Seed Enterprise Investment Scheme (SEIS)

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Kingston Smith

Helping clients succeed

What is the objective of the SEIS 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 subscribe for new shares in those companies.

How does a company qualify as a SEIS company?

To qualify for SEIS investment, a company must meet the following conditions:

- The company must be unquoted and have a UK permanent establishment;
- Any trade being carried on by the company at the date of issue of the relevant shares must be less than two years old;
- The company must exist to carry on a qualifying trade (see below);
- The gross assets of the company must not exceed £200,000 before the investment;
- The company must have fewer than 25 full-time employees;
- The company must not have previously had any investment from a venture capital trust (VCT), or any investment that qualifies for EIS;
- The company must not be a member of a partnership;
- The company must not be a 51% subsidiary of another company; and
- The company must not be in financial difficulty.

The maximum total amount that can be invested in a company and qualify under SEIS is £150,000.

How does the investment need to be made?

A SEIS investment must be in new ordinary shares which must not be redeemable and which do not carry any preferential rights to assets on a winding up. A preferential right to dividends can be included but this right cannot be variable, and it cannot give a right to a cumulative dividend.

Shares need to be subscribed for wholly in cash, and fully paid up at the time they are issued. A company must therefore have a bank account at the time the shares are issued to be able to receive the subscription money.

Can the company carry on any trade?

SEIS relief is only available where the investment is for the purpose of a new trade, which is defined as one that at the date of the share issue is less than two years old. This condition applies whether the trade was started by the company or whether it was started by another person who then transferred it to the company. The company need not have actually started to trade when it issues the shares.

Certain activities are “excluded” and for SEIS relief to be available excluded activities cannot account for more than 20% of the company’s trade. The following activities are “excluded” for SEIS purposes:

- Dealing in land, commodities or certain futures;
- Dealing in goods, other than in an ordinary trade of retail or wholesale distribution;
- Financial activities such as banking, insurance, money-lending, debt-factoring, or hire-purchase financing;
- Leasing;
- Receiving royalties or licence fees;
- Providing legal or accountancy services;
- Property development;
- Farming or market gardening;
- Holding, managing or occupying woodlands, any other forestry activities or timber production;
- Shipbuilding;
- Coal or steel production;
- Operating or managing hotels or comparable establishments;
- Operating or managing nursing homes or residential care homes;
- The subsidised generation or export of electricity, or the subsidised generation of heat, gas or fuel (to be extended from 6 April 2016);
- Making available reserve electricity generating capacity (to be extended from 6 April 2016); and
- Providing services to certain associated persons whose trade consists substantially of excluded activities.

Is there a requirement as to how the money raised is used by the SEIS company?

The money must be raised for a qualifying trade that is or is going to be carried on by the company.

There is a requirement that the money raised by the SEIS scheme is used for the purpose of a qualifying business activity within three years.

Can anyone invest in an SEIS company?

An investor can be a director of the company, but otherwise cannot be an employee.

In addition, an investor cannot, either on his/her own or with associated, possess or be entitled to acquire more than 30% of the issued share capital, voting power or assets of the company on a winding up.

How does the Income Tax relief work?

A qualifying SEIS investment will give rise to a reduction in the investor’s income tax liability for the year of 50% of the amount invested, up to the annual investment limit.

The annual investment limit is currently £100,000, meaning the maximum income tax saving per year is £50,000.

SEIS relief can only reduce the investor's income tax liability to nil, although an individual can elect for SEIS investment in one tax year to be treated as if it had been made in the previous tax year.

Income Tax relief can be clawed back if the company fails to meet certain qualifying conditions throughout the three years from the later of the investment or the date the company starts to trade. It may also be clawed back if the investor becomes "connected" with the company, if the investor receives value from the company, or if the shares are sold, within the same three year period.

How does the Capital Gains Tax relief work?
Where an investor disposes of an asset which would give rise to a chargeable gain, and reinvests all or part of the gain in shares which qualify for SEIS income tax relief, 50% of the gain reinvested will be exempt from capital gains tax.

Will there be a capital gain when I subsequently sell my SEIS shares?
Where an investor received SEIS Income Tax Relief on the subscription for shares, the subsequent disposal of those shares will be exempt from capital gains tax if two conditions are met:

- The shares have been retained for the three year qualifying period;
- The SEIS Income Tax relief has not been withdrawn.

What if the company fails?
SEIS investments are likely to be in more risky ventures and it is inevitable that some will fail. A loss made on SEIS shares, after the deduction of any SEIS Income Tax relief given and not clawed back, will be allowable either against capital gains or alternatively against taxable income.

As an example, an investment of £10,000 made in the 2015/16 tax year that fails (with no funds being repaid) in the 2016/17 tax year would give rise to the following tax consequences:

	£
SEIS investment	**10,000**
Income tax relief at 50%	5,000
Capital loss	10,000
Less income tax relief not clawed back	5,000
Capital loss relievable against income or gains	5,000
Income tax saved on capital loss at 45%	2,250
Total relief	7,250
Net loss on investment	**2,750**

How can Kingston Smith assist me?
Kingston Smith offers a comprehensive service with the right advice at the right time to make sure that an investment is properly structured to attract SEIS relief.

We can review your company and the nature of your trade and apply for advance SEIS assurance that the company is a qualifying company conducting a qualifying trade.

Note that SEIS relief is subject to withdrawal if either the company or the investor cease to meet the eligibility requirements. We can help the company and investors make sure that these eligibility requirements do not cease to apply.

This document provides only a brief summary of the issues surrounding SEIS. We would be pleased to discuss your particular circumstances. Please get in touch with your usual contact or partner. *The above provides a brief summary of SEIS and should not be relied upon without taking further advice. Please get in touch with our team if you would like to discuss aspects of SEIS in greater depth or other related topics.*

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