# The Seed Enterprise Investment Scheme

FOR WHAT MATTERS

**To encourage investment by UK taxpayers into the economy, especially during times of economic uncertainly where higher-risk start-ups and fast-growing business may require the largest cash injections, the UK government created the Seed Enterprise Investment scheme ("SEIS").**

The scheme provides individuals with reductions and deferrals to income tax and capital gains due on funds they inject into a 'qualifying company', and on any growth realised from their investments as follows.

### What are the benefits of SEIS?

SEIS provides the following benefits for investors:

- Income Tax Relief: Investors can claim income tax relief of up to 50% of the amount invested in SEIS qualifying companies, up to a maximum investment of £200,000 per tax year.
- Capital Gains Tax Exemption: If you hold SEIS investments for at least three years, and income tax relief is maintained throughout that period any gains made on the sale of those investments are exempt from capital gains tax.
- Capital Gains Tax Reinvestment Relief: Where you make a gain on disposal of an asset which is chargeable to Capital Gains Tax you are able to write off 50% of that gain.
- Loss Relief: If an investment made through SEIS fails, investors can offset their losses against income tax or capital gains tax.
- Inheritance Tax Relief: SEIS-qualifying shares held for at least two years can be exempted from inheritance tax.

### What factors impact if an investment would qualify?

In order for an investment to qualify for SEIS there are number of factors that need to be met by the investor seeking the tax relief, the company receiving investment and in relation to the type of investment and shares that the investor would receive.

The key in each of these areas has been summarised in the table below:

| Investor | Company | Shares |
|---|---|---|
| No substantial interest in the company (broadly 30%)* | Must be raising funds with the objective to grow and develop and significant risk of loss of capital | Ordinary shares without preferential rights re winding up and dividends* |
| No linked loans | The company must be in its early stages of development and have been trading for less than three years. | Not redeemable* |
| Subscription must be for genuine commercial reasons | Cannot be under the control or another company and subsidiaries must be qualifying* | Must be fully paid up and subscribed for in cash |
| Subscription must be for eligible shares on own behalf (or through a nominee) | Must be carrying on a qualifying activity (* | No pre-arranged exits in place |
| Must hold shares for "three" years from later of share issue date or commencement of trade (the **"Three-Year Window"**) | Unquoted at the time SEIS shares are issued* | |
| Must not be an employee of the company* | Must have a permanent establishment in the UK (a subsidiary is not sufficient)* | |
| Maximum investment of £200k per annum | Gross assets test (£350k or less immediately before share issue) not including the funds raised as part of the SEIS investment | |
| | Fewer than 25 full-time employees when SEIS shares are issued | |
| | £250k maximum raise | |
| | No previous EIS/VCT investment received | |
| *These conditions must continue to be met for the whole of the Three-Year Window. | | |

## Advance assurance application

The advance assurance process for SEIS investments is a procedure that allows companies to seek confirmation from HM Revenue and Customs ("HMRC") that their activities and proposed share issuances meet the requirements of SEIS.

The process requires you to submit information to HMRC that will then allow them to determine if the relevant SEIS conditions would be met in relation to any investment based on the details provided. HMRC will only provide assurance that the company itself will qualify and won't consider the conditions in relation to each individual investor.

There is no requirement to apply for advance assurance as there is a separate claim procedure once an investment has been made and it is a non-statutory discretionary service, meaning that HMRC can decide not to provide an opinion if they decide there is any uncertainty.

Following an investment, a company must complete an SEIS1 compliance statement even if the company has received an opinion from HMRC using the advance assurance service that the particular share issue would meet the requirements of the scheme.

## How can we help

Badging a company as 'SEIS-qualifying' when raising investment is attractive to investors.

The Shoosmiths tax team have extensive experience advising both companies and investors on the availability of SEIS reliefs and the potential impact of proposed changes to a business can have on your existing SEIS investors.

We'd be happy to discuss your requirements.