SEIS in a nutshell

Purpose

Seed Enterprise Investment Scheme (SEIS) was introduced in 2012 with the aim to incentivise investment into early stage unquoted trading companies by offering attractive UK tax breaks

Key Tax Benefits

- 50% income tax relief for the investor (current or prior tax year)
- potential to exempt 50% of a capital gain if reinvested into SEIS (64% potential overall tax relief i.e. 50% income tax relief + 14% CGT relief)
- capital gains tax (CGT) 'free' sale after qualifying 3 year holding period
- inheritance tax shelter after 2 years holding
- income tax loss relief if investment fails

Key Requirements – investor

- investment must be for an issue of "full risk" ordinary shares – loans / sales of existing shareholdings do not qualify
- max investment limit of £100,000 pa for individuals
- investor cannot hold more than 30% of the shares in the company (this takes into account the shareholdings of 'associates': husband / wife plus parents, grandparents and children – siblings are not counted)

Key Requirements – company

- max investment limit of £150,000 for the company
- company must not have been trading for longer than two years
- must have gross assets less than £200,000 and less than 25 employees
- SEIS monies raised must be spent on the trade or preparations for the trade or R&D within three years
- 3 year qualifying period in which strict conditions must be complied with including:
  - company must be independent ie not under the control of another company or companies
  - subsidiary companies must be at least 50% held by the company
  - any subsidiaries carrying out the qualifying SEIS activities (ie using the SEIS monies) must be at least 90% held by the company
  - must remain unquoted – note that an AIM listing counts as unquoted for SEIS purposes
  - must carry on a qualifying trade i.e. one that is not included on the 'excluded activities' list e.g. banking, legal etc.

Common problems

- timing of share issues – shares must not be issued before cash investment clears nor too late after (ideally the same day)
- cannot qualify for SEIS if already received EIS or VCT monies
- timing of follow on EIS investment – must have spent 70% of SEIS monies
- 30% limit being breached – especially in family companies where associates involved
- restrictions being placed on later non-SEIS share issues (e.g. under share options, EMI etc) that make the SEIS shares preferential in rights and therefore no longer qualify

This is a summary only of the key rules. Please seek professional advice specific to your circumstances