

TOP 5



Access to
Finance

03/2015

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ukie
THE ASSOCIATION FOR AN INTERACTIVE ECONOMY

About Ukie

The Association for United Kingdom Interactive Entertainment or Ukie (pronounced YOU-KEY) is a trade body that aims to support, grow and promote the whole of the UK's games and interactive entertainment industry. Founded in 2010 (although formerly known as ELSPA), Ukie's membership includes all the major UK and global games publishers and the best of UK development talent - from promising start-ups to some of the biggest, most successful studios operating in the UK today.

We also have distributors, academic institutions, new publishers, and media outlets that are integral to the lifeblood of the industry as part of the family.

Ukie works with government to champion a range of issues including age ratings, education and skills, access to finance and protecting intellectual property rights. It also works with the media to ensure true and accurate representation of the sector by raising awareness of the industry's positive economic contribution and the societal benefits of gaming to policy makers, regulators and consumers.

One of Ukie's key roles is to support its members by providing them with key market information, promoting careers and offering the business support services, training and best-practice knowledge to enable them to operate most effectively.

We also offer a comprehensive events programme to give the games industry access to key information, leading industry figures and give everyone the chance to network. You can see our events programme here ukie.org.uk/events

In addition, Ukie compiles weekly, monthly and annual retail charts and sales reports for the UK market.

ukie.org.uk

About Charles Russell Speechlys Experts in interactive entertainment

Our legal services

- Digital media and entertainment
- Technology licensing and development
- Corporate and commercial
- Employment and pensions
- Dispute resolution
- Real estate
- Intellectual property
- Private client
- Family

A firm with talent

Services & lawyers ranked in legal directories, including:

- Chambers UK
- Chambers Global
- Legal 500

Including Vanessa Barnett and Jaclyn Wilkins who are ranked as experts in computer games and digital media

A firm on the move

- Recruitment of industry experts
- Strong heritage in technology, digital media and entertainment
- International capabilities
- Over 400 lawyers

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guide - access to funding

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cover image: State of Play Games

We know that accessing finance is a problem facing games and interactive entertainment businesses throughout the UK. There is money available if you know where to look and Ukie's Guide gives a summary of where some of these pots of money are and how to make use of them.

How to pitch: top tips for attracting investors

You can have the best game in the world, operating the best business model, on the right platform but without being able to pitch your product to investors you may not be able to access the money you need to grow your business.

Here are eight easy tips to help you deliver the perfect pitch:

1

Your Team:

Investors can often see entrepreneurs as not being focused on building the business - can you demonstrate that you have built a team around you that can both build the business and sell the product - or that you understand where your gaps are and will use this investment to hire the core team members? Don't be afraid also to identify what the investors can bring in terms of strategic advice and business skills to your board - this can be attractive to an investor who would like to really help the businesses they invest in.

2

Valuation:

Valuing a games business is one of the hardest things for investors. It's vital to be realistic, especially if you are not trading and also be prepared to be flexible - you should not be looking to give away more than 25% of your company in the first round - so show you know the market and can give information about other comparable successes, do not inflate valuations or haggle over terms and stock. Let experienced professionals, lawyers and accountants handle the terms and valuations.

3

Demonstrate how you can build a scalable business model:

If it's a single game, can you build a platform or what else can you create on the back of this? Whilst this could include using a freemium model initially to show market validation, you need to show how you can then build a revenue base and monetise your game product and build profit over a two to five year scenario.

5

Create a prototype and line up Beta Testers:

Having a prototype will increase your chances of attracting investors and demonstrating that you can attract paying customers will put you one step ahead.

7

Understand your competition:

Show that you understand who else is out there and how you can really differentiate your game or model from others in the market place.

4

Intellectual Property:

How can you use your brand and customers to give you market advantage and build a defensible, competitive position. Also, have you considered how you are protecting your intellectual property - for instance, do you have valid transfers of ownership in any IP that has been created by freelancers for your business?

6

Investment Proposition:

Don't forget to tell investors how much you are looking for and what you need the money for and what you will spend it on. Keep your investors happy by regularly updating them on the company's progress.

8

Exit and Returns:

Remember angel investors in particular, need to exit over a five to eight year period and look to achieve a ten times return on their investment. You will need to let them know how much has been paid for similar games companies that have been acquired.

1.

