

SEIS

Seed Enterprise Investment Scheme ("SEIS") Overview - The following is a brief summary of the main features of the SEIS– it is not a comprehensive explanation about all of the rules and details. It does not set out all of the rules or regulations that must be adhered to and should not be interpreted as the provision of tax, legal or financial advice. Users of the Portal are strongly recommended to seek independent professional advice on the tax consequences of acquiring, holding and disposing of SEIS qualifying shares before proceeding with an investment into either a Single Company or Fund.

Highlights

- The illustrations included in this section are for indicative purposes only and should not be construed as forecasts or projections of the likely performance of any Company or Fund.
- In order to access the tax reliefs described it is necessary to be a UK resident taxpayer and subscribe for SEIS qualifying Shares. The summary below gives only a brief outline of the available tax reliefs and assumes that an investor is an additional rate taxpayer.

SEIS Income Tax Relief

- Investors who are not connected to an SEIS Qualifying Company can claim income tax relief of up to 50% on amounts subscribed for SEIS qualifying Shares, subject to an aggregate investment limit of £100,000 during any one tax-year. Income tax relief is given by way of a reduction in an investor's tax liability for the tax-year in which the investment is made. The total income tax relief cannot exceed an amount that reduces the investor's liability to nil. Similar to EIS, an investor can "carry back" a SEIS investment to the prior year for income tax relief purposes, and so for 2014/15 it is possible for an investor to make a total investment of £200,000 if the full £100,000 is carried back to 2013/14.

Income Tax relief for 2014/15 (example)	
Gross Investment in qualifying SEIS shares	£25,000
Less Income Tax Relief @ 50%	(£12,500)
Net cost of Investment	£12,500

SEIS Capital Gains Tax ("CGT") Re-Investment Relief

- This relief is currently available for chargeable gains arising in the tax-years 2013/14 and 2014/15 (the latter is the year in which the SEIS shares will be issued). If an investor disposed of an asset which gave rise to a chargeable gain in 2013/14, and reinvests all or part of the amount of the gain in shares which also qualify for SEIS income tax relief, then by electing to "carry back" to 2012/13 the amount reinvested will allow a full deferral of the original CGT liability and 50% of the original gain will be fully exempt from CGT on a final chargeable disposal.

- If an investor disposes of an asset, which gives rise to a chargeable gain in 2013/14, CGT re-investment relief will also be available for a SEIS investment made in 2013/14. This will allow for a full deferral of the current CGT liability but the future exemption from CGT (on the original gain, which is brought back into CGT charge when the SEIS shares are disposed) will be restricted to 50% of the gain only.
- 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 disposal and investment occur in the 2014/15 tax-year. Alternatively an investment into SEIS made in 2014/15 can be “carried back” to 2013/14 for both income tax and CGT re-investment purposes.

CGT Re-Investment Relief example: 50% partial exemption (2013/14 and 2014/15)

Gross investment in qualifying shares	£25,000
Less income tax credit	(£12,500)
Less CGT exemption (Re-Investment Relief) @28%	(£3,500)
Net cost of investment (after IT/CGT relief)	£9,000

CGT Disposal Relief

Where an investor has received SEIS income tax relief (which has not subsequently been withdrawn) on the cost of the qualifying shares, and the SEIS qualifying shares are disposed of after the minimum period any capital gains are free from CGT. If no claim to income tax relief is made, then any subsequent disposal of the shares will not qualify for exemption from CGT.

Disposal after three years	£50,000 (example only)
Original cost	(£25,000)
Tax-exempt capital gain	£25,000

Share Loss Relief

- Capital losses realised on the ultimate disposal of SEIS qualifying shares (net of income tax relief attributable to the investment) may qualify for “Share Loss Relief”. The amount of the net loss may be set off against capital gains in the tax-year of disposal or carried forward for relief against future capital gains. Alternatively, an investor may elect to set off the net loss against income arising in the tax-year of the disposal or the previous tax-year.
- In the case where no proceeds are received on disposal of the SEIS qualifying shares, the maximum net loss (after the income tax credit of 50%) on an investment of £25,000 would be £12,500; however this is reduced to £6,875 on a post-tax basis (based upon Share Loss Relief at a 45% income tax rate).
- By making a claim for both income tax relief (50%) and 50% CGT re-investment exemption (14%), an investor can reduce the initial cost of their investment to 36p for each £1 subscribed. When full Share Loss Relief is factored in (effective relief up to 22.5%) the potential net cost of an investment in the Company is 13.5p per £1 invested.

Inheritance Tax Relief

- On the basis that the investment will be in an SEIS qualifying company, this should mean that SEIS qualifying shares should constitute “relevant business property” as defined in the Inheritance Tax Act. This means that, provided the SEIS qualifying shares are held for a period of not less than two years, they should qualify for 100% Business Property Relief, which would exempt the investment from any IHT liability arising on a transfer as a result of the death of the investor.
- If the investor dies within the two-year period and his or her spouse inherits the SEIS qualifying shares, the holding period of both the investor and the spouse are combined in order to determine whether the 2 year holding period condition has been satisfied on death of the spouse.

