

## New Clause 22: Future Fund: EIS and SEIS relief

### Summary

1. This clause modifies the current rules for the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS). These modifications are to ensure that investors in a company who also support the company using a Future Fund convertible loan note will not lose relief on any previous EIS or SEIS investments when that loan is redeemed, repaid or converted. Such events, were they to occur in the relevant holding period for the shares, may otherwise have been treated as the passing of value from the company to the investor.

### Details of the clause

2. Subsection 1 defines the circumstances under which the section is to apply. It requires that:
  - a. shares in a company must have been issued to an individual prior to them investing in that same company under a Future Fund convertible loan note on or after 20 May 2020, and
  - b. that at a later date that individual is considered to have received value from the company under the terms of that specific loan note (i.e. when the loan is repaid, redeemed or converted as allowed by the terms of the convertible loan agreement).
3. Subsection 2 provides that where the receipt of such value would otherwise lead to the reduction or withdrawal of EIS relief attributable to shares issued prior to the Future Fund investment, the value received is to be ignored.
4. Subsection 3 provides that where the receipt of such value would otherwise lead to the reduction or withdrawal of SEIS relief (and any associated SEIS reinvestment relief) attributable to shares issued prior to the Future Fund investment, the value received is to be ignored.
5. Subsection 4 provides that where the receipt of such value would otherwise cause shares issued prior to the Future Fund investment to cease to be treated as eligible shares for EIS capital gains tax reinvestment relief, the value received is to be ignored.
6. Subsection 5 defines the “Future Fund”.

### Background note

7. The EIS and SEIS encourage investment in smaller, higher risk trading companies by offering tax reliefs to individual investors who subscribe for new shares in qualifying

companies.

8. The Future Fund was set up as part of the government's support to companies impacted by the coronavirus outbreak. The fund is aimed at new, innovative companies (a similar profile to those that use the EIS and SEIS) that may be unable to access other Covid-19 business support programmes.
9. Government investment under the Future Fund is subject to match funding of at least an equivalent amount being provided by private investors; investment is provided in the form of a convertible loan that can either be redeemed or converted into shares.
10. In the development of the Future Fund stakeholders identified that the use of a convertible loan could mean that if existing EIS and SEIS investors in a company also provide match funding then their entitlement to relief on those investments may be reduced or withdrawn depending on how and when the loan ends.
11. To ensure that these investors would not be discouraged from participating in the Future Fund it was announced at its launch on 20 May 2020 that the government would take action to protect investors' reliefs on existing EIS and SEIS investment.