Sources of funding

Games publishing

In spite of the rise in developers self-publishing their games, publishers still remain a major source of investment in some areas of the games and interactive entertainment market and they will invest in a video game developer to finance the creation of their game.

Games publishers also provide essential skills to get a game to market and due to their investment in a project will have an interest in its success. Games publishers can also be very good at managing the risk of developing a game and therefore offer invaluable advice to those they invest in.

Ukie represents all the main publishers currently in the UK, as well as some of the newer publishers emerging who specialise in mobile games. If you would like to speak to a publisher drop sam.collins@ukie.org.uk a line.

Business angels

Business angels are private individuals seeking to invest their own spare financial capacity in small businesses, generally working with start-ups or early stage development projects.

Business angels are often successful business people in their own right, who can offer new games companies experience and market contacts to support the growth of the business. Angels make their own decision about investing and normally take shares in the company in return for funding. Whilst some invest as an individual, the trend is for angels to invest in groups or syndicates, enabling them to both pool their finance and their skills, although usually there is a lead angel who will act on behalf of the syndicate both in the negotiations and in following up the deal.

Many angels like to follow their deal and want to keep in touch with you often taking a seat on your board.

Whilst the market is relatively difficult to calculate since many business angels invest privately, an estimated £850m per annum is invested by business angels annually in the UK. This is more than 2.5 times the amount of Venture Capital invested in early stage small businesses annually. Whilst it is also estimated that there are about 18,000 business angels around the country, many individuals remain unaware of this asset class and there is a clear need for more business angels who are willing to use their financial resources and experience to support the growth of small businesses. For more information on the "Angel Market" please see: gov.uk/government/publications/the-business-angel-market-in-the-uk-2009-to-2010.

Angels can gain a substantial tax break for investing in your business; these measures are offered under the Enterprise Investment Scheme ("EIS") and the recently introduced Seed Enterprise Investment Scheme ("SEIS") offering up to 30% and 50% tax reliefs respectively to investors. Therefore you will be especially attractive to investors if you can show that your business satisfies the criteria for these tax reliefs (see below for more information on both of these schemes).

Business angels can include family or friends of the business owner who want to invest money into the particular company or project. However, family and friends will not be able to claim tax reliefs under EIS or SEIS because they will be classed as "connected persons".

Angel investment is high-risk, as the business in question is often an unknown quantity. It is estimated that 40-50% of all investments made by business angels do not return their original investment; so many investors will put funds into a variety of projects to spread the risk. Notably, when developing your pitch to attract business angels, they are generally looking for a ten fold return and an exit from your business within

5-8 years, so you need to show how you can scale your business and provide a suitable exit strategy.



image: Nintendo

+
Where can I find out more?

ukbusinessangelsassociation.org.uk

UK Business Angels Association (UKBAA) is the national trade association (England, Wales and Northern Ireland) that represents and connects all those involved in the angel investment market, including early stage Venture Capital funds, banks and also non traditional sources of finance.

ukbusinessangelsassociation.org.uk/member/directory

the UKBAA's member directory which provides details of what services they provide and how to contact them. If you are an entrepreneur seeking investment for your business, you can search the directory according to the amount of finance you are seeking and what areas of the country you wish to target to access investment.

bangels.co.uk

London Business Angels is one of Europe's leading Angel Investment Networks, connecting companies and investors through their membership scheme.

Crowdfunding

Crowdfunding is increasingly being used to fund video game and interactive entertainment projects. There are lots of crowdfunding platforms operating legally in the UK and across the world.

In a crowdfunding model (also sometimes called crowd financing or crowd sourced capital) individuals, often complete strangers, pool together to fund a company or a project in return for the possibility of some reward, by way of an investment platform.

The internet has considerably increased the size of the potential investment audience and made the management of individual pledges considerably easier. Websites effectively set up a Paypal type account providing a platform for investment enabling businesses to appeal for target investment amount. Many platforms do not have a lower limit and therefore accept as little as £10 in funding. The hosting platform generally takes around 5% in commission. In return the investor will receive either share equity and/or an “exclusive gift” such as a copy of the company’s game when the target sum is reached.

These platforms test the appetite for your games, allowing you a “page” to advertise your company and the investment platform; this can give you a handy armoury of social network metrics such as “likes” for your idea to present to other potential investors, commissioners or publishers.

