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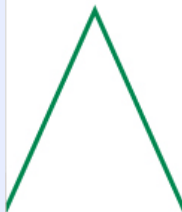
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Thursday 8th December 2011, 1:10am

The Seed Enterprise Investment Scheme won't take root and grow either personal or national prosperity
Philip Salter

THE government is offering a 50 per cent tax incentive to try to get high rollers to throw their money behind Britain's most risky businesses. But even those earning enough to benefit from the tax break will mostly conclude that the threat of losing it all would be too great to take. The Seed Enterprise Investment Scheme (SEIS) is a gimmick and will not be particularly fruitful for investors or the economy.

Chilton Taylor, head of capital markets at Baker Tilly Corporate Finance, explains the details. From 6 April 2012 "investors, including directors, can receive initial tax relief of 50 per cent on investments up to £100,000 and capital gains tax (CGT) exemption for any gains on the SEIS shares." He adds: "For 2012/13 only, a CGT exemption will be offered in respect of gains realised on the disposal of assets that are invested through SEIS in the same year."

A VERY MIXED BAG

Adrian Lowcock of Bestinvest says the tax relief is some of the most generous around, however, he adds that this reflects the risk: "A £100,000 investment into a company would require significant due diligence work, which would be expensive." Madden thinks the challenge is finding the right opportunities: "Fine if you are a full time business angel investing on your own account, not so good if you have, for example, a full-on day job in the City." The concern for Mary Monfries, tax partner at PwC is "if people with less diversified investment portfolios are encouraged by the tax relief into investing in what will be riskier assets."

Although he notes it won't turn a poor business into a good one, Andrew Haigh, head of client propositions at Coutts, thinks the "scheme should encourage investors to consider taking more early stage risk, as it looks like it enhances the economics of such high risk investments." He adds: "The UK has always lagged countries like the US in terms of how deep its angel investor markets are and this may well attract new investors." He thinks this could prove to be a good deal for companies looking for capital, with investors benefiting from a greater potential cushion.

Claire Madden, a partner at Connection Capital, thinks "the SEIS is a big incentive to back start-ups, with a 50 per cent up-front income tax break if you are an investor with an appetite for risk." She notes: "Alongside the lost relief available on EIS investments which fail, this will mean that investors only have a small proportion of their investment at risk." However, she also says the limits are very restrictive – a company can only raise £150,000 in any one tax year, which invariably means very small scale start-ups (and therefore higher risk). Ben Yearsley of Hargreaves Lansdown quips that this low limit make SEIS a "friends and family EIS".

Madden concludes: "SEIS has fantastic tax breaks, but tax breaks don't make up for bad investments and investments that would qualify under the scheme are about as risky as you get." Simon Massey, tax partner at Menzies is not convinced: "The changes will be welcome news on paper for small start-ups, but in reality the scheme is still too restrictive as it is only available for a year and also just for a small part of the investment." He thinks "it's a good example of a headline grabbing initiative that may not work in practice."

THE BIGGER PICTURE

Richard Baron, head of taxation at the Institute of Directors, says he understands the reasons for interest in a special scheme for seed capital, but stresses that "proposals such as this one must not distract the government from the vital task of promoting growth by reducing burdens on all businesses." Madden suggests that if Osborne really wants to boost capital for SMEs, a temporary increase in the upfront tax break to 50 per cent should have come in across the board.

Harry Katz of Norwest Consultants hits the nail on the head in describing the plan as a "tax tail wagging the investment dog." In fact, the government is sowing the seeds of its own destruction as it becomes increasingly confident in its ability to determine investment risk in its planned forays into the mortgage and business loans industries, as well its correctness in nudging investors where it sees their wealth will benefit the greater economic good. Rather than manipulating, the government should simplify, and instead of tinkering it should be bold. Investors should remember that the government won't be there to pick up the pieces if your investments don't work out – after all, its own bad loans will likely be hitting the wall at about the same time.

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