SEED ENTERPRISE INVESTMENT SCHEME (SEIS)

SEIS is designed to encourage investment in small start-up companies by providing income tax and capital gains tax (CGT) reliefs for qualifying investors.

There are three separate sets of reliefs within SEIS that potentially deliver a significant amount of tax relief:-

- Income tax relief at 50% on the amount invested;
- An exemption from tax on gains made when the shares are sold; and
- An exemption from tax on gains rolled over against the SEIS investment, restricted to 50% of the investment.

Additionally, once shares have been owned for two years, Inheritance Tax Business Property Relief may be available.

For non-domiciled investors, Business Investment Relief may be available on the investment.

The maximum a company can raise under SEIS in any three year period up to the share issue in question is £150,000.

Interaction with the Enterprise Investment Scheme (EIS)

It is possible for a company to raise funds under SEIS and then under EIS, but as separate share issues.

The company needs to carry out a qualifying trade along the same lines as for EIS. It must be reasonable to conclude when the shares are issued that the issuing company aims to grow and develop its trade in the long-term and that there is a significant risk that lost capital will exceed the net investment return

The reliefs available

Income tax relief

Income tax relief at 50% on the amount invested, capped at £100,000. The 50% relief applies irrespective of the rate of tax being paid but is capped by the amount of income tax otherwise payable. It is possible to carry back the income tax relief to the previous tax year.

Income tax relief is also available on the cost of the shares, net of the initial tax relief, if the company were to fail.

CGT exemption on SEIS shares

Gains on the disposal of SEIS shares are exempt unless the income tax relief is withdrawn. The CGT exemption may be restricted if an investor did not obtain full income tax relief when making the investment.

Losses on the disposal of SEIS shares are allowable, however, the amount of the capital loss is restricted by the amount of the SEIS income tax relief. A capital loss arising on the disposal of SEIS shares can be set against other income.

CGT exemption on deferred gains

The relief is restricted to 50% of the amount invested but gains so deferred will become exempt in the same way as the SEIS shares. The investment in SEIS shares and the disposal must take place in the same tax year. If the SEIS relief is carried back to the previous tax year then the disposal must have taken place in that earlier tax year.

Total relief available

The maximum total tax relief for a qualifying investment could amount to 60% of the amount invested with unlimited tax free gains. If the investment fails an investor could recover up to 82.5% of their investment as demonstrated by the example on the next page.

Example	2020/21
	£
Gross Investment	100,000
Less	
Income tax relief at 50%	50,000
50% CGT deferred on a gain taxed at 20%	10,000
Net cost of investment	**£40,000**
If successful:	
Sale after 4 years for	150,000
Less tax due	
Retained proceeds	**£150,000**
Return on net costs	**267%**
If unsuccessful:	
Liquidation after 4 years	0
Further tax repayable: -	
£50,000 @ (say 45%)	**£22,500**
Total %age money recovered	**82.5%**