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# Seed Enterprise Investment Scheme (SEIS)

## General

The Seed Enterprise Investment Scheme (SEIS) offers a number of valuable tax reliefs to individuals who subscribe for shares in qualifying companies.

For companies looking to raise equity capital, the benefits of SEIS can help to attract investors.

The following SEIS reliefs are available:

## Income tax relief

Income tax relief is available at a rate of 50% to an individual who makes a cash subscription for shares in a qualifying company.

The maximum subscription an individual can make in any one year is £100,000 and, as a result, the available income tax relief is £50,000 per year.

The income tax relief is restricted to the income tax due to be paid by an investor and cannot create a tax repayment.

It is possible to carry back the investment to the previous tax year. The only restricting factor on this is the maximum subscription eligible for SEIS income tax relief in that particular tax year, therefore the carry back is restricted to £100,000.

## CGT exemption on shares

No Capital Gains Tax (CGT) is payable on the disposal of shares where the shares have been held for three years, provided SEIS income tax relief was claimed on those shares.

The CGT exemption will be restricted if full income tax relief was not available on the purchase of shares.

Losses on the disposal of SEIS shares are allowable regardless of the period of time the shares are held. The amount of the capital loss is restricted by the amount of SEIS income tax relief still attributable to the shares disposed.

A capital loss arising on the disposal of SEIS shares can be converted into an income tax loss and set against the individuals income tax liability for the year.

## CGT exemption on other assets

Capital gains tax relief is available for gains arising on the disposal of any asset where the proceeds are reinvested into a SEIS qualifying company.

The disposal and reinvestment must take place in the same tax year and SEIS income tax relief must be claimed in order to qualify for the CGT exemption. Where income tax relief is reduced or withdrawn, the CGT exemption is similarly reduced.

The relief is such that 50% of the gain reinvested is exempt from capital gains tax.

## Qualifying companies

Companies must meet certain conditions for any of the reliefs to be available to the investor, as follows:

- Exists for the purpose of carrying out a 'new qualifying trade', meaning that the trade must have been in existence for less than two years at the date of investment. Any time the trade existed pre-incorporation e.g. through a partnership or sole trade must be included.
- Has not raised any capital by the issue of shares under an Enterprise Investment Scheme (EIS) or Venture Capital Trust (VCT).
- The assets, or those of the group where the company is a parent company, must not exceed £200,000 immediately before the investment is made.
- The issuing company, or where relevant the group, must have fewer than 25 full-time equivalent employees at the time of issue of the shares.
- The combined maximum amount of SEIS investment and de minimis state aid received must not exceed £150,000.
- Has a permanent establishment in the UK.
- Is unquoted when the shares are issued, with no arrangement in existence at that time for it to become a quoted company.
- Is not a subsidiary of or controlled by another company from the date of incorporation. Where a company is established and controlled initially by another company, they can still be a qualifying SEIS company providing that the control exists during a period where the company has issued only subscriber shares and has not yet begun, or started preparations for, its trade or business.

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- Any subsidiaries of the company must be qualifying subsidiaries.
- Neither the company nor a qualifying subsidiary must be a member of a partnership or limited liability partnership.
- Spent the money raised by the issue of shares for the purpose of a qualifying business activity within three years of them being issued.
- Must not be ‘in difficulty’ at the time of issuing of the shares.

## Qualifying business activities

As mentioned above, the shares must have been issued to finance a qualifying business activity. The trade must be conducted on a commercial basis with a view to making profits. Most trades will be qualifying trades, however the main **excluded** activities are:

- Dealing in land.
- Dealing in commodities, futures, shares, securities or other financial instruments.
- Dealing in goods other than in an ordinary trade of wholesale or retail distribution.
- Banking, insurance, money-lending, debt factoring, hire-purchase financing or other financial activities.
- Leasing, including letting ships on charter or other assets on hire. This includes any trading activity that consists of the customer using the trader’s property i.e. furnished holiday lets.
- Receiving royalties or licence fees.
- Providing legal or accountancy services.
- Property development.
- Farming or market gardening.
- Holding, managing or occupying woodlands, other forestry activities or timber production (the processing of raw timber is not included).
- Operating or managing hotels or comparable establishments, as well as nursing or residential care homes.
- Shipbuilding.
- Producing coal, steel, gas or fuel.
- Generating or exporting electricity or making electricity generating capacity available.
- Generating heat or any other form of energy.
- Providing services to a person or business that provides any of the above excluded activities.

## Requirements to be met by the investor

Eligibility for income tax relief is restricted to companies you are not 'connected' to at any time during the period from incorporation to three years after the subscription for the shares. The investor (or any associate of his e.g. wife, husband, parents and children) cannot be:

- An employee of the company.
- A partner of the company.
- In possession of or entitled to acquire more than 30% of the company’s issued share capital, voting power or rights on winding up.
- Able to control the company (e.g. by virtue of powers conferred in the Articles of Association).

There is an exemption which allows a director to be excluded from the definition of an employee for SEIS purposes. This means that a director, being paid a salary commensurate with his duties, can invest in a company and be eligible for SEIS relief.

In addition, the same director can make further investments under the EIS scheme, provided an initial investment was made under SEIS.

## Withdrawal of income tax relief

The main reason for the withdrawal of income tax relief is if the shares are sold by the investor before the end of the three year relevant period. If relief is withdrawn, HM Revenue & Customs will issue the investor with a tax assessment for the tax year in which the original relief was obtained.

Relief will also be withdrawn if the investor receives any value from the company within the relevant three year period.

## Receiving value from a company

Examples of the circumstances in which you would be treated as receiving value from the company are where the company:

- Buys any of its shares or securities which belong to you.
- Makes a payment to you for giving up the right to payment of a debt (other than an ordinary trade debt).
- Repays a debt owed to you that was incurred before you subscribed for the shares.
- Provides you with certain benefits or facilities.
- Waives any liability of yours or an associate’s to the company.
- Undertakes to discharge any such liability to a third party.
- Lends you money which has not been repaid before the shares are issued.

Receipts of 'insignificant' value will not cause the withdrawal of relief. For this purpose, 'insignificant' means less than £1,000, or if more than that the sum may still be insignificant in relation to the amount subscribed.

## Advance assurance

Advance assurance that a company is a SEIS qualifying company can be sought from HM Revenue & Customs.

## How can we help

We can help you apply for advance assurance to find out whether your company will qualify under the Seed Enterprise Investment Scheme and in registering shares issued under SEIS with HM Revenue & Customs.

For more information please contact:


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