

SEIS – seed enterprise investment scheme

A quick guide



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SEIS was introduced by in 2012 and its aim is straightforward: it provides a substantial helping hand to start-up and early stage entrepreneurs who are raising ‘seed’ funding to get their business off the ground.

Introduction

The term *seed* funding is deliberate: it provides the finance to pay for the entrepreneur to validate a business concept, i.e. demonstrate or even prove that the idea is worth investing in further. What SEIS does is help investors over that final hurdle in the risk hurdle race, by significantly reducing their potential losses.

How does SEIS work?

Basically, there are very generous tax reliefs if an investor puts money into an eligible company. If you invested say £50,000 cash for shares, you would get 50% of that as a relief against your income tax bill; in this example you would therefore save £25,000 in tax. If the investor then holds the shares for at least three years, they will not have to pay any capital gains tax on any profit they make when they finally sell those shares.

Am I eligible to use SEIS?

The company’s trade must have been started less than two years before shares are issued. Most types of business are eligible, but there are a few exceptions such as financial services, property development and agriculture. The company must have fewer than 25 staff and assets of less than £200,000 pre-investment. An individual investor can get SEIS relief on up to £100,000 per annum, and can be a director of the company but not an employee. If someone has more than 30% of the shares, they are ineligible for SEIS.

What if I need more than £150,000?

The rules have been created in the knowledge that many companies will need additional funding at the time of or following a seed investment round. The SEIS maximum of £150,000 per company does not mean you can’t raise more than that in the initial round of funding – it’s just the amount on which tax relief will be given. Say you raised £250,000 in a first round: eligible investors could get relief on the first £150,000 but none on the balance. However, the rules do allow you to raise £150,000 under SEIS but

then raise further equity finance under *EIS* (enterprise investment scheme – see our separate guide). *EIS* is SEIS’s older and bigger brother and it allows individuals to invest up to £1 million per year, and the eligibility rules are much the same except there is no requirement that the trade is under two years’ old. The only ‘downside’ is that there is 30% tax relief under *EIS* rather than 50%.

A real life example

We helped a technology company to raise £170,000 of equity funding. Of that total, £20,000 was invested by a non-UK resident person, so the other £150,000 was all eligible for SEIS relief. We had previously obtained ‘advance assurance’ from HMRC that the company was eligible for SEIS, to reassure the investors. The deal was completed and then we applied to HMRC for SEIS certificates, and these were issued within a week. The six investors will obtain £75,000 of income tax relief between them, and in addition, there are some specific capital gains reliefs that will save SEIS investors some tax on any gains they have made in that year.

As an example, one shareholder who invested £40,000 saved a total of £31,200 in tax, so his investment of £40,000 cost him £8,800 in real cash!

This is a real advantage that helps entrepreneurs raise that very difficult initial funding for their business.

How we can help:

The EIS/SEIS Full Solution Package - a complete service to set your company up as EIS or SEIS eligible, including obtaining advance assurance from HMRC, advice on how to structure your scheme, helping to complete the official forms after completion of your funding, and issuing shares and share certificates if required: **£1395 + vat.**

The technical detail

SEIS is a tax-advantaged venture capital scheme, similar to the EIS. It focuses on smaller, early stage companies carrying on, or preparing to carry on, a new business in a qualifying trade.

- The maximum amount which can be raised by a company through SEIS is £150,000 and this is an aggregate total not an annual limit.

- Income tax relief on a qualifying investment will be 50%. The relief is available to be set against any income tax liability that is due, whether at basic, higher or additional rate.
- Income tax relief will be withdrawn in certain circumstances including a disposal of the shares within three years.
- Investors can elect to carry back their investment from the tax year they make the investment to the previous tax year; you can treat some or all of the shares as issued in the previous year and claim relief in that previous year, subject to the maximum relief limit for the year.
- There will be an annual limit of £100,000 investment by an individual. This can be split between one or more companies.
- A director may make a qualifying investment but not an employee or an associate of an employee.
- An individual may not hold more than 30% of the shares in the company.
- Any trade being carried on by the company at the date of issue of the relevant shares

must be less than two years old at that date. That condition applies whether the trade was first begun by the company, or whether it was first begun by another person who then transferred it to the company.

- The company must exist to carry on a qualifying trade.
- The gross assets of the company (including a proportion of assets of companies which hold at least 25% of the shares in the issuing company) must not exceed £200,000 immediately before the shares are issued.
- The issuing company must not have more than the equivalent of 25 full-time employees immediately before the shares are issued.
- Subject to conditions, the disposal of SEIS shares will be exempt from CGT.

If the shares fail to meet the qualifications for SEIS for three years then the exemption will be withdrawn.

To discuss your requirements please call or email Jerry Davison: 01392-432654 or jerry@millconsultancy.co.uk