

Tax Incentives

Seed Capital Relief



RESOURCE DOCUMENT - V1. 2014

Seed Capital Relief

The Seed Capital Scheme (SCS)

If you are an employee, an unemployed person or were made redundant recently and are interested in starting your own business you may be entitled to avail of the tax refund available under the Seed Capital Scheme.

An employee, who leaves employment and invests by means of shares in a qualifying new venture, may claim a refund of income tax paid in previous years. An unemployed person may also avail of this facility.

The Refund

- Relief from income tax may be claimed in respect of the investment, subject to a maximum investment of €100,000 in any year of assessment.
- Relief already granted may be withdrawn if the specified individual fails to take up a relevant employment in the company –

1. within the year of assessment in which the investment is made, or
2. If later,
 - a) within 6 months from the date a single investment was made, or
 - b) Where more than 1 investment was made,

within 6 months from the date of the last such investment.

- You can select the tax years for which you may claim refunds from any or all of the six years prior to the year of investment.
- The SCS is a relief from income tax, not a tax credit. Therefore relief in respect of any investment must be claimed up to the extent of your total income in each of the selected years (subject to an overall maximum investment of €100,000 in any one tax year). There is no facility available whereby the investment can be spread over a number of years so as to utilise personal tax credits in each year.
- There is no facility to allow a spouse transfer any unused relief to the other spouse.
- For each of the selected years, the refund is limited to the income tax paid by the investor.
- The refund may be claimed:

1. immediately the company starts to carry on relevant trading activities, or
 2. If it has not started to carry on relevant trading activities, once it has expended not less than 30% of the amount of the investment on research and development activities which are
-

Seed Capital Relief

connected with and undertaken with a view to carrying out relevant trading activities.

- If you have already received BES or EIS relief for any of the six years selected, the amount of the relief available to you in that year is the difference between €100,000 and the amount of the original BES/EIS investment.
- You may obtain a refund in this manner for two investments in the company made within a three-year period. Both investments, however, must be made in the same company.

What conditions apply?

The Investor:

1. The scheme is designed for those who are or were in employment which was subject to PAYE. To ensure that this intention is achieved the sources of your income over the four tax years immediately before the year in which you invest in the company are examined. In the tax year immediately before the year in which you invest, your income may come from any source (that is, it may be from self-employment, rental, investment, PAYE or other). In the other three tax years, your non PAYE income should not exceed the lower of €50,000 or your total PAYE type income. For example if your investment is made in 2013, this condition will apply to 2009, 2010 and 2011 only.
 2. You must enter into a relevant employment for at least one year with the company as an employee or a director starting either within the tax year in which the investment is made or if later, within 6 months of the date on which the relevant investment is made.
 3. Your investment in the company may be made in two stages. The second investment must be made within two years following the tax year in which your first investment is made. For example if the first investment was made in 2011 the second investment must be made before the end of 2013.
 4. You must subscribe for eligible shares in the company and retain those shares for 3 years.
 5. You must acquire at least 15% of the issued share capital of the company and you must maintain the level of your shareholding at this percentage for at least one year, even if the share capital of the company should expand. This condition will apply in the case of both a first and a second investment.
-

Seed Capital Relief

The Company:

The company must be a qualifying new venture. Other than in the case of Tourist Traffic Undertakings, as set out below, there is no requirement for a company to have prior certification by any agency to confirm it is a qualifying new venture. The onus is on the applicant to ensure this condition is met.

Green Energy Activities

Where the relevant trading activities of a company includes green energy activities it must expend all the money subscribed on such activities within a period of 1 month before the end of the 3 year holding period.

Research and Development Activities

In the case of a company which had not commenced to trade when the subscriptions for shares were made, that company must –

- within a period of 1 month before the end of the 3 year holding period have expended all the money subscribed, on research and development activities, and disposed of a specified intangible asset (within the meaning of section 291A TCA 1997) which is connected

with, and arises directly from those research and development activities to another person for the purposes of a trade carried on by that person, OR

- Commenced relevant trading activities within 2 years from the date the investments were raised, and have, within the 3 year holding period, expended all the money subscribed on relevant trading activities or research and development activities. See paragraph (7) for conditions which apply before making a claim.

Conditions to Prevent Abuse

1. You must not within the 12 months before your first investment in the company, have held, or have been entitled to acquire (directly or indirectly) more than 15% of –
 - the share capital of any other company,
 - the loan capital and share capital of any other company, or
 - the voting power in any other company.However, this prohibition is waived provided that:
 - the annual turnover of the other company, in each of that company's three accounting periods prior to the company's accounting

Seed Capital Relief

period in which the investment is made in the seed capital company, did not exceed €127,000, and

- the other company existed wholly or mainly for the carrying on of relevant trading activities.

This prohibition is also waived where you own

more than 15% of a shelf or dormant company.

For more information or assistance with making a claim for Seed Capital Relief please do not hesitate to contact us at +353 1 6114056.

Squires - Chartered Accountants & Advisors are located in Dublin, Ireland.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Squires accept no responsibility for any loss arising from any action taken or not taken by anyone using this material.