SEIS Rules

There are a number of conditions to be met. These, fall into two categories – those that must be met throughout the minimum period commencing with the issue of the shares, and those, which must be met at the time the SEIS shares are issued.

Minimum Period Conditions

The Company must, throughout the minimum period

- Not be under the control of another company or control another company other than a qualifying subsidiary (nor can there be arrangements for the Investee company to be under the control of another company or control another company other than a qualifying subsidiary).
- Either be a company which exists wholly for the purpose of carrying on a new qualifying trade (being a qualifying trade which commenced less than two years before the issue of the SEIS shares) or a parent company of a group which does not consist wholly or as to a substantial part in the carrying on of non-qualifying activities.
- Carry on the new qualifying trade, prepare to carry on that trade or carry out research and development activities from which a new qualifying trade will be derived or from which a new qualifying trade will benefit either itself or through a 90% subsidiary
- Have a permanent establishment in the UK. Enterprise Investment Scheme.

Issuing Conditions

- The Company must be unquoted and there must be no arrangements in place for it to cease to be unquoted.
- The Company may not have gross assets of more than £200,000 immediately before it receives a subscription for eligible shares.
- If the company is a parent company, the value of the group's gross assets must not exceed £200,000 immediately before it receives the subscription for eligible shares.
- The maximum amount that a company may receive from SEIS investors is £150,000 in any three-year period ending with the investment then being made.
- Neither the investee company nor any subsidiary may have previously received any EIS or VCT investments.
- The Company must have fewer than 25 full-time employees at the date of issue of shares to SEIS investors.
- The Investee Company must not be in financial difficulty.

Claiming SEIS Relief

An investor cannot claim income tax relief until the Company has submitted an SEIS1 form and HMRC has issued a compliance certificate to confirm that it is SEIS qualifying.

An application will be made to HMRC once the Company has been trading for four months, or if earlier, when more than 70% of the SEIS monies have been spent on the qualifying activity. It is anticipated that the Company would distribute claims forms to investors within 8 months after the closing Date.

Relief must be claimed within five years after 31 January following the year of assessment in which the investment was made. Investors are strongly recommended to seek professional tax advice on making claims for SEIS relief as personal circumstances may differ.

Single Company - Advance Assurance

- Advance Assurance is issued after the Company or Fund submit an application to HMRC which includes a business plan, market research, individual management team details and projected financials.
- After successful consideration, the applying company or fund receive authority to issue certificates under Section 204(1) ITA 2007 in respect of ordinary shares issued to individuals, following receipt of a properly completed form EIS1 within the time limit prescribed by Section 205(4) ITA 2007.

It should be noted:

- Responsibility for the accuracy of the information supplied and considered by HMRC rests wholly with the company.
- Provisional assurance is based solely on the information supplied in and with the clearance application and will not apply in circumstances that vary from those described therein. The Company or Fund must therefore forward particulars of any proposed changes, and the draft of any shareholders subscription, investment or similar agreement, for clearance prior to the issue of shares.

- The clearance does not guarantee the availability of any form of relief under the Enterprise Investment Scheme to any particular subscriber.

Single Company - No Advance Assurance

- Whilst Advanced Assurance does not guarantee the availability of any form of relief under the Seed Enterprise Investment Scheme to any particular subscriber, it does provide an agreed framework for such availability subject to the application made, thus providing the investor with a certain level of confidence at the point of investment. No Advance Assurance means that not only is the investor taking a risk on the projects success, he or she is also risking any tax relief incentives with on the way in (Income Tax Relief), upon exit (Capital Gains Relief) or in the event of the project failing (Loss Relief).

Fund – Advance Assurance

- Fund Advanced Assurance is obtained in exactly the same way as described within the Single Company SEIS example shown above. However, the single difference is that the Fund undertakes to invest all funds into qualifying single SEIS companies within a specified 12-month period, thus allowing investors and IFAs the ability to structure investments within a deliberate tax planning process.

Fund - No Advance Assurance

- Whilst Advanced Assurance does not guarantee the availability of any form of relief under the Seed Enterprise Investment Scheme to any particular subscriber, it does provide an agreed framework for such availability subject to the application made, thus providing the investor with a certain level of confidence at the point of investment. No Advance Assurance means that not only is the investor taking a risk on the Fund Manager's ability to invest the funds in a qualifying company, he or she is also risking any tax relief incentives involved with that investment within a specific period of time that may suit the investor with regard to either; Income Tax Relief (on the way in), Capital Gains Relief (upon exit), or in the event of the project failing Loss Relief (upon liquidation). The Fund Manager is under no obligation to invest capital within a specified period of time, making individual tax planning difficult.