BLICK ROTHENBERG
a Cogital company

Seed Enterprise Investment Scheme

Overview of the reliefs and conditions for qualifying.

The Seed Enterprise Investment Scheme (SEIS) is one of four Venture Capital Schemes is designed to help early-stage unquoted trading companies raise seed funding by providing generous UK tax incentives to investors.

What are the available tax reliefs?

SEIS provides three main tax reliefs to individual investors:

- an 'income tax relief' applied when the investment is made;
- a 'disposal relief' applied when the shares in the SEIS company are sold; and
- a capital gains tax 're-investment relief'.

How do the tax reliefs work?

The income tax relief is a reduction in the individual's UK income tax liability, equal to 50% of the amount of the subscription price of the shares. The maximum investment on which an investor can claim relief is £100,000 per tax year.

The disposal relief means that gains on the disposal of qualifying SEIS shares are exempt from UK capital gains tax. Any capital losses on disposal will be allowable (albeit reduced by the amount of income tax relief previously received) and the loss may be set against income for tax purposes, subject to making the appropriate claim. A clam for income tax relief must be made on subscription of the EIS shares in order for disposal relief to apply.

The reinvestment relief provides that, where an individual disposes of any asset and realises a capital gain, and reinvests part of that gain into qualifying SEIS shares, half of the gain reinvested will be exempt from tax.

The rules attaching to SEIS are complex and there are a number of circumstances where the tax relief can be withdrawn or restircted if the company or investor breaches specific requriements.

How does an investor qualify for relief?

In order to qualify for the relief, the company issuing the shares, the shares being issued, and the investor must all meet certain criteria. Some requirements need only to be met at the time of the share issue, but others need to be satisfied for at least the following three years, and sometimes for up to five years if the qualifying trade commenced after the shares were issued.

Some of the key conditions are covered below, but this list is not exhaustive.

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Company requirements

- The company must exist for the purpose of carrying on a qualifying trade, or be the parent company of a group whose business does not consist wholly, or to a substantial part, in the carrying on of non-qualifying activities.
- Any trade carried on by the company at the date of issue of the shares must be less than two years old.
- The issuing company must not have carried on any other trade before it started to carry on the new trade.
- Before the shares are issued, the value of the company's (or group's, if the issuing company is a parent company) gross assets must not exceed £200,000.
- The group may not employ more than 25 full-time equivalent employees or directors.
- The company must be unquoted, must not be controlled by another company and all subsidiaries must not be qualifying subsidiaries.
- The company must not be a member of a partnership.
- Companies may raise a maximum of £150,000 under the SEIS.
- A company cannot issue SEIS if it has already issued shares under the Enterprise Investment Scheme (EIS - see seperate publication) or has received investment from a Venture Capital Trust.

Investor requirements

- Neither the investor nor any associates may be employees of the company or any subsidiary during the three years following the share issue. Directors are not treated as employees for this purpose.
- An investor (together with any associates) must hold an interest in the company of more than 30% at any time from incorporation of the company until the third anniversary of the share issue.

Share requirements

- The shares must be ordinary shares, with no preferential right to assets in a winding-up, and must not be subject to any pre-arranged exit arrangements.
- The shares must be fully paid-up and subscribed for wholly in cash on the date of issue.
- The shares must be issued to raise money for the purpose of a qualifying business activity, and these monies must be fully spent for that purpose within the three years from the date of the share issue.

How do I claim tax relief?

Following the share issue the company will complete a compliance statement (SEIS1) and send this to HMRC, detailing the funds that have been raised and the shares that have been issued and providing additional information on company, business plans and use of the funds that have been raised. Where Advanced Assurance has been applied for and granted by HMRC the process of completing the SEIS1 form is more straightforward and less supporting information is required.

Once HMRC have processed the SEIS1 form, providing they are satisfied that the relevant conditions are met, they will send a letter to the company authorising the company to issue SEIS3 certificates to their investors.

These certificates will be completed by the company (one for each investor) and then passed to the individual investors. The individual investors need the SEIS3 certificates in order to complete their personal income tax returns and claim their tax relief.

How can we help?

The conditions that need to be satisfied for an investment to qualify for SEIS relief are strict, and innocent mistakes during the fundraise or following years can lead to a company or investor ceasing to qualify and valuable tax relief being withdrawn.

Blick Rothenberg can assist you throughout the processes, whether you're a private individual looking to invest in an SEIS qualifying company, or you own a company looking to raise investment and think SEIS would be suitable for you.

We can apply to HMRC for Advanced Assurance and guide you through the entire process to ensure you do not unwittingly fall in to one of the many bear traps.

We can also provide advice to companies and individuals who have an existing SEIS investment and are looking for confirmation that a proposed transaction or reorganisation will not jeopardise past tax reliefs.

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