A Guide to the Seed Enterprise Investment Scheme (SEIS)

Business Information Factsheet

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Introduction

The Seed Enterprise Investment Scheme (SEIS) is a scheme designed to help small, early stage companies raise equity finance by offering a range of tax relief to investors who purchase new shares in those companies. Complementing the existing Enterprise Investment Scheme (EIS), the aim of SEIS is to encourage investment in higher-risk small companies.

Since the scheme began in 2012, almost 2,900 companies have received investment through the scheme and over £250 million has been invested. In 2013/14, 2,030 companies received investment of £166 million under the scheme. The average SIES investment in 2013/14 was almost £82,000.

This factsheet explains what SEIS is, what types of tax relief are available, who the scheme is open to and how to apply.

What is the SEIS?

The SEIS is a venture capital scheme that provides enhanced income tax and capital gains tax relief to qualifying investors. The scheme began on 6 April 2012 and tax relief applies to investments made on or after that date.

Although the qualifying criteria for SEIS are relatively complex, it basically covers individual investments of up to £100,000 in companies that have been trading for less than two years and have fewer than 25 employees.

Qualifying investors can claim income tax relief of 50%, plus capital gains tax relief.

Companies whose investments meet the qualifying criteria must provide a compliance statement to HMRC. Once approval has been granted and a compliance certificate has been issued, investors can claim tax relief via their self-assessment tax returns.

The rules of the SEIS mirror those of the EIS, which is a separate venture capital scheme for medium sized companies with up to 250 employees. Companies that have used the SEIS are able to use the EIS for additional investment. See BIF 497, A Guide to the Enterprise Investment Scheme (EIS), for further information on the EIS.

What tax relief is available through SEIS?

Both income tax and capital gains tax relief are available through SEIS.

Qualifying investors can claim income tax relief of 50% of the cost of shares subscribed to on a maximum investment of up to £100,000 (maximum SEIS relief of £50,000 per annum). The shares must be held for a minimum of three years.

SEIS investors can also claim exemption from paying capital gains tax on the disposal of shares that have been held for a minimum of three years. This only applies where a claim for income tax relief has been made.

In addition, investors have been able to claim relief from capital gains tax on the disposal of other assets, provided that the gains were reinvested in SEIS shares. The level of capital gains Reinvestment Relief was 100% for 2012/13 and 50% from 2013/14. Again, a maximum individual investment limit of £100,000 applies.

What investments qualify for the SEIS?

SEIS applies to investments in new, full-risk, ordinary shares that are fully paid up in cash on issue. It does not apply to shares that are issued without payment, for example shares issued during the registration period by a brand new company that has not yet set up a bank account. There must be no loans to the investor or their associates that are linked to the share subscription. This is because the purpose of the investment must be to provide working capital for the company. Money invested via SEIS must be used by the company within three years of the share issue.

The shares must not carry any preferential rights, other than limited rights to dividends. SEIS cannot apply where there is any arrangement made to protect an investor from the normal risks associated with subscribing to shares.

No arrangement can be made to benefit any party other than the company from the SEIS relief. For example, the shares cannot have been issued under a reciprocal agreement where the owners of separate companies invest in each other's companies in order to obtain the tax relief.

The shares must be held for a minimum of three years and there must not be any arrangement for the shares to be sold after a specific period of time, for example at the end of the three-year qualifying period.

A company can raise a maximum investment of £150,000 through the SEIS. Any investment over this threshold will not qualify for tax relief.

What are the qualifying criteria for investors?

Qualifying investors must be individuals aged 18 or over, who are liable for UK income tax. Individuals do not need to be UK residents and can subscribe to shares via a nominee. They must have paid for their shares in full at the time of issue.

Investors must not have a substantial interest in the company during the period from the date of the company's incorporation through to the third anniversary of the date of the investment. 'Substantial interest' is defined by HMRC as owning more than 30% of the company's shares, voting rights, or rights to assets. The holdings of the investor's associates, including business partners, trustees and relatives, are taken into account when assessing the investor's interest.

SEIS investors must not be employed by the company during the period from the date of the company's incorporation through to the third anniversary of the date of the investment. For the purpose of the SEIS, being a director of the company is not classed as being an employee.

What are the qualifying criteria for companies?

Qualifying companies must be based or have a permanent location in the UK. They must exist wholly for the purpose of carrying out one or more qualifying trades. Parent companies or holding companies for a group must show that the group as a whole carries out qualifying trades.

