# Seed Enterprise Investment Scheme (SEIS)

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# What is Seed EIS?

**Seed Enterprise Investment Scheme (SEIS) is the most generous, tax-advantaged venture capital scheme ever introduced that offers investors enhanced income tax and Capital Gains Tax (CGT) reliefs.**

Higher rate tax payers and profitable business owners now have a low hurdle threshold to recover up to £100,000 income tax annually.

The 2014 Budget has made this a permanent feature of UK tax savings schemes and this Guide highlights the main conditions that need to be satisfied, but the conditions are complex and you should take professional advice before making an investment.

**Use this link to find out how much you can save now.**

# How does it work?

Tax reliefs are available to individual investors who subscribe for shares in SEIS qualifying companies.

SEIS investors can claim immediate income tax relief of 50% of the amount subscribed, up to an annual investment limit of £200,000 since April 2023. It was £100,000 before then. Each year, an additional £200,000 can be invested under this scheme and you can carry back to one year prior as well.



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**In addition, there are a number of Capital Gains Tax reliefs available to SEIS investors:**

An exemption from CGT on disposal of the shares;

Relief for losses on disposal of the shares (less any income tax relief already claimed); and

50% relief from CGT on gains realised from other assets disposed of, provided the gains are reinvested in a qualifying SEIS investment in the same or net tax year.

# Who is it for?

**The main beneficiaries of this scheme will be higher rate taxpayers who have funds available to put into SEIS companies in order to recover income tax deducted at source by employers.**

**Profitable business owners will also be able to pay themselves higher salaries in order to recreate this scenario.**

SEIS gives relief from income tax to UK taxpaying individuals. The individual does not need to be resident and ordinarily resident in the UK for tax purposes when the shares are issued.

## Restrictions

There are certain restrictions affecting the investor, which we have been able to overcome through our other SEIS successes.

A company can carry on some excluded activities, but these must not form more than 20% of the company's activities.

**Excluded trades for the purposes of qualifying for SEIS include:**

Dealing in land, commodities and financial instruments.

Financial activities such as banking, insurance and financing.

Operating or managing hotels or nursing/care homes.

Providing legal or accountancy services.

Property development.

One of the restrictions is that the SEIS investor cannot be 'connected' with the company. An investor will be connected with a company:

if the investor and the investor's associates' control of the company's share capital, voting rights or assets on a winding up exceeds 30%.; or

if the investor is an employee of the company – but not if a director.

There is a disqualifying arrangements test which generally means that SEIS relief will be withdrawn from any trade that is not made for commercial reasons or set up in an arranged manner.

## Associates

Associates include vertical relations such as spouses, civil partners, children, grandchildren, parents, grandparent or partners in any business partnership. Horizontal relations such as siblings, nephews, nieces, uncles and aunt are not associates.



# I'm an investor—

## what's in it for me?

**If you are a higher rate tax payer under employment you probably spend a lot of time wondering how you can reduce your tax bill, where to invest your money to maximise your returns, or how to invest in or fund your own business without impacting on your current work.**

**Well now there is a major opportunity to do all three.**

All you need to do is to create an SEIS company and, with our help, maximise on your tax savings and growth potential.

**There are five tax reliefs available to investors in companies qualifying under SEIS, and the basic rules are as follows:**

### 1
### Income tax relief

Immediate recovery of 50% of the amount invested against your personal income tax liability.

Maximum qualifying investments of £200,00 in any tax year – i.e. maximum tax relief £100,000.

Shares must be held for at least 3 years.

Shares must be fully paid for when issued and be full-risk ordinary shares.

No minimum amount of investment.

## 2
### Capital Gains Tax exemption

Any gains on the sale of the shares are exempt from CGT.

Shares must be held for at least 3 years.

Income tax relief must have been claimed.

## 3
### CGT exemption — reinvestment relief

A CGT liability from another asset disposed of in the tax year can be reduced by 50% by reinvesting the gain into SEIS shares in the same tax year.

## 4
### Loss relief

If SEIS shares are disposed of at a loss, this loss can be offset against the investor's income tax or capital tax liabilities in the year of disposal or previous year.

The loss on which tax relief is given is net of any income tax relief already gained when the investment was made.

## 5
### Inheritance tax relief

Shares in SEIS qualifying companies will normally qualify for Business Property Relief for Inheritance Tax purposes.

Relief can be up to 100% so long as the shares are held for at least 2 years.

# I'm a small business owner—

## what's in it for me?

As an owner of a profitable business you no doubt realise that paying yourself tax efficiently is a considerable part of your growth strategy. Taking the "minimum salary and the rest as dividends" tends to be a good starting point.