There are two types of crowd funding scheme:

- + **All or nothing** – A target is set for the required level of investment within a time limit and the funds are only released to the business or individual once the target has been reached. If the target is not reached the investments are returned.
- + **Keep it all** – A target is set above, but whether funds are returned or not is at the discretion of the individual or business.

The hall of fame of crowdfunding success stories is growing and includes the creators behind the game Star Citizen who sought to raise \$2 million on Kickstarter in 2012. In fact they raised \$6.3 million in funding from over 90,000 fans. The creators of the Pebble watch, a watch which syncs with a smartphone raised over \$10 million in 2012 on Kickstarter.

There are three different methods of raising investment in this way – think about which best suits your needs:

- + **The Donations Model:** Funders provide money to a company or for a project either for no return or in return for some form of non-financial reward, for example, a copy of the game that you’re backing, getting your name mentioned in the game or a meeting with the creators.
- + **The Lending Model:** Funders provide money by way of a loan with a requirement that the loan is repaid with interest.
- + **The Investment Model:** Funders provide money in return for a share of profits. The Investment Model can itself take one of two forms:
 - + **The Securities Model:** A funder invests money in a company and receives shares in that company.
 - + **The Collective Investment Scheme Model:** A funder invests money in a project in return for a right to a share in the profits or in the revenues generated by that project, but does not receive shares in the company undertaking that project.

There are more than 40 crowd funding platforms operating in the UK and many others across the world, some specialising in games, like Gambitious and Indiegogo.

Most operate on a donations or loans basis but a few investment platforms have obtained permission to operate an equity model. There are a lot of legal hoops to jump through to operate an equity model, which means it’s harder for ordinary people who might want to financially invest in an idea to do so. These hoops principally exist to protect consumers from unsuitably high risk or fraudulent investments, but they also prevent platforms from offering simple ways for fans to invest in the creation of projects and be rewarded for doing so. We are working to change this.

Ukie is currently calling on government to modify the UK’s regulatory environment to allow investors, content producers and crowdfunding platforms to take maximum advantage of crowd funding investment models.

+ Where can I find out more?

There are many businesses offering crowdfunding platforms that you can use – amongst them are:

- indiegogo.com
- kickstarter.com
- gambitious.com
- crowdfunder.co.uk

Venture capital and private equity

Venture capital and private equity are sources of finance provided in return for an equity stake (shares) in potentially high growth companies.

Venture capital and private equity provides companies with the personal experience of the investors and a stable financial base on which to make strategic decisions.

Venture capital is a part of the private equity industry. It refers to funds used to invest in companies in the seed, start-up and early stages of development. Private equity generally refers to investment in more mature companies through management buy-outs and buy-ins.

Venture capital is attractive for new companies with a limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan. In exchange for high risk investment venture capitalists usually get significant control over company decisions.

Are games businesses attractive to Venture Capitalists?

Video games and interactive entertainment businesses can be especially attractive to venture capitalists. However these investors can be risk averse and only really interested in companies with high growth prospects, which are managed by experienced and ambitious teams who are capable of turning their business plan into reality. Nonetheless, provided you can demonstrate there is real growth potential the private equity industry is interested in all stages, from start-up to buy-out. Having metrics, business models and a proven track record can help make your company more attractive to private equity investors.

What are Venture Capitalists looking for in an investment?

Venture capitalists look to invest large sums of money in businesses, in return for equity. Venture capitalists typically invest in businesses with:

- + A minimum need of around £2 million (though many smaller organisation exist who invest from £50,000).
- + An ambitious but realistic business plan
- + A product or service offering a unique selling point
- + A high return on investment within a specific timeframe, e.g. 5 years
- + Sound management expertise
- + A proven 'track' record

Where can I find out more?

The British Venture Capital Association (BVCA) has over 200 members and represents the private equity and venture capital industry. The BVCA provides information about private equity companies and offers an online search facility. Private equity companies often specialise in certain industry sectors, geographic areas and in specific growth stages, such as seed capital.

bvca.co.uk

Venture Capital Trusts

The Venture Capital Trusts (VCT) scheme is a government scheme designed to encourage individuals to invest indirectly in a range of small higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange, by investing instead through VCTs.

VCTs are companies admitted to trading on a regulated market. They are similar to investment trusts and are run by fund managers who are usually members of larger investment groups.

