

Seed Investment Scheme

Attracting investment in start-up companies

Why was the Seed Investment Scheme introduced?

The Seed Investment Scheme has been introduced with the aim of encouraging access to finance to Small and Medium Sized Enterprises (SMEs).

More specifically, the main aim of the Scheme is to encourage private investors to consider investing in start-up companies as a way of diversifying their investment portfolio rather than simply investing in blue chip companies and, at the same time, benefitting from fiscal incentives.

The Seed Investment Scheme has now come into force through the enactment of the Seed Investment Scheme (Income Tax) Rules, Legal Notice 232 of 2016, in terms of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union.

The Rules contain the terms and conditions for the applicability of the Scheme.

The Rules are deemed to have come into force on the 1st January, 2016 in respect of investments made as from basis year 2016, and should have effect until the 31st December, 2018, or until such time as the prescribed investment capping is reached. In this regard, the Rules should cease to have effect upon the application of such Rules to investments of €5,000,000 in qualifying companies (or to such other amount of investments in qualifying companies as may be established by the Minister responsible for finance).

The competent entity responsible for the administration of the scheme is the Malta Investment Management Company Limited (MIMCOL).



The incentive

Generally speaking, the Rules provide for the granting of tax credits to individual private investors, residing or operating in Malta, investing in start-up businesses. 'Qualifying Investors' should be entitled to a tax credit amounting to 35% of the aggregate value of their investment in Qualifying Companies (total tax credit not exceeding €250,000 per annum). Such tax credit would be set off against the tax due by the Qualifying Investor in respect of any income or gains brought to charge to tax in the year of assessment following the basis year when the investments are made. The tax credit may be carried forward until it is fully absorbed.

In addition, qualifying investors may be entitled to an exemption from tax in respect of any gains or profits derived from the disposal of their qualifying investments, where such investments are disposed of after the lapse of 3 years from the date of subscription to the equity shares.

Which undertakings classify as ‘Qualifying Companies’?

The Scheme targets SMEs that, in brief, satisfy the following conditions:

- are incorporated, or controlled and managed, or have a place of business in Malta;
- have been in existence and carrying out qualifying activities (as defined) for a period of not more than 3 years;
- are not listed on any recognized stock exchanges.
- do not have more than 10 employees;
- have gross assets of not more than €250,000.

The Rules provide for exceptions to the general rules, where certain undertakings are precluded from obtaining the status of a ‘Qualifying Company’. Furthermore, investments made in such a Qualifying Company and qualifying in terms of these Rules should not, in aggregate, exceed €750,000 per such Qualifying Company.

Obtaining the status of a ‘Qualifying Investor’

For a person to qualify as a ‘Qualifying Investor’, such person should be a natural person who is either resident in Malta or is a national of an EU or EEA Member State with at least 90% of such investor’s worldwide income deriving from Malta.

In order to be eligible for the benefits under the Scheme, such Qualifying Investor must:

- Subscribe to fully paid up equity shares at par in a qualifying company;
- Continue to hold such investment for a period of not less than 3 years; and
- Not be connected to the qualifying company prior to the subscription.

How can you apply?

Undertakings or persons wishing to obtain the status of a ‘Qualifying Company’ or ‘Qualifying Investor’ respectively should apply for such status with MIMCOL by submitting the necessary duly completed application forms together with all supplementary documentation.

Both application forms are essentially self-declaration forms and therefore, applicants are required to assess, and where applicable declare, that the relevant conditions set out in the Rules and the Guidelines issued by MIMCOL are satisfied.

Once issued with relevant compliance certificates attesting to their status, Qualifying Companies and Qualifying Investors are also required to submit annual confirmation forms to confirm ongoing compliance with the conditions of the Scheme.



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