**If your business has profits available then the SEIS scheme will allow you to take a higher salary from the company and then recover the income tax.**

The net effect of this is more preferable even than the "minimum salary and the rest as dividends" tax strategy that you are probably used to. This is due to you saving on the corporation tax because your salary is a deductible expense unlike dividends.

However if you are a Limited Liability Partnership (LLP), or able to convert into an LLP, then this will also allow you to save on national insurance tax because you will be able to take a fee and not a salary. This is an important opportunity of maximising the SEIS tax savings.

**As well as the tax reliefs, a knock on benefit of taking a higher salary and investing through SEIS is that you will automatically become more credit worthy because credit agencies value salaries more than dividend earnings.**

| Year | Normal cash position* | Normal cashflows | SEIS cash position* | Seed EIS cashflows | Tax savings |
|---|---|---|---|---|---|
| **0** | -25,000 | -25,000 | -25,000 | -25,000 | |
| **1** | -25,000 | | -9,000 | 16,000 | **£16,000** |
| **2** | -25,000 | | -9,000 | | |
| **3** | 18,000 | 43,000 | 41,000 | 50,000 | **£7,000** |
| | | | | **Total:** | **£23,000** |

*Does not include income distributions

**Normal IRR 20%**

**IRR 51% with SEIS**

# Example #1

Matthew invests £25,000 under the SEIS in the tax year. His income tax liability for the year is £35,000. He also expects to realise a capital gain of £25,000 on the disposal of some shares in companies listed on the stock exchange.

By claiming SEIS Relief and SEIS Reinvestment Relief Matthew reduces his income tax liability by £12,500 to £22,500, and saves capital gains tax of 50%, £3,500. I.e (28% x 50%) x £25,000. In total Matthew saves £16,000 in tax by investing £25,000 under the SEIS, making the net cost of his £25,000 investment just £9,000.

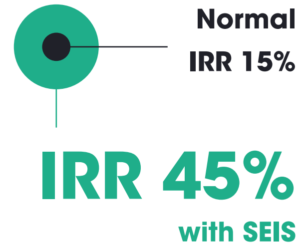
The shares are sold after 3 years for £50,000. Under SEIS, Matthew does not have to pay capital gains tax on the gain of £25,000 saving himself a further £7,000. His post-tax return on a £25,000 investment under the SEIS which cost him £9,000 after the initial income tax and CGT reliefs, is £50,000 – or more than 5 times his net cost.

**Normal ROI 72%**

**ROI 164% with SEIS**

| Year | Normal cash position* | Normal cashflows | SEIS cash position* | Seed EIS cashflows | Tax savings |
|---|---|---|---|---|---|
| **0** | -50,000 | -50,000 | -50,000 | -50,000 | |
| **1** | -50,000 | | -18,000 | 32,000 | **£32,000** |
| **2** | -50,000 | | -18,000 | | |
| **3** | 25,200 | 75,200 | 67,000 | 85,000 | **£9,800** |
| | | | | **Total:** | **£41,800** |

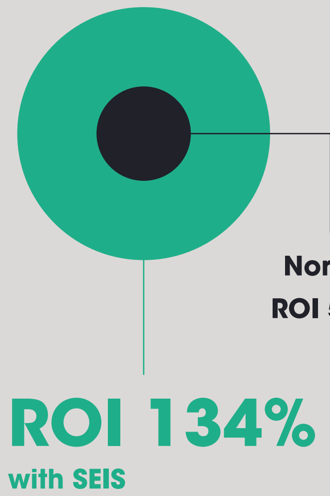
*Does not include income distributions




# Example #2

Jeremy invests £50,000 under the SEIS in the tax year. His income tax liability for the year is £25,000. He also expects to realise a capital gain of £50,000 on the disposal of a buy-to-let property. He saves a total of £32,000 (£25,000 income tax credit and 50% reduction of CGT £7,000) by investing £50,000 under the SEIS, making the net cost of his investment only £18,000 of which he holds shares worth £50,000 at the time of investment.

Fortunately Jeremy's investment was very successful and at the end of three years is offered £85,000 for his shares by another investor which he accepts. Because his shares are SEIS shares, he is exempt from paying CGT on this disposal — saving a further £9,800 in tax that would otherwise have been payable. Overall Jeremy's net cash gain is £76,800 which is currently earmarked for further SEIS investments in order to recover his income tax bill of this and the immediate prior tax year using the carry back provision.