VCTs offer individuals incentives to invest through various Income Tax and Capital Gains Tax reliefs, and VCTs are exempt from Corporation Tax on any gains arising on the disposal of their investments.

+
Where can I find out more?

[hmrc.gov.uk/guidance/vct.htm](https://www.hmrc.gov.uk/guidance/vct.htm)
[iii.co.uk/funds/product/vcts](https://www.iii.co.uk/funds/product/vcts)



image: Sony Computer Entertainment

Regional Growth Funds

The Regional Growth Fund (RGF) is a £3.2bn challenge fund operating across England from 2011 to 2017. It is administered by the Department for Business, Innovation and Skills (BIS) and supports projects and programmes that use private sector investment to create economic growth and sustainable employment. It focuses especially in helping those areas and communities which were dependent on the public sector to make the transition to sustainable, private sector-led growth and prosperity.

Access to the fund operates on a bid process, with all bids competing with each other. The threshold for all bids is £1million. The sixth round of bids closed on 30 September 2014 with the Government looking to allocate up to £200million to high quality bids. Further rounds will be announced in due course.

Have games companies made successful bids?

Games companies are very much encouraged to apply and have previously been granted considerable RGF funding. In 2011 leading independent game creators Eutechnyx, announced that they were successful in winning a regional growth fund of £1.8m from the Government.



image: State of Play Games

+ Where can I find out more?

More about the fund, dates of further rounds and the application process can be found here:

gov.uk/understanding-the-regional-growth-fund

You can also get further advice by emailing or calling the RGF team at growthfund@bis.gsi.gov.uk or on 020 7215 6758 / 0207 215 3821 - try to complete the project summary section of the application in advance to help them prepare - you can also get support from your BIS local team.

For some useful case studies please see: gov.uk/government/organisations/department-for-business-innovation-skills/series/regional-growth-fund-rgf-case-studies

Other sources of funding

- + FundMap**
Provides easy navigation to the grants and funding available to businesses in the UK technology sector.
fundmap.co.uk
- + Smart**
Offers co-funding to pre-start-ups, start-ups, micro businesses and SMEs, to carry out R&D projects which could lead to successful new products, processes and services.
interact.innovateuk.org/-/smart
Closing date: six rounds per year
- + Grants for the arts**
Awards from £1,000 to £100,000 to support a wide variety of arts-related activities.
artscouncil.org.uk/funding/grants-arts
Closing date: Ongoing
- + Community business loan**
£5 million loan fund for community businesses - Financial support from RBS in the form of loans for the purpose of starting or expanding a community-based business.
bit.ly/1rjkeWC
Closing Date: Ongoing
- + Creative Europe Funding**
The programme has a budget of €1.46bn, of which €2.5m is open to games businesses, and is open to European companies. Funding is provided through the Culture sub-programme which supports the performing & visual arts sector and the MEDIA sub-programme which supports the cinema and audio-visual sector.
mediadeskuk.eu/funding
Closing date: Various
- + UnLtd**
Support individuals directly, not their ventures by providing practical and financial support to social entrepreneurs in the UK.
unltd.org.uk/path
Closing date: Ongoing
- + The FSE Group**
Invests in small and medium-sized enterprises (SMEs) that have the potential for significant growth. A newer area of focus is that of Social Impact Funding to finance social enterprises and communities.
thefsegroupp.com
Closing date: Ongoing
- + Let's Do Business (South East) Group**
Loans and grants available to start-ups and existing businesses in the South East.
letsdobusinessgroup.co.uk/business-finance.aspx
Closing date: Ongoing
- + Yorkshire Content Fund**
A public-private investment fund for the TV, film, video games and digital sectors in Yorkshire and Humber, open to producers either based in Yorkshire or wishing to film or establish a base in the region.
screenyorkshire.co.uk/funding
Closing date: Ongoing
- + EACEA**
A grant programme offering up to €2.5 million controlled by the European Commission targeting the development of video game concepts or projects.
eacea.ec.europa.eu/creative-europe/funding/development-video-games_en
Closing date: the first round has closed but another is expected in early 2015
- + Creative England**
Funding available in various forms for games companies based in specific regions within the UK. Creative England also offers production support schemes in alliance with Sony and Microsoft.
creativeengland.co.uk/games
Closing date: Ongoing
- + Creative Industry Finance**
This programme, delivered by Creative United, offers up to twelve hours of free business support for creative enterprises in England, as well as access to loans from a range of lending partners, starting from £2,500.
creativeindustryfinance.org.uk
Closing date: Ongoing

2. Tax relief available to developers



Production tax relief

What is Video Games Tax Relief?

