than previously believed, by using a process called carrying back.

"Really it is to give them flexibility," she explained, adding that there would be a limit on the amount of investment funding that could be carried back.

When the CGT relief does eventually expire, business angels will still be able to claim 50 per cent income tax relief on early stage investments because the legislation backing that runs until 2017, Ms Robertson said.

The ability to claim full SEIS relief for longer was welcomed by angel investors in the audience.

Simon Cook, chief executive of DFJ Esprit, a private equity firm, said SEIS and other tax reliefs already helped the UK to have one of the most generous tax regimes for angel investors in the world.

"When I tell people in Silicon Valley about what we have over here they cannot believe it," he said. "In the UK, you pay considerably less tax on the first $20m you make than in the US."

A government spokesman said the extension to the scheme did not mean that it was likely to make more changes to the rules governing SEIS.

"One of the things that I think is really harmful to the tax system is not so much the complexity but volatility caused by changes to the rules," he said. "In this area, we just want to let it be."

SEIS, which has been running since April 2012, is an initiative intended to stimulate equity investment in seed stage companies by offering a range of tax reliefs to investors in such companies.

It complements the existing Enterprise Investment Scheme, but offers higher rates of tax relief in recognition of the higher levels of risk attached to investing in very early stage companies, and of the particular difficulties encountered by them in accessing equity finance. SEIS applies for shares issued on or after April 6, 2012.