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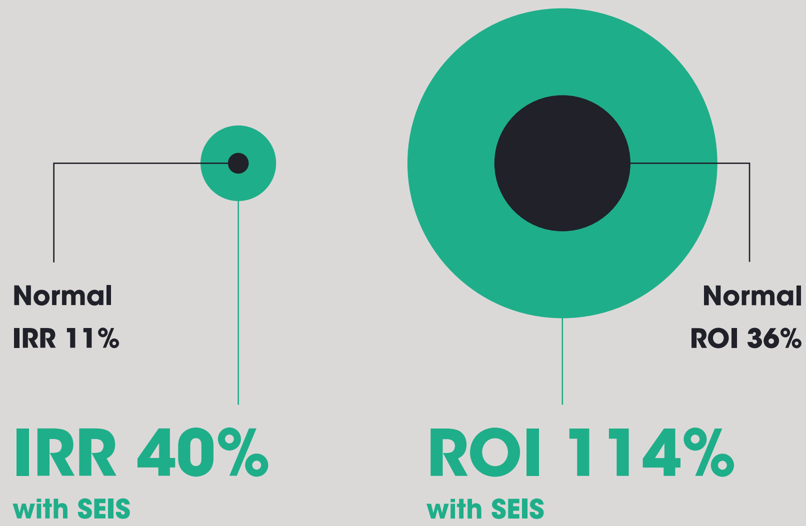
| Year | Normal cash position* | Normal cashflows | SEIS cash position* | Seed EIS cashflows | Tax savings |
|---|---|---|---|---|---|
| 0 | -100,000 | -100,000 | -100,000 | -100,000 | |
| 1 | -100,000 | | -36,000 | 64,000 | £64,000 |
| 2 | -100,000 | | -36,000 | | |
| 3 | 36,000 | 136,000 | 114,000 | 150,000 | £14,000 |
| | | | | Total: | £78,000 |

*Does not include income distributions

# Example #3

### Option A)

Brian, an additional rate taxpayer, sells his shares for £250,000, realising a chargeable gain of £100,000 (before exemption). Rather than paying CGT on the gain, he decides to reinvest the gain by making a qualifying SEIS investment. Brian subscribes £100,000 for SEIS shares in which he disposes of for £150,000. As Brian has reinvested the whole of his gain and it does not exceed the annual limit of £100,000, the £100,000 gain is reduced to 50% CGT i.e. from £28,000 to £14,000. Brian receives income tax relief of £50,000 and when he disposes of his shares in after three years' holding, the £50,000 gain is CGT exempt — saving an additional 10% or 20%.



| Year | Normal cash position* | Normal cashflows | SEIS cash position* | Seed EIS cashflows |
|---|---|---|---|---|
| 0 | -80,000 | -80,000 | -80,000 | -80,000 |
| 1 | -80,000 | 0 | -28,800 | 51,200 |
| 2 | -80,000 | 0 | -28,800 | |
| 3 | -80,000 | 0 | -19,800 | 9,000 |

*Does not include income distributions

| Tax recovered | |
|---|---|
| | |
| | £51,200 |
| | |
| | £9,000 |
| Total: | £60,200 |

**75.25% recovered in tax with SEIS**

# Example #3

### Option B)

Rather than investing the full £100,000 gain, Brian reinvests £80,000 for SEIS shares. He sells the shares for £20,000.

£80,000 of Brian's gain is reduced to 50% CGT and the remaining £20,000 is subject to CGT at the CGT rate at that time (subject to any other reliefs or exemptions). He receives income tax relief of £40,000. Later, he recognises a capital loss of £20,000 (loss of £60,000 less income tax relief of £40,000, above). Thereby Brian's total risk amounts to just 25% of his investment.

**Normal IRR 0%**

**Normal ROI -100%**

**IRR -19% with SEIS**

**ROI -25% with SEIS**

# How to get started—

## the application process

**Here at Key Business Consultants we will complete the entire application process on your behalf after a thorough consultation, your opportunity strategy mapped out and all the necessary arrangements have been put in place to maximise your own hand-held SEIS vehicle.**

The SEIS is administered by HMRC through the Small Company Enterprise Centre (SCEC). The SCEC makes the decision on whether a company qualifies under the scheme.

Companies can apply to the SCEC for advance approval of their proposed share issue. Once the shares are issued, whether or not advance approval has been sought, the company completes a Form SEIS1 and submits it to the SCEC. If the SCEC approves a company's application for SEIS it will issue a form SEIS2 and sufficient forms SEIS3 to give to the investors to enable them to claim their tax relief.

The investors claim their tax relief through their annual self-assessment tax return once they have received the Form SEIS3. Claims are normally made in the year of investment, but can be made up to 5 years later.

Business Consultants

Chartered Accountants

Seed EIS Specialists

Member of the ICAEW Business Advice Service

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ICAEW CHARTERED ACCOUNTANTS

An attentive and entrepreneurially focussed practice, we work hard to ensure your circumstances and interests are understood and map a path through to success.

We are one of the first firms to recognise the huge potential of SEIS tax relief and are the only firm offering the opportunity for investors to manage their own investment in such an arm's length manner.

**Contact us today.**

**call 0203 728 2848**
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