Video Games Tax Relief (VGTR) is a production tax credit – it is awarded for development of games that qualify, and is claimed against your corporation tax, potentially in the form of a direct payment. Introduced in 2014, VGTR is modelled on the Film Tax Relief (FTR) that had already been in place for several years.

If you make a video game in the UK and it meets the criteria set out below as ‘culturally European’, and your company meets some simple criteria, you will be able to claim this relief.

What can I claim for?

The relief can be claimed against your ‘core expenditure’ on the game – anything you spend on actually creating the game. Speculative design work – early work which is not ultimately used in the game – cannot be counted. Nor can ‘maintenance and debugging’ expenditure on a finished game. However the relief is designed to support games which continue to be developed after release. Work to create new content after the game’s initial release can be claimed for, as long as it is not simply fixing problems with what has already been released.

The legislation for VGTR does not define what a ‘video game’ is, to allow for the possibility of future evolution in the medium. Therefore a game for any platform, with any business model, can be claimed for.

The only restrictions are against games produced for advertising or promotional purposes; for the purpose of gambling; or games containing pornographic content. These cannot be claimed for.

Games also have to pass a ‘cultural test’ in order to qualify – see below for more detail.

How much is VGTR worth?

The relief will ultimately give a return worth around 20% of your development budget – the ‘core expenditure’.

Under the scheme, up to 80% of your core expenditure is reported as an ‘additional deduction’ against corporation tax. This means that it is used to reduce the amount of profit you report and pay tax against.

If this deduction is big enough to create a loss, you can instead ‘surrender’ that loss and receive a 25% credit – a direct payment from HMRC. As you can only report up to 80% of your core expenditure as an additional deduction, this means that the final value of the relief will be around 20% of your budget (80% x 25%).

Is my company eligible?

The company seeking the credit (the Video Games Development Company or VGDC) must be:

1. A company (not an individual or a partnership)
2. Subject to UK corporation tax
3. Responsible for designing, producing and testing the game
 - + Actively engaged in planning and decision-making
 - + Directly negotiates and pays for rights, goods and services in relation to the game

The VGDC can be owned by a non-UK studio/entity.

The relief is claimed through your normal tax return, and may require some proof from your statutory accounts.

Is my game eligible?

The game itself also has to pass an important restriction: the Cultural Test. This is not as restrictive as you may first think, however.

In order to meet EU State Aid rules, VGTR had to be introduced under a cultural exception – it has to be used to correct a market failure in the creation of culturally European content. The cultural test was introduced to ensure that only games contributing to British or European culture are supported. This is a very similar test to the one that is in place for Film Tax Relief.

There are 31 points available in the test, and you must score 16 or higher in order to pass.

The points are available in four sections:

- + **Section A, Cultural Content** – up to 16 points
 - + What is in the game – story, setting, characters and underlying material etc
- + **Section B, Cultural Contribution** – up to 4 points
 - + For games that demonstrate British creativity, British heritage or cultural diversity.
- + **Section C, Cultural Hubs** – up to 3 points
 - + Where the game is made
- + **Section D, Cultural Practitioners** – up to 8 points
 - + Nationality or citizenship of the staff making the game

Where can I find out more?

BFI’s cultural test
bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-video-games

Ukie’s need to know on production tax relief
bit.ly/1rEZu8q

Research and Development (R&D) tax relief

What is R&D Tax Relief?

If you are involved in attempts to develop technology, your company is likely to be eligible for this tax relief as the video games and interactive entertainment industry has a clear and strong link to high tech R&D.

The Government's R&D scheme gives tax deductions to UK companies investing in R&D. This scheme allows UK firms undertaking R&D to deduct from their corporation tax an amount proportional to their qualifying R&D expenditures.

Lots of games businesses undertake R&D, sometimes without realising it – this might sound daft, but companies have received a lot of money from this scheme on engine development, new processes and so on, so it's always worth checking whether you can qualify.

What kind of things can I claim for?

