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## Seed Enterprise Investment Scheme (SEIS)

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SEIS is designed to help small, early-stage trading companies to raise finance by offering a range of tax reliefs to investors purchasing new shares in those companies.

### What are the main features of the SEIS?

#### Income Tax Relief

Individuals subscribing for new shares up to a maximum annual investment of £100,000 (£200,000 from April 2023), can claim up to 50% income tax relief on their investment in the year of investment or the previous year. Shares must be held for a minimum of three years, from the date of issue for relief to be retained.

#### Capital Gains Tax Exemption

Where income tax relief has been received and the shares are held for at least three years, any gains on disposal are entirely free from Capital Gains Tax.

#### Loss Relief

If shares are disposed of at a loss, subscribers can elect for the amount of the loss, less any income tax relief previously given, to be set against income for the year of disposal, rather than being restricted to using such losses against future capital gains only.

#### Capital Gains Reinvestment Relief

The relief will take the form of a 50% exemption from CGT where an individual realises a gain and invests the gain into qualifying SEIS shares. There is no limitation on the type of asset that may be disposed of. All types of disposal, including part disposals, will qualify. The £100,000 investment limit which applies for income tax relief also applies for re-investment relief.

The asset does not have to be disposed of first; the investment in SEIS shares can take place before disposal of the asset, providing that both the disposal and investment are deemed to take place in the same year.

#### Maximum tax relief available

The culmination of these reliefs results in a maximum tax relief on the investment made of 86.5%.

### Who may participate in SEIS?

Unconnected shareholders should be entitled to all of the reliefs above. For connected shareholders income tax relief and the CGT exemption are not normally available. Connection may be by financial interest or by employment with the company. Financial interest occurs where the subscriber and their associates (such as parents, children and business partners) control more than 30% of the company.

Employment includes directorships and also precludes the employment of associates (as defined above). However there is an exemption for business angels who become Directors.

### Which companies can participate in SEIS?

- The company must be unquoted at the time of issue of the shares.
- It must have no more than 25 employees.
- It must have gross assets of no more than £350,000.
- The company must not have had any investment from a Venture Capital Trust (VCT) or issued any shares in respect of which it has submitted an EIS compliance statement.
- The company is restricted as to the amount of money it may raise under SEIS. It may not receive more than £150,000 (£250,000 from April 2023) in total under the scheme.
- Any trade being carried on by the company at the date of issue of the relevant shares, must be less than two years old (three years old from April 2023) at that date.
- The company must not have carried on any other trade before it started to carry on the new trade.
- Within three years of the date of the relevant share issue, all the monies raised by that issue must be spent for the purposes of a qualifying business activity.

SEIS is a specialist area and advice should always be obtained before investment is sought. Hillier Hopkins LLP have extensive experience here and can assist with obtaining advanced clearance from HMRC that the company will qualify under SEIS which can be an important prerequisite in raising external investment.

For a free initial consultation please contact:

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