

# The Seed Enterprise Investment Scheme (SEIS)

## A summary of the reliefs and conditions

### Capital Gains Tax Reinvestment relief

You can reinvest a chargeable gain arising on the sale of any asset into SEIS shares. The amount is restricted where the amount subscribed for SEIS shares exceeds the maximum on which income tax relief can be claimed. Relief is restricted to half of the gain previously made. The new shares must be acquired within one year before and three years after the sale of the original asset.

### Income Tax relief

Income tax relief at 50% is available in the year of investment, on the amount invested in SEIS shares up to a maximum of £200,000 per tax year from April 2023. This gives a maximum annual income tax relief possible of £100,000, provided you have sufficient income tax liability to cover it. Prior to this date the maximum investable amount was £100,000 per year providing a maximum possible income tax relief of £50,000 per year. All or part of this investment may be carried back to the previous tax year. There is no minimum investment.

### Exemption from Capital Gains Tax

Where the SEIS shares are held for at least three years and then disposed of at a profit any gain on the SEIS shares will be exempt from Capital Gains Tax. There is no claw-back of the reinvested gain. Relief for losses where the SEIS shares are disposed of at a loss, the loss (less Income Tax relief attributable to the shares when originally purchased) is available for off-set against either capital gains in the year of the loss or taxable income in the year of realisation or the previous year

### Qualifying shares

The shares must be new ordinary shares, which throughout the 3 years from the date of issue have no preferential right to dividends or assets on a winding-up, and no right to be redeemed. The shares must be subscribed for in cash and must be fully paid up at the time of the issue.

### Qualifying investor

- ❑ Cannot be an employee of the company: however, this rule does not apply if the individual is a director of the company
- ❑ Must not hold more than 30% of the shares, voting power or entitlement to assets in the event of winding up, during the qualifying investment period
- ❑ Must not have any related investment or linked loan arrangements in place
- ❑ Must subscribe for genuine commercial reasons and not as part of a tax avoidance scheme

## How to claim tax relief

- ❑ You cannot claim relief until the company sends you a form SEIS3, which will be after 70% of the money raised by the company is spent
- ❑ Your claim can be made on the Self-Assessment Tax Return for the tax year in which the shares were issued. If the shares were issued in a previous year, and if the claim is for capital gains deferral relief, the claim part on the form EIS3 must also be completed and sent to your tax office. If you have an SEIS3 for a year in which you have not yet received a tax return you can request a change to your PAYE tax code and receive tax relief via your monthly PAYE deductions. You will still have to make a claim on your tax return for that year when you file it
- ❑ Claims to relief can be made up to five years after the first 31 January following the tax year in which the investment was made

## How is relief lost?

- ❑ Relief is lost if an individual disposes of their shares within 3 years, or becomes connected to the company in that time, or if the company is taken over within this 3 year period
- ❑ Relief is also withdrawn if the investor "receives value" from the investee company in a number of prescribed ways. "Value received" is interpreted broadly and will catch many repayments of loans, etc. or the provision of benefits or other facilities. Value will also be treated as received if the company repurchases any of its shares; even those upon which no EIS relief was claimed. Dividends, however, are not receipts of value
- ❑ Where value received is less than the amount invested, the EIS relief income tax relief can be reduced proportionately as opposed to the capital gains tax deferral where the whole deferred gain is brought back into charge
- ❑ The individual is required by law to inform the tax office within 60 days of any of the events above occurring

## Qualifying company

The company must satisfy certain conditions during the period of 3 years from the date of the share issue, or if later, from the date the company begins to trade.

From April 2023 a company is a qualifying company if:

- ❑ It is unquoted
- ❑ Must have assets of less than £350,000
- ❑ Fewer than 25 employees when the shares are issued, if the company is a parent company this applies to the whole group
- ❑ Trading for fewer than 3 years
- ❑ Carrying out a new trade
- ❑ It must not have raised any money from EIS or VCT investors previously
- ❑ The maximum amount that can be raised by SEIS is £250,000 in total, prior to April 2023 this was £150,000

## Qualifying trade

A company must carry out a qualifying trade wholly in the UK, although it is not necessary for the company to be UK resident. The trade must be conducted on a commercial basis and with a view to the realisation of profits.

