Accounting resource: Recent changes to the Seed Enterprise Investment Scheme (SEIS).

In brief:
2022's Mini Budget was an interesting one for sure, with many of the announcements not making it to the statute books. But something that did make it through is some sizable changes to the Seed Enterprise Investment Scheme (or SEIS). In this fact sheet, we break down the changes and highlight how new businesses might be able to gain a tax advantage from these changes.

If you're unsure what SEIS is, it's a scheme launched by the government in 2012 to encourage investors to finance startups through the provision of tax breaks. SEIS is essentially an incentive, as the tax relief can allow individuals to reduce their income tax to zero in the same year.

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Recent changes to the Seed Enterprise Investment Scheme (SEIS)

SEIS changes in brief:

- Companies can raise capital in the first three years of trading - increased from two years
- A company's gross assets can be a maximum of £300k - up from £200k
- The maximum funding that can be raised over three years is £250k - up from £150k
- The maximum investment from individuals per tax year is £200k - up from £100k

Good to know – the pros and the cons:

Pro: When it comes to tax breaks, you should be aware that qualifying shares in your startup are equal to 50% of the amount you paid. It's also worth noting that you can benefit from capital gains tax breaks.

Con: If you've claimed your 50% income tax relief, you'll need to keep the SEIS shares for at least three years. Failure to do so will mean you'll lose the relief. Your company can pay you dividends during this time, or even a salary if you're a director or employee, but you're not able to receive any of your capital.

Con: But remember, dividends can only be paid out from your company profit. If your company is making losses (which isn't unusual at this stage), your money may be tied up in shares - shares that are not producing much in the way of income.

Repaying and reinvesting:

It is possible to repay part of your share capital after the qualifying period of three years has ended, and this isn't particularly difficult to do. By repaying share capital, you can keep the money that's been invested in your company and also generate income that is tax-efficient - even if your company isn't seeing profit at this stage.

You could also reinvest the capital in the company not as shares, but as a loan instead. This will pay you interest at a commercial rate and is also subject to a corporation tax deduction. You won't need to worry about PAYE or NICs, but your company might have to make basic rate tax deductions. In this case, you'll receive credit against your tax bill.

Remember, receiving interest is more tax-efficient than a salary or a taxable benefit in kind. In fact, up to £1,000 of the interest is tax free. You could even double these benefits if you're married or have a partner with whom you share the loan. And because interest rates are at their highest for some time, you could lend the money for a fixed term at a higher-than-usual interest rate.

Side note: You can be a paid director and invest in your own company, as long as you don't have a 'substantial interest' (which is: 30% or more of the shares or voting control in the company, from the time of incorporation, until at least three years after the share issue).

In summary:

There's a lot to unpack here, so let's summarise. The latest changes came into effect in April 2023, the amount that you can invest in your company to qualify for SEIS tax breaks has now increased. You can consider repaying share capital after three years and reinvesting it as a loan - very beneficial if your company is not seeing profits at this time.

If you have questions or queries about how these SEIS changes may affect you, then we please do get in touch - we're here to help.