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Briefing document

Seed Enterprise Investment Scheme

Introduction
The Seed Enterprise Investment Scheme (SEIS) is intended to help small, start-up companies to raise finance by offering tax reliefs to individual investors who purchase new qualifying shares in those companies. The SEIS complements the Enterprise Investment Scheme (EIS), which remains available. The SEIS offers more generous tax reliefs than the EIS, but is only available in respect of investments into companies which are substantially smaller than those which qualify for EIS.

There are a number of detailed conditions which must be met by both the investor and the SEIS company over a prescribed period in order for tax relief to be available and tax advice should always be taken, both on investment and in respect of any changes during the prescribed holding period.

This briefing note contains an outline of SEIS relief. An overview of EIS relief is not included in this briefing note, though a separate briefing note is available.

Outline of reliefs available
Provided all the conditions are met over the appropriate time periods, the tax reliefs available include:

- Income tax relief of 50% on the amount invested into SEIS companies. Income tax relief can be claimed on a maximum investment of £100,000 per annum. Relief can be carried back to the previous tax year, subject to the £100,000 maximum.
- Capital Gains Tax (CGT) exemption on disposal of SEIS shares on which income tax relief has been claimed.
- Capital gains on other assets can also be either reduced, or potentially effectively made exempt, where a SEIS investment is made, depending on the tax year in which the gains are or were realised and when the SEIS investment is made. Subject to making the appropriate claims, 50% CGT re-investment relief has been available since 2013/14, which effectively exempts 50% of a gain realised on disposal of another asset. The other 50% of the gain remains chargeable.
- SEIS shares may also be eligible for relief from inheritance tax after they have been owned for at least two years. This is not part of the SEIS: relief may be available due to overlap with the conditions that must be met for business property relief from inheritance tax to be available.

SEIS investments
A number of conditions must be met by both the investor and the company in order for the SEIS relief to be available. In addition, the SEIS shares must meet certain criteria. In particular:

- The company must exist wholly for the purpose of undertaking a qualifying trade, and if the trade has already commenced when the investment is made it must have been ongoing for less than two years. In addition, the company must have objectives to grow and develop its trade in the long-term.
- The company must be unlisted (listing on AIM is acceptable for SEIS purposes).
- The company must be a small company, with gross assets of £200,000 or less immediately before the share subscription.
- In the case of groups of companies, the gross assets of the group must be £200,000 or less immediately before the share subscription and the group must satisfy various conditions.

- The investor must not own a substantial (more than 30%) interest in the company and must not be an employee (though he or she can be a director).
- The shares must be new ordinary shares, which do not have any terms which protect the investor from the risk of investing in a SEIS company.
- SEIS relief is only available if, by making the investment, the investor puts his or her capital at risk and so could make an overall loss on the investment, taking into account the net investment return, loss of capital and any tax relief obtained.

These conditions must be met both at the date of the investment and for the three years following the issue of the SEIS shares. If the above conditions are not met throughout the three year period, any income tax relief claimed will be clawed back, the CGT exemption on disposal of the SEIS shares will be unavailable and any gains on disposal of other assets which were relieved using CGT re-investment relief will come back into charge.

Commercial issues
Whilst they are attractive, the tax benefits of SEIS investments are only one of a number of aspects of which a potential investor should be aware.

SEIS investments carry a significant investment risk so it is essential that appropriate investment advice is taken from an FCA authorised advisor.

Investors also need to be aware that it can be difficult to sell the shares. Since the initial tax reliefs are only available on subscription for new shares there are unlikely to be many potential purchasers of second hand SEIS shares. This investment should therefore only be considered as a part of your overall investment strategy, and, as mentioned above, you should take the advice of a qualified investment adviser before proceeding.

Find out more…
This note reflects the law in force as at 9 April 2020. This note sets out available reliefs and exemptions, and conditions that must be met, for shares issued from the aforementioned date. Different provisions may be relevant to shares issued beforehand. Please be aware that this note does not cover all aspects of this subject.

To find out more about any aspect of the above, please discuss with your usual Deloitte contact. If you do not have a usual contact, please contact Michelle Robinson (michellerobinson@deloitte.co.uk).

For further information visit our website at www.deloitte.co.uk.