## Excluded trades

- ❑ Dealing in land, commodities or futures in shares, securities or other financial instruments
- ❑ Financial activities such as banking, money-lending, insurance, debt-factoring and HP financing
- ❑ Dealing in goods other than in the ordinary trade of retail or wholesale distribution
- ❑ Leasing or letting assets on hire, except in the case of certain ship-chartering activities
- ❑ Oil extraction activities, except oil exploration leading to oil extraction
- ❑ Receiving royalties or licence fees, other than, in certain cases, such payments arising from exploiting an intangible asset the company itself has created
- ❑ 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, guest houses, or similar establishments, or managing property used as a hotel or comparable establishment
- ❑ Operating or managing nursing homes or residential care homes, or managing property used as a nursing home or residential care home
- ❑ Generating or exporting electricity which will attract a Feed-in Tariff, unless carried on by a community interest company, a co-operative society, a community benefit society or a Northern Irish industrial and provident society
- ❑ Providing services to another company in certain circumstances where the other company's trade consists to a substantial extent in excluded activities
- ❑ The subsidised generation of electricity involving a) contracts for difference or b) renewable sources where anaerobic or hydroelectric power is involved

The Revenue will generally consider that excluded activities do not amount to a substantial part of the company's trade where they amount to no more than 20% of the trade.

## Use of funds






The shares must be issued to raise money for the purposes of a qualifying business activity, including research & development. The money raised must be utilised within 3 years of the commencement of the trade or the issue of the shares.

## Obtaining SEIS Relief

- ❑ The SEIS is administered in HMRC by the Small Company Enterprise Centre (SCEC) who decides if a company and a share issue qualifies
- ❑ After 4 months trading or when at least 70% of the money raised by the relevant share issue has been spent for the purposes of the qualifying business activity for which it was raised if later, the company must submit a compliance statement on Form SEIS1. A separate SEIS 1 form must be submitted for each date on which shares are issued
- ❑ Provided that all the conditions have been satisfied, HMRC will issue an SEIS 2 Form to the company, confirming it is authorised to issue SEIS3 certificates and will supply sufficient SEIS3 forms for each investor. These forms should be completed and sent to the investor
- ❑ The company is obliged to notify HMRC within 60 days if any event occurs before the third anniversary of the date of issue of the relevant shares as a result of which the Declaration is no longer valid

## Withdrawal or reduction of relief












A withdrawal or reduction of relief is made where during the specific period.

-  The investor ceases to be a qualifying individual
-  The company ceases to be a qualifying company
-  The shares cease to be eligible shares
-  The investor disposes of some or all of the shares
-  The deferred gain is not triggered if the investor (or the spouse or civil partner to whom the shares have been transferred) dies

## Value received by SEIS investors

These rules apply where value is received within 3 years after the share issue.

Value is received where the company

-  Redeems, repays or repurchases the investor's shares
-  Repays loans made by the investor before the issue of the EIS shares compensates for giving up rights to shares on cancellation
-  Compensates for giving up a debt
-  Releases or waives any liability to the company of the investor
-  Allows the investor to fail to discharge a liability within 12 months of the normal due date
-  Makes a loan to the investor
-  Provides a benefit to the investor
-  Gives an asset to the investor at undervalue or buys one from the investor at overvalue
-  Pays remuneration or other payments, except for 'permissible payments'
-  Makes a payment or gives an asset to the investor in a winding up
-  If you have received value indirectly (e.g. through a company in which you have shares in) from the SEIS company

In some cases, where value is received from the company of up to £1,000, it may be regarded by HM Revenue & Customs as insignificant and thus not require a withdrawal of relief, but care is needed if this is to apply.

This document was correct as at April 2023. The document is intended to provide an update for April 2023 guidance and individual advice should be sought about your specific circumstances.