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Briefing note

February 2015

**SEED ENTERPRISE INVESTMENT SCHEME**

**Introduction**

There are a number of provisions within the UK tax code which provide certain tax reliefs for taxpayers who invest in qualifying companies.

This Briefing Note deals with Seed Enterprise Investment Schemes (“SEISs”) with two further Briefing Notes dealing with the Venture Capital Trust (“VCT”) and Enterprise Investment Scheme (“EIS”) legislation.

**Detailed provisions**

The SEIS legislation was introduced in the Finance Act 2012.

The rules are summarised as follows:

- In order to qualify a company must be undertaking, or planning to undertake, a new business which has fewer than 25 full-time employees and with gross assets of less than £200,000 at the time of the SEIS investment.

- Qualifying companies are able to raise up to £150,000. The funds raised must be used within three years. Once 70% of funds have been used, the company may raise funds under the EIS or from VCTs.

- Income tax relief of 50% is available to investors for subscriptions of shares with a value of up to £100,000. An investor can include a director.

- A claim for relief under SEIS may not be made until at least 70% of the money raised by the issue has been spent by the issuing company for the purposes of its trade.

- The investor must not own more than 30% of the ordinary or issued share capital, or the voting power.

- The investor limit for SEIS is £100,000 per tax year across all investments.

- There is also no CGT payable on the disposal of SEIS shares if they have been held for at least three years at the date of sale.

- There is an exemption from CGT on gains realised from disposals of other assets where the gains are reinvested in SEIS shares. The exemption is capped at 50% of the SEIS investment.

Other matters:

- Companies can qualify even if they have subsidiaries.
- Eligibility is determined by reference to the age of the trade, rather than the company - any trade being carried on by the company at the date of the relevant share issue must be less than two years old at that date, whether the trade was carried on by the company or another person.
- The rules allow past (but not current) employees to qualify for relief.
- The rules allow directors who qualify under SEIS to continue to qualify under EIS (provided the EIS shares are issued before the third anniversary of the date of issue of SEIS shares).

**Income tax relief on investment/dividends**

The rate of income tax relief is 50%.

The maximum annual investment is £100,000 per tax year and relief can be carried back to the previous year.

Income tax relief is given as a credit against an individual's income tax liability for the year of subscription or in the previous year if the appropriate carry back claim is made.

Income tax relief will be withdrawn if within three years of the date of issue the SEIS shares are disposed of or the investor receives value before that date and if the relief is subsequently found not to have been due.

Dividends are taxable in the normal way.

The tax relief is not affected by the income tax capping rules.

**Capital Gains Tax ("CGT") relief on the sale of shares**

Gains on disposals of SEIS shares are exempt from CGT if held for at least three years from the date of issue.

**CGT deferral relief**

CGT deferral relief (see EIS Briefing Note) is not available for SEIS investments.

However, subject to certain conditions, gains realised on any asset disposed of with the proceeds reinvested in SEIS qualifying shares will be exempt if the SEIS shares are held for at least three years from the date of issue. The exemption is capped at 50% of the qualifying SEIS investment.

**Losses**

Similar rules apply to losses realised on SEIS shares as apply under the EIS scheme (although the rate of income tax relief to restrict the amount of the loss is 50% rather than 30%). For a 45% taxpayer, this currently limits the maximum economic loss to 27.5%, ignoring the effect of any CGT exemption obtained for gains reinvested in SEIS qualifying shares.

**Practical issues**

An investor must claim relief within five years from the 31 January following the tax year in which the subscription was made. Relief cannot be claimed until at least 70% of the SEIS funds have been used for the purpose of the trade, or the new qualifying trade has been carried on for at least four months.

**Inheritance tax considerations**

The same IHT considerations apply to SEIS shares as apply to EIS shares.

**Further advice**

The rules are complex and only the main points have been set out in this Briefing Note. Please contact us if you require any more information or specific advice.



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