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Accounting resource: **Seed enterprise investment scheme (SEIS).**

In brief:

SEIS is aimed at smaller companies than EIS. Whilst many of the rules mirror those of EIS, the tax reliefs available through SEIS are even more attractive. However, the amounts a company may raise and an investor may invest are lower.

"SEIS should be high up on the list of things for a business angel to investigate when considering potential investments."

"50% tax relief on investment is a very attractive incentive, particularly when combined with no CGT on any gains on SEIS shares and the ability to extinguish gains on other assets reinvested into SEIS shares"

Alan Ross, Tax Director, Wilson Partners Ltd

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Seed enterprise investment scheme (EIS)

Tax reliefs:

There are four key tax reliefs available to investors:

1) A reduction in your income tax liability of up to 50% of the value of your investment (subject to an annual maximum investment of £100,000) and the balance of the gain can be deferred. In order to get the reduction, you need to have a sufficient tax liability. The relief is not caught by the 25% of income / £50,000 cap. It is possible to elect to carry back all or part of the investment and treat it as made in the previous tax year.

2) When you eventually dispose of the shares, the gain is exempt from tax. If the shares are sold at a loss, the loss net of any income tax relief received at the outset can be set against other income of the year of disposal or the previous year (again, not caught by the 25% of income / £50,000 cap).

3) To the extent that any other capital gain is less than the SEIS investment, 50% of that gain can be exempted as a reinvestment relief. Gains must be in the same tax year as the SEIS shares investment (including a carry back to the previous year).

4) The value of the shares will be eligible for 100% Business Property Relief for Inheritance Tax.

Tax relief examples:

Example 1:
Investor invests £50,000 in SEIS shares producing £25,000 of income tax relief. More than 3 years later, the shares are sold for £200,000. As the proceeds will be tax free, the overall post tax profit is £175,000.

Example 2:
Investor sells a property and makes a gain of £50,000 on which the CGT would be £14,000. The £50,000 is invested in SEIS shares producing £25,000 of income tax relief and saving £7,000 of CGT. More than 3 years later, the shares are sold for £10,000. On sale, there is a loss of £15,000 (£50,000 less £25,000 less £10,000) on which up to 45% income tax relief may be claimed - a further £6,750. In this example, even though there is a £40,000 loss on the investment, the real loss is only £1,250.

Conditions:

As you might expect, such attractive tax reliefs come with complex conditions to be satisfied, including:

1) The company must have or be preparing to have a qualifying trade. Broadly, financial activities or those linked to a significant property (eg hotels, farming, property development, renewable energy and care homes) do not qualify. The trade must not have been started more than 2 years previously (whether by the company or some other person) nor may it have carried on any other trade at any time. It cannot be a subsidiary of another company nor have companies it controls where it has less than 50% of the shares. It must have fewer than 25 employees and have assets before the investment of less than £200,000.

2) The investor must face a risk to capital as a result of investing (i.e. it must be possible for the investor to lose more money than they could gain from their investment taking account of tax relief and dividends).

3) The shares must be newly issued, fully paid, non-redeemable ordinary shares in an unquoted company established in the UK.

4) The company may not raise more than £150,000 through SEIS and may not have previously raised funds using EIS or VCT.

5) The investor cannot be connected with the company during the period from incorporation to 3 years after the issue of shares. Connected includes being an employee or holding more than 30% of the shares (taking account of any shares owned by close relatives). The investor can however be a director.

6) There must be no loans to the investor linked to the investment, and the subscription must be for genuine commercial reasons.

7) Relief can be withdrawn if the company ceases to qualify, the investor becomes connected, the shares are sold within three years of issue, or the investor receives value from the company (dividends and reasonable director's remuneration is OK).

Conclusion:

Whilst obtaining relief may be complex, SEIS can make investing in small new companies highly attractive. It can make a significant difference when comparing two investments, one of which may qualify and one which may not.

This note is a brief summary of the position at 10/05/21. Professional advice should be taken before any SEIS investments are made.

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