Seed Enterprise Investment Scheme (SEIS)

Created May 2015

Objective

The Seed Enterprise Investment Scheme (SEIS) is designed to help small, early-stage companies to raise equity finance by offering a range of tax reliefs to individual investors who purchase new shares in those companies.

Rules for the company to claim relief under SEIS are as follows:

For investors to claim tax reliefs under the SEIS, the company needs to meet a number of requirements. These requirements are as follows:

1. Kind of Company

No.	Rule	Applicability of rule
i.	Must be an unquoted company at the time the shares are issued. These include: • Company listed on AIMs • Company listed on PLUS Market (now acquired by ICAP Securities & Derivative Exchange - ISDX) And excludes: • London Stock Exchange • ISDX – Listed	• Unquoted at the time of issue of shares • Company can list subsequently as long as there were no arrangements at the time of issue of shares.
ii.	Gross assets of the company (or group) to not exceed £200,000 (shares issued and loans to subsidiary to be ignored for this calculation).	At the time of the issue of shares.

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No.	Rule	Applicability of rule
iii.	Have less than 25 employees in the company (or group).	At the time of the issue of shares
iv.	Must not have had any investment from a Venture Capital Trust (VCT), or EIS.	
v.	Any trade by the company must be less than two years old. No trade carried prior to start of the new trade.	
vi.	Company is a UK resident or has a permanent establishment in the UK.	Must be met continuously from the date of issue of shares
vii.	A single company must exist wholly for carrying out the qualifying trade; For this purpose, a group business is to be taken as one business.	
viii.	Must not control another company without that company being a qualifying subsidiary, i.e. the company has more than 50% of the ordinary share capital of the subsidiary and not controlled by any other person or company.	Must be met continuously from the date of incorporation
ix.	Must not be controlled by another company (or another company and any person connected with that company). However for commercial reasons, a company can have a holding company structure if it abides by certain rules.	
x.	Must not be a member of a partnership.	

2. Limits on raising of capital

Companies cannot raise more than £150,000 in total under the scheme. This figure takes into account any other State Aid received by the company in the preceding 3 years from the date of issue.

3. Rules on employment of capital

No.	Purpose of the money being raised	Timelines for employment of funds
i.	For an existing qualifying trade (as mentioned in 1(v)) by the issuing company or by a 90% subsidiary.	Within 3 years from the date of the relevant issue of shares
ii.	For preparing to carry on such a qualifying trade.	

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No.	Purpose of the money being raised	Timelines for employment of funds
iii.	For research and development intended to lead to the qualifying trade.	Within 3 years from the date of the relevant issue of shares
iv.	To acquire shares in a 90% qualifying subsidiary and the subsidiary uses the money for i, ii, iii above.	

Money raised by the company is not regarded as spent on qualifying trade in the following cases:

- To buy shares or stock in a company (exception 3(iv)).
- Payment of dividends to shareholders.

4. Qualifying trading activities

- The trade must be conducted on a commercial basis with a view to the realisation of profits.
- The trade must not be substantially (more than 20% of the activities) one of a number of excluded activities such as land dealing, dealing in financial instruments, leasing, banking, legal & accountancy services, farming, steel, coal production and others.
- Qualifying trading requirements are required to be met throughout the period of 3 years from the date of the relevant issue of shares.

Rule for the Investors to claim relief under SEIS are as follows:

1. Requirements for the investor

- To claim a relief, individuals need to have a UK tax liability. Investors need not be UK resident.
- Investors (and shareholding of associates of the investors) must not have ‘substantial interest’ in the company at any time from the date of incorporation of the company to the third anniversary of the date of issue of shares. Substantial interest means owning more than 30% of the company’s issued capital or its voting rights or of the rights to the assets of the company in a winding up.
- Not employed by the company at any time during the period from date of issue of the shares, to the third anniversary of that date. For this purpose, you are not treated as employed by the company if you are a director of the company.

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2. Type of shares to be issued

- All shares must be fully paid up in cash on issue.

- Full-risk ordinary shares, not redeemable or carrying preferential rights to the company's assets in the event of winding up.

- Shares can have limited preferential rights to dividends, but excludes rights which allow issue of shares with
    - the right to the amount of dividend to be varied
    - the right to receive cumulative dividends

- There must be no arrangements in place
    - to protect the investors from the normal risks as a shareholder.
    - for the shares to be sold at the end of the relevant period (3 years from the date of issue of shares).

- Shares cannot be acquired using a loan acquired for that purpose.

- Shares must not be issued under 'reciprocal' arrangements.

3. SEIS Relief

No.	Relief	Eligibility	Relief to be claimed	Requirement to claim
i.	Income Tax Relief	Individuals investors as mentioned in clause B1 above	• 50% of the cost of the shares to be set off against the individual's Income Tax liability (excludes dividend income) • Maximum tax reduction - £50,000 for any one year (maximum amount invested £100,000) • Relief for the year can be carried back to the preceding year (part or full)	Shares to be held for 3 years from the date of issue
ii.	Capital Gains Tax Exemption	Individuals who have received Income Tax Relief	Any gain on disposing of shares is free from Capital Gains Tax	• Claim to Income Tax Relief is made • Shares disposed of after three years from the date of issue

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4. General requirements

- SEIS relief is available only to individual investors.
- Investors who invest in a qualifying company through a partnership structure will not be eligible for tax relief.

5. Purpose of the Scheme

There must be no arrangement between the parties, whereby the main purpose of the arrangement is to provide a tax benefit to the investors.

6. Issues of shares in other venture capital schemes

- A company can follow up a share issue under the EIS or investment from a Venture Capital Trust (VCT) only if the company has spent at least 70% of the money raised by the SEIS issue.
- A company cannot issue shares under SEIS if it has already received an investment from a VCT or shares issued under EIS.

7. Withdrawal or reduction of tax relief

Tax relief will be withdrawn if during the 3 year period from the date of issue of shares if:

- The investor becomes employed by the company without being a director of the company
- The investor holding becomes a ‘substantial interest’
- The company loses its qualifying status

Tax relief will be reduced or withdrawn if during the 3 year period from the date of issue of shares:

- Shares are disposed of (except disposal to a spouse or civil partner)
- The investor receives ‘value’ from the company that includes a loan, benefit, sale of an asset by the company at less/more than market value.
- Company repays or repurchases its own share capital from any such shareholder.

8. Advance Assurance Scheme

HMRC operates an advance assurance scheme administered by the Small Company Enterprise Centre (SCEC). Under this scheme the company can present their proposed issue to SCEC to know in advance whether the scheme will qualify for a relief or not. Companies are not required to obtain such an assurance, but may do so to spot any problems before the issue or to obtain confidence from potential investors.

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