Most trades conducted for the purpose of making a commercial profit are qualifying trades, but certain activities are excluded, such as financial activities, property development, and the provision of legal and accountancy services. A full list of excluded trades is available at the HMRC's SEIS webpage (www.gov.uk/guidance/seed-enterprise-investment-scheme-how-companies-qualify). If a company's business is made up wholly or substantially (more than 20%) of an excluded activity they are not eligible for the SEIS.

Companies must have started trading less than two years before their share issue date. They must have fewer than 25 employees and have no more than £200,000 in gross assets.

Qualifying companies must not have had any investment from a Venture Capital Trust, or have previously applied for EIS relief.

What is the application process?

SEIS is administered by the HMRC Small Companies Enterprise Centre (SCEC). The SCEC can provide an opinion on whether a proposed investment qualifies for SEIS and monitors companies to ensure the scheme's requirements are continually met throughout the qualifying period.

The SCEC provides an advance assurance service for companies planning to apply for SEIS. Before issuing shares, companies can contact SCEC in order to ensure they meet all of the qualifying requirements. Advance assurance is not mandatory, but can help to highlight potential problems and can also be used to assure potential investors. Requests for advance assurance can be made by contacting the SCEC, or by submitting form EIS/SEIS(AA), which is available from HMRC (www.gov.uk/government/publications/enterprise-investment-scheme-advance-assurance-application-eisseisaa).

Whether or not they have applied for advance assurance, all companies that have issued shares on which investors hope to claim SEIS tax relief must submit a compliance statement via form SEIS1, which is available from HMRC (www.gov.uk/government/publications/seed-enterprise-investment-scheme-compliance-statement-seis1). The form cannot be submitted until the company has been trading for at least four months or has spent at least 70% of the relevant investment on trading activities.

There is no time limit for submitting form SEIS1, but investors cannot claim tax relief until it has been processed. Once forms have been processed, the SCEC issues qualifying companies with compliance certificates and claim forms (SEIS3s) for investors.

Companies must inform the SCEC within 60 days of any change of circumstance that means they no longer meet the requirements for SEIS. False statements are subject to a penalty of up to £3,000.

Investors can claim their tax relief on their self-assessment tax returns using the SEIS3 forms. Tax relief can be claimed up to five years after 31 January in the year after the qualifying investment was made.

Can tax relief be reduced or withdrawn?

Income tax and capital gains tax relief obtained via SEIS will be withdrawn if a company loses its qualifying status, or if an investor becomes an employee of the company (except for a director) or gains a substantial interest in the company.

Tax relief will be reduced if an investor disposes of any of their shares in the qualifying company to anyone other than a spouse or civil partner, or if an investor (or an associate of the investor) receives a payment or benefit from the company (or an associate of the company). The amount of tax relief reduction will depend on how many shares are disposed of, or the value of payments or benefits received. Significant amounts may result in tax relief being withdrawn in full.

Hints and tips

- Advance assurance can be requested from the SCEC in order to ensure that SEIS requirements are met.
- The company and the investor must meet the qualifying requirements, otherwise tax relief will not be available.
- Company directors are not classed as employees for the purpose of SEIS and therefore can qualify to apply for tax relief on their investments.
- Capital gains tax exemption on gains from the disposal of assets that are reinvested in SEIS investments is only available for gains made in 2012/13 (100% exemption) and from 2013/14 (50% exemption).
- Companies should ensure that compliance statement form SEIS1 is submitted promptly, as investors cannot claim tax relief until compliance has been approved.
- HMRC should be informed within 60 days of any changes in circumstance that affect SEIS qualification.
- At the end of the SEIS period, companies can consider applying to use the separate EIS scheme.
- SEIS rules and requirements are complex and appropriate professional advice should be taken to ensure that all the qualifying criteria can be met before committing to any investment.

Further information

BIF 40 Sources of Finance for Starting a Business
BIF 62 An Introduction to Financing Your Business with Venture Capital
BIF 167 A Guide to Setting up a Private Company Limited by Shares
BIF 283 Methods of Valuing a Business
BIF 324 An Introduction to Approaching Business Angels
BIF 497 A Guide to the Enterprise Investment Scheme (EIS)

Useful publications

'Seed Enterprise Investment Scheme (SEIS)'

HM Revenue & Customs (HMRC)
Website: www.gov.uk/guidance/seed-enterprise-investment-scheme-background

'Enterprise Investment Scheme (EIS)'
HMRC
Website: www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction

'Venture Capital Schemes Manual'
HMRC
Website: www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual

Useful contacts

HM Revenue & Customs (HMRC) is the Government department responsible for the collection of tax. It provides information and advice to individuals and businesses.
Tel: 0300 200 3310
Website: www.gov.uk/government/organisations/hm-revenue-customs

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