Many software and games development companies have been able to make successful claims for work to:

- + overcome the performance limitations of current technology stacks, development environments and mobile devices;
- + overcome the challenges involved in attempting to process huge volumes of data in real or near real time;
- + develop more effective game and rendering engines to make better use of limited processing power or memory;
- + improve the speed with which games perform on a variety of platforms;
- + develop better methods of porting games between platforms; and to
- + develop the capabilities of open source platforms and technologies.

How much can I claim?

Your business can potentially claim the following:

- + 175% of qualifying expenditure for R&D undertaken from 1 August 2008 to April 2011
- + 200% of qualifying expenditure for R&D undertaken from April 2011 to April 2012
- + 225% of qualifying expenditure for R&D undertaken from April 2012

Is your company eligible?

The relief is available to small, medium and medium large enterprises, being companies who together with only 25% subsidiaries have fewer than 500 employees and an annual turnover not exceeding £100m or a balance sheet not exceeding £86m.

HMRC's guidance on the programme runs to 400+ pages, so there's a lot to consider! To keep things as simple as possible our partners Jumpstart (see below for further information) apply their 30-second test.

By answering the questions you may be able to gauge whether your company would benefit from a more detailed assessment of its projects.

1. Approach to technology - I would say that my company attempts to develop new technology, as opposed to just using it. Some of our attempts to do so have failed for technical reasons, as what we were trying was surprisingly difficult to achieve.

Yes or no?

2. Approach to improvement - I would say that my company tries to make measurable, objective and significant improvements to the design and implementation of its products.

Yes or no?

3. Approach to problem solving - When faced with a challenging technical problem, my company uses internal, qualified and experienced staff to design the solution, using subcontractors to perform easily defined and non-challenging tasks.

Yes or no?

If you have answered yes to any of the above there's a good chance that you may be eligible for a claim.

3 ■

Tax relief available to investors

In order to ensure your start up is as attractive as possible to potential investors, games developers should be aware of the various tax reliefs and qualification criteria for small businesses that will enable investors to benefit from these tax breaks.



Enterprise Investment Scheme

This scheme offers tax relief (both income and capital gains) to investors who put money into qualifying small, growth businesses by buying shares in it. It is the bigger sibling of the Seed Enterprise Investment Scheme or SEIS (see below), which offers tax relief for investment in the very early stage of a company's life, otherwise known as "seed" start ups.

How does a company qualify?

The EIS is designed to incentivise investment in smaller, higher-risk companies. As such, several criteria have to be met by the company receiving the investment. The following criteria must be met:

- + The group of companies to which it belongs must have 250 or fewer employees
- + The group of companies to which it belongs must be a 'small company' – have Gross Assets of no more than £15 million before the investment, and no more than £16 million immediately after it
- + Carry on a qualifying trade as defined by the EIS
- + Not be listed on any recognised stock exchange (except under AIM)
- + Not be controlled by any other company
- + Have a permanent establishment in the UK
- + Any subsidiaries must be more than 50% owned

Each company is limited to raising no more than £5 million investment in any 12 month period. This includes money raised through Venture Capital Trusts, (VCTs), as well as through the EIS, SEIS and other investments that qualify as state aid.

All shares must be paid for, in full, when they are issued. Not doing so is one of the most common reasons for investments failing to qualify for EIS tax relief. They must be 'full-risk', ordinary shares, with no special protection if the firm winds up, or from any of the other normal risks associated with investing in shares, for example they cannot be 'preference shares'.

People who are 'connected' to the company – own more than 30 per cent of it; or are employed by it (non employee directors can only participate in limited circumstances); cannot claim income tax relief under the EIS scheme. See the HMRC pages for a full explanation.

What does the investor receive?

Investors must invest at least £500 in shares in the company in a single tax year to qualify for the EIS. In return, investors receive 30 per cent income tax relief on the cost of any EIS-qualifying shares they buy. This can be claimed up to a maximum of £1,000,000 invested in shares, giving a maximum reduction on the investor's income tax bill of £300,000 in any one year.

Shares must be held for at least three years, or the income tax relief earned will be withdrawn. The money raised by the share issue must be used in the company's trade within two years of the issue date.

After the shares have been held for three years, any profit that is made from selling them is not subject to capital gains tax.

If the shares are sold at a loss, the amount of the loss, minus any Income Tax relief given, can be set against income of the year in which they were sold, or any income of the previous year, instead of being set off against any capital gains.

