資料４
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UK tax incentives for start-ups

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Innovation Ecosystem Committee

Tapestry

About Tapestry

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Our Speaker

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Tapestry,
Managing Associate

What we will cover

In the UK, there are government approved tax-advantaged incentive plans designed to assist small to medium sized companies (**SMEs**)

Incentives for investors:

- Seed Enterprise Investment Scheme (**SEIS**);
- Enterprise Investment Scheme (**EIS**); and
- Venture Capital Trusts (**VCT**)

Incentives for employees:

- Enterprise Management Incentives (**EMI**)

Why offer **tax-advantaged plans**

The UK government recognises that SMEs – for example start-up and pre-revenue companies – struggle to compete with larger established companies

SMEs are disadvantaged:

- in the labour market, unable to compete for highly skilled staff; and
- in the investment market, unable to access investment in the business,

inhibiting the growth of the company

There is an economic case that making tax-advantaged plans available to SMEs has a net positive effect on the UK economy

EMI – **employees perspective**

A share option plan for employees

Allows employees to acquire shares in the parent company in a tax-advantaged way

Options often structured as “exit-options” –option can only be exercised on a sale of the parent, allowing the employee to take part in that sale

Normally income tax and social security would be payable on the gain – typically 42%

Under EMI, gain usually only subject to capital gains tax (**CGT**) typically at 20% or 10% (if business asset disposal relief applies)

Exercise price normally set at the market value of the shares at the time the option is granted – e.g. a low price

Nothing to pay when the option is granted (either to receive the option or any income tax) - no investment risk

When the parent is sold for a high price, the option can be exercised and a profit made which is not subject to income tax, but subject to CGT

EMI – employees perspective (continued)

An EMI option can put the employee in the same position as an investor, but without any investment risk

An employee may be willing to work for a high-growth company for a lower salary/in a less prestigious job, because of the potential to share in the growth of the company

An employee may prefer to stay with the SME because of the loss of the option if the employee leaves

The employee is motivated to help grow the company and is invested in its future

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EMI – company perspective

Company assets of £30million or less

Less than 250 full time employees

Not under the control of another company

Permanent establishment in the UK

Must be a trading company excluding:

- banking
- farming
- property development
- provision of legal services
- ship building

EMI – company perspective (continued)

Costs nothing to grant EMI options (asides set-up costs)

When the options are exercised, normally no employers social security to pay – normally this would be 13.8%

EMI options are very flexible – can be granted to specific employee, can include performance conditions, can lapse if the employee leaves etc.

EMI options are a way to offer effectively higher salary to employees

EMI options help recruit, retain and motivate key employees

VCT

VCT is a company, approved by the UK tax authority, which subscribes for shares in, or lends money to, a number of small unquoted companies

The VCT plan is designed to encourage investment in small unquoted companies

VCT - **investors**

The VCT invests in a spread of companies, enabling investors to spread their risk

Individual investors can claim ‘front-end’ income tax relief of 30% on subscriptions of up to £200,000

Individual investors are exempt from income tax on dividends

Individual investors are exempt from CGT on the disposal of VCT shares

VCT – **trust companies**

VCTs must be listed on an approved stock exchange

VCTs are exempt from corporation tax on any capital gain on investments

Conditions on:

- the companies it may invest in – small or early-phase businesses with less than 250 full time employees
- Many other conditions apply, including:
  - Limit on percentage of the capital invested in a single company;
  - income of the VCT must come from investment in qualifying shares;
  - at least 70% of capital invested in qualifying companies; and
  - cannot retain more than 15% of income

SEIS – **company requirement**

- Designed to help a company raise money when it starts to trade
- Maximum of £150,000 may be raised
- Carrying out a qualifying trade for less than 2 years
- Gross assets of up to £200,000
- Less than 25 full-time employees
- Money raised by issuing new ordinary shares, paid in full in cash
- Money raised must be spent within 3 years on a qualifying trade, or R&D into a qualifying trade

SEIS – **investors**

Individual investors can claim ‘front-end’ income tax relief of 50% on investments of up to £100,000

Individual investors are exempt from CGT on shares held for 3 years

Shares disposed of at a loss can be set against income tax of that year or of the previous year

EIS – company requirement

Designed to help a company raise money to help grow the business

Maximum of £5million per year may be raised, up to £12million in total

Receive investment within 7 years of first commercial sale

Gross asses of up to £15millon before investment and £16million after

Less than 250 full-time employees

Must carry out a qualifying trade

Money raised by issuing new ordinary shares, paid in full in cash

Money raised must be used for growth and development and investor capital must be at risk

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EIS – **investors**

Individual investors can claim 'front-end' income tax relief of 30% on investments of up to £1,000,000

Individual investors are exempt from CGT on shares held for 3 years

Shares disposed of at a loss can be set against income tax of that year or of the previous year

Recommendations for **Japan** (employees)

- Review in detail the UK economic case for tax-advantaged plans
- Consider the Japan share plans and employment ethos
  - will employees be motivated
  - will employers understand the benefits
  - is there sufficient legal expertise

Recommendations for **Japan** (investors)

- Review in detail the UK economic case for tax-advantaged plans
- Consider the Japan investment ethos
  - will companies seek investment in this way
  - will individuals be motivated to invest
  - is there sufficient legal expertise

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Any questions?

Thank you!