MARSLAND NASH
ASSOCIATES

SEIS SCHEME FACT SHEET

Introduction

Startups and small businesses are the backbone of any economy. They drive innovation, create jobs, and stimulate economic growth. However, these businesses often face significant challenges, especially when it comes to raising capital. In recognition of these challenges, the UK government has introduced the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS) tax relief schemes. These schemes provide powerful incentives for investors to support early-stage companies and high-growth businesses.

What are SEIS and EIS?

SEIS (Seed Enterprise Investment Scheme): SEIS is aimed at early-stage startups that are looking to raise capital for growth. It offers tax incentives to individual investors who provide funding to these companies. Investors can receive income tax relief of up to 50% on investments up to £200,000 per tax year (since 6/4/23)

EIS (Enterprise Investment Scheme): EIS is designed to encourage investment in higher-risk, high-growth businesses. Like SEIS, it provides tax incentives for investors, but at a reduced rate of 30%. The maximum investment eligible for EIS relief is £1 million per tax year. There are special rules for knowledge intensive (R&D) companies, with higher limits.

Benefits

For the company:
Increased access to capital for startups and small businesses. These schemes make investing in such companies more attractive to investors by reducing the risk associated with early-stage ventures. In turn, this access to capital enables these businesses to grow, hire more employees, and develop their products or services.

For the investor:
Investing in startups and high-growth companies is inherently risky. SEIS and EIS help mitigate some of this risk by offering tax relief, both on the initial investment, on any gain made on shares after a period and to some extent on any loss.

PRE CLEARANCE

It is possible to apply for pre clearance from HMRC for a SEIS/EIS qualifying share issue, this may be of considerable value to investors.

Tax Reliefs

SEIS (Seed Enterprise Investment Scheme)

Tax Relief for Investors:

1. **Income Tax Relief:** SEIS offers generous income tax relief to individual investors who support qualifying early-stage start-ups. Investors can claim a tax reduction of up to 50% of their investment amount, subject to a maximum investment of £200,000 per tax year. For instance, if an investor puts in £10,000, they can potentially reduce their income tax liability by £5,000. Carry back is available to previous tax year.
2. **Capital Gains Tax (CGT) Exemption:** One of the significant benefits of SEIS is that it provides CGT relief. If an investor holds their SEIS shares for at least three years and then sells them, any gains made from the sale are exempt from CGT. This encourages investors to keep their funds in SEIS-eligible companies for the long term.
3. **Reinvestment relief –** if you have a capital gain you can also get relief by reinvesting in SEIS shares, up to 50% of the value invested, at the same time as claiming income tax relief.

4. **Loss Relief:** In case the SEIS-eligible investment results in a loss, investors can claim loss relief. This means they can offset the amount invested, less any income tax relief already claimed, against their income or against a capital gain to reduce their overall tax liability. This reduces the financial risk associated with early-stage investments.
5. **SEIS** shares held for more than 2 years can benefit from 100% IHT relief

EIS Tax relief

The reliefs available are similar in scope but slightly less generous albeit with higher thresholds.
We can explain EIS relief if this scheme is of interest.

SEIS Qualifying Conditions for the Start-up (Investee Company):

1. **Company Type:** The investee company must be a UK-based trading company, meaning it must be actively engaged in business activities and not involved in excluded activities like property development, financial services, or leasing of assets.
2. **Age of Company:** The company must be within its first two years of trading. The clock starts ticking from the date of the company's first commercial sale. It must not have previously used EIS/VCT schemes.
3. **Gross Assets:** The company's gross assets must not exceed £350,000 at the time of issuing the SEIS shares.
4. **Full-Time Employees:** The company must have fewer than 25 full-time employees.
5. **Permanent Establishment:** The company must have a permanent establishment in the UK.
6. **Purpose of the Investment:** The funds raised through SEIS must be used for a qualifying business activity. Specifically, the investment should be used to develop or grow the business.

SEIS Qualifying Conditions for Investors:

1. **Investor Type:** SEIS is available to individual investors, not corporations or other entities.
2. **UK Taxpayer:** To be eligible for SEIS tax relief, investors must be UK taxpayers. This includes individuals who are residents in the UK for tax purposes or individuals who have income tax liabilities in the UK.
3. **Connection:** They must not be an employee or associate of one (can be a director), and not hold 30% (with associates) from incorporation until 3 years after share issue)
4. **Shareholding Period:** To qualify for the full range of SEIS tax reliefs, investors must hold their SEIS shares for a minimum of three years.
5. **Amount of Investment:** Investors can receive income tax relief of up to 50% on investments up to £200,000 per tax year. The total amount of investment that can be made in the company under SEIS is capped at £250,000.
6. **Excluded Shares:** Investors should not acquire shares that are excluded from SEIS, such as shares that have preferential rights to assets on winding-up or that carry the right to a fixed rate of dividend.

EIS Qualifying conditions are similar but more complicated and can be explored if EIS is a consideration

<u>**Disclaimer**</u>

This information is provided as guidance only, it is not intended to be an exhaustive guide. Whilst this guidance is believed to be a reasonably comprehensive list of areas to consider, it is provided without any responsibility falling on the directors or staff of this firm and in the strictest of confidence. Any use you wish to make of the information is, therefore, entirely at your own risk. Share scheme tax relief is dependent on HMRC approval and not guaranteed until approved.