

The Swan Community Project

A BOND.....A PLEDGE.....A COMMITMENT

SEED ENTERPRISE INVESTMENT SCHEME (SEIS) ENTERPRISE INVESTMENT SCHEME (EIS) FURTHER INFORMATION

1 Background

- We have advance assurance from HMRC that the Community Share Offer in respect of an issue of £250,000 shares under SEIS and £350,000 of shares under EIS.
- Advance assurance is a statement that HMRC believes it is likely that the share issue will meet the requirements of SEIS and EIS based on the information provided and the current legislation. We have provided our business plan and the last draft of the Prospectus to HMRC so they have up to date information of our project.
- The terms of SEIS and EIS are very similar but:
 - SEIS allows a UK taxpayer to an income tax deduction of 50% of the amount invested
 - EIS allows a UK taxpayer an income tax deduction of 30% of the amount invested.
- A company can issue up to £250,000 of SEIS shares. The limit for EIS substantially exceeds the £350,000 for which we have advance assurance.
- A taxpayer can elect to have the investment in SEIS and EIS shares treated as taking place in the preceding tax year.
- The maximum amount of tax relief for an individual cannot exceed the tax payable for that year.
- SEIS and EIS shares must be held for three years otherwise the relief will be lost.
- We will allocated the benefit of the expected SEIS and EIS reliefs pro rata between shareholders so that everyone is treated the same.
- The expected income tax relief for shareholders under the combination of SEIS and EIS is expected to be approximately 34% of the amount invested (as explained below).

2 Our project

- SEIS funds can be used to finance the purchase of an existing business (i.e. the purchase of the Swan) but EIS funds can't . EIS funds must be used for the development and improvement of the business so we would use those funds after the acquisition has been completed.
- The acquisition cost of the pub will be approximately £511,250 including third party fees and stamp duty.
- We propose to finance the acquisition cost as follows:
 - £250,000 of SEIS money
 - £150,000 of loans
 - £25,000 of grant funding
 - £35,000 donation
 - £51,250 of share capital which will get neither SEIS (because we will have used up the £250,000 maximum) nor EIS (because that can't be used to buy the business)
- We will therefore have three kinds of shares from a tax point of view:

3 Worked example

- If we raise £450,000 we would expect each electing shareholder to receive shares in approximately the following proportions (regardless of the amount invested):
 - SEIS 55%
 - EIS – 33%
 - Non S/EIS – 12%
- This would produce an overall expected income tax deduction for an investment of £1,000 as follows:

SEIS	£550 at 50%	£275
EIS	£330 at 30%	£99
Non S/SEIS	£120 at 0%	£0
Total tax saving	£1,000	£374
Net cost after tax	£1,000 - £374	£626

- That would mean an average expected tax deduction of 37.4%
- However, the actual percentage of total expected tax relief will vary depending on a number of factors:
 - how much we raise – if we raise £600,000 for example the proportion of SEIS shares will reduce (250,000 is a smaller proportion of 600,000 than of 450,000) and the proportion of EIS shares will increase accordingly
 - not everyone will want to apply for the tax relief
 - the third party costs of acquisition are only an estimate
 - if we borrow less than £150,000 then more shares will qualify for neither SEIS nor EIS.
- We believe that the percentage of the expected tax relief is very likely to be between 35% and 37% (rounded to the nearest whole number).
- If we were to assume that the average rate is 35% then based on an investment of £1,000 the expected tax relief would be £350 and the net cost would be £650. The same percentages can be applied equally to other amounts invested.

- Other examples (rounded for simplicity)

Amount invested	Expected tax relief	Net cost
£250	£85	£165
£500	£170	£330
£1,000	£340	£660

If on the other hand an investor wanted to include the benefit of the tax relief a greater amount could be invested as follows:

Amount invested	Expected tax relief	Net cost
£384	£134	£250
£770	£270	£500
£1,536	£536	£1,000

4 How and when would I get the tax relief?

- Generally speaking the tax relief will be a reduction in your tax bill via your PAYE or your self assessment form rather than by you receiving a cheque from HMRC.
- There will be a timing difference of some months between buying shares in the Society and actually getting the expected tax deduction.
- The process depends on HMRC giving authority for the Society to issue each shareholder with a certificate for SEIS shares (SEIS 3) and another for EIS shares (EIS 3). This process can take some months.
- The Society has to apply for this authority which it can do in respect of SEIS once 70% of the SEIS funds have been spent. That will be upon acquisition of the pub as we will be using all of those funds towards the cost of acquisition.
- The Society can only apply to HMRC in respect of EIS once the Society has been trading for 4 months after the shares have been issued.
- Once the application has been made to HMRC it is normally expected to take up to 45 working days for them to respond and give the Society authority to issue SEIS 3/EIS 3 certificates which can then be used to claim the tax relief.
- We are expecting to have in excess of 500 shareholders wanting individualised certificates so we will need time to do this but we will do it as soon as we can.
- Once you have received your SEIS 3 and EIS 3 certificates you can claim the relief by:

5 Capital Gains Tax

- There are Capital Gains Tax benefits under both SEIS (Reinvestment Relief) and EIS (Deferral Relief). Please refer to the HMRC handbook links on this website for details.

Please refer to the specific links on this website to HMRC's handbook which gives the definitive position on the availability of these tax reliefs which are only summarised here. We are unable to give any individual tax advice so we recommend that you take advice as appropriate.