Finally, the payment of tax on a capital gain (for example on the sale of any assets held by an individual) can be deferred if that gain is invested in EIS-qualifying shares. This investment must be made within the year before the gain arose, or three years after. Unlike the income tax relief, this is available to people who are connected to the EIS-qualifying company.

+ Where can I find out more?

HMRC advice on EIS.
[hmrc.gov.uk/eis/index.htm](https://www.hmrc.gov.uk/eis/index.htm)

HMRC runs a Small Companies Enterprise Centre which administers the scheme. You are advised to contact the SCEC for formal clearance that they qualify for the EIS and SEIS, before issuing shares.
[hmrc.gov.uk/eis/add-info.htm](https://www.hmrc.gov.uk/eis/add-info.htm)

The Enterprise Investment Scheme Association (EISA), a trade body for accountants, lawyers and professional firms advising EIS companies and investors, are also able to provide general advice
[eisa.org.uk](https://www.eisa.org.uk)

Ukie's need to know on EIS
bit.ly/1yh9icq

Seed Enterprise Investment Scheme

What is the Seed Enterprise Investment Scheme?

The Seed Enterprise Investment Scheme (SEIS) is designed to help small, early-stage companies to raise finance by offering a range of tax reliefs to individual investors who purchase new shares in those companies. It complements the existing EIS described above which offers tax reliefs to investors in higher-risk small companies. SEIS is intended to recognise the particular difficulties which very early stage companies face in attracting investment, by offering tax relief at a higher rate than that offered by the existing EIS.

SEIS applies for investment made on or after 6 April 2012. The rules have been designed to mirror those of EIS as it is anticipated that companies may want to go on to use EIS after an initial investment under SEIS.

The Government's Seed Enterprise Investment Scheme (SEIS) is designed to help small, early-stage businesses to raise money by offering a range of tax reliefs to individual investors. Investors can receive income tax relief worth 50 per cent of the amount they invest – making investing in start-up businesses a considerably more attractive proposition.

How can games and businesses benefit from SEIS?

The new SEIS makes funding games and interactive entertainment start-ups a less risky proposition to potential investors.

If your company is seeking funding and fits the following qualification criteria you should discuss SEIS with any potential investors. The following criteria must be met:

- + The group of companies to which it belongs must have 25 or fewer employees
- + The group of companies to which it belongs must have no more than £200,000 in assets at the time the investment is made
- + have a UK permanent establishment
- + be undertaking a new business (be a start-up)
- + not be listed on any recognised stock exchange
- + not have previously raised money under the Enterprise Investment Scheme or Venture Capital Trust scheme

The investor must not be employed by the company or have more than a 30% stake in it, which means it is unlikely that people could use SEIS to gain relief for investing in their own businesses. Each company can obtain a maximum of £150,000 funding through the SEIS.

What does the investor receive?

Each investor can input up to £100,000 in a single tax year through the SEIS, with unused annual amounts able to be carried back to the previous year (but not in the first year of the scheme). This investment has to be in the form of shares.

They receive income tax relief worth 50 per cent of the amount they invest in that year. That is, they can claim back up to £50,000 of income tax they pay in that tax year, regardless of their marginal rate, if they invest the full £100,000.

Once the shares have been held for three years, any profit that is made from selling them is not subject to capital gains tax.

A special provision is in place for the tax year 2012/13: profits from the sale of assets in this tax year are exempt from capital gains tax, as long as these profits are reinvested through the SEIS in this same year. This applies whether the asset is sold before or after the SEIS investment is made. This is to be extended to the 2013/14 tax year, but will only apply to 50% of the gain.

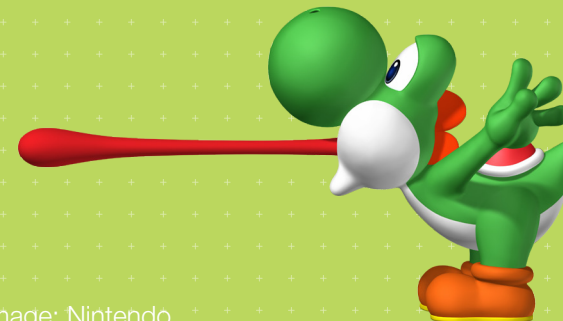


image: Nintendo

+ Where can I find out more?

HMRC advice on SEIS
hmrc.gov.uk/seedeis/index.htm

Ukie's need to know on EIS
bit.ly/1tjqjJG



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