

FOCUS ON

# Seed Enterprise Investment Scheme

The Seed Enterprise Investment Scheme (SEIS) is designed to help small, early-stage companies to raise equity finance by offering a range of tax reliefs to individual investors who purchase new shares in those companies.

SEIS applies for shares issued on or after 6 April 2012. The rules have been designed to mirror those of the Enterprise Investment Scheme (EIS) as it is anticipated that companies may want to go on to use EIS after an initial investment under SEIS.

## The investment

The shares must be ordinary shares which are paid up in full, and in cash, when they are issued.

## Income Tax relief

Income Tax relief is available to individuals who subscribe for qualifying shares in a company which meets the SEIS requirements, and who have a UK tax liability against which to set the relief. Eligible shares must be held for at least 3 years.

Relief is available at 50% of the cost of the shares, on a maximum annual investment of £100,000, giving a maximum annual tax reduction of £50,000. The relief is given by way of a reduction of the individual's tax liability. There is also provision to carry back claims to the previous tax year (apart from pre-2012/13).

## Example

Jenny invests £20,000 in the tax year 2016/17 in SEIS-qualifying shares. The SEIS relief available is £10,000 (£20,000 at 50%)

## Capital Gains Tax exemption and loss relief

Where shares which received SEIS Income Tax relief (which was not subsequently withdrawn) are disposed of after three years, any gain is free from Capital Gains Tax (CGT). If the shares are disposed of at a capital loss, the loss (less any Income Tax relief given) can be set against income or capital gains.

## CGT re-investment relief

Where an investor disposes of an asset which would give rise to a chargeable gain in 2016/17, and reinvests all or part of the gain in shares which also qualify for SEIS Income Tax relief, the amount reinvested will be exempt from CGT. The £100,000 investment limit which applies for Income Tax relief also applies for re-investment relief.

The asset does not have to be disposed of first; the investment in SEIS shares can take place before disposal of the asset, providing that both disposal and investment take place in 2016/17.



“*HMRC approval is required for an SEIS investment, and advance assurance may be sought from HMRC to determine whether a proposed SEIS investment will qualify.*”

### Connection with the company

Income Tax relief is not available where the investor is connected with the company - either by (i) a financial interest in the company (broadly, together with the interests of associates / relatives, owning more than 30% of the shares) or (ii) by employment.

Note that directors are not treated as employees in this context so can potentially benefit from SEIS relief.

### SEIS and the company

The company must be independent, unquoted at the time of issue of the shares, it must have fewer than 25 employees, and it must have no more than £200,000 in gross assets. The company may not receive more than £150,000 in total under the SEIS scheme.

Any trade being carried on by the company at the date of issue of the relevant shares must be less than two years old at that date. The company must not have carried on any other trade before it started to carry on the new trade. Trading activities

A trade will not qualify if it comprises excluded activities, including:

- dealing in land and property development
- leasing, banking, insurance, money-lending, debt-factoring, hire purchase financing or other financial activities
- providing legal or accountancy services
- farming or market gardening
- operating or managing hotels or nursing homes

### How and when money raised by the share issue must be used

Within three years of the date of the relevant share issue, all the monies raised by that issue must be spent for the purposes of a qualifying business activity within three years of the date of the relevant share issue.

### When is relief reduced or withdrawn?

Generally tax relief will be reduced or withdrawn if, during the three year period after the shares are issued, certain conditions are no longer met - for example, if the investor becomes connected with the company, or if the company loses its qualifying status.

### HMRC approval and procedures

HM Revenue & Customs (HMRC) approval is required for an SEIS investment, and advance assurance may be sought from HMRC to determine whether a proposed SEIS investment will qualify.

### Contact us

For further information, please contact a member of our tax team.



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