

Tax relief is available to qualifying individuals who subscribe cash for qualifying shares in qualifying unquoted companies with fewer than 25 employees and gross assets of less than £200,000.

Income Tax relief

Income Tax relief can be obtained based on the amount subscribed for shares in a SEIS company. In order to obtain relief, both the investor and the company must be eligible for relief.

The relief is given as a tax reducer (deducted from the Income Tax liability) at 50%.

The relief is available on a maximum investment of £100,000 per year (amounting to £50,000 of Income Tax relief).

The relief can be claimed in the tax year of investment or carried back in part or full to the previous tax year. The relief cannot reduce the tax liability of either year below nil.

The relief can be withdrawn in full if the eligibility conditions are breached (such as a sale of the shares) within three years. The relief can also be withdrawn or reduced if any value for the shares is received by the investor.

CGT Reinvestment Relief

A Capital Gains Tax (CGT) exemption is available on gains arising on the disposal of other assets to the extent that the gain is matched with qualifying SEIS expenditure. This relief applies to 50% of the qualifying SEIS expenditure (from 2013/14 onwards). The exemption can however be reduced or withdrawn if the SEIS relief is reduced or withdrawn.

CGT Deferral Relief

CGT liabilities arising on the disposal of other assets can be deferred when investing in SEIS shares. The deferred gain will however come back into charge at a later date, for example on the disposal of the SEIS shares. When the deferred gain comes back into charge, it's subject to CGT at the relevant rate at that time.

CGT on exit

If you sell the SEIS shares within three years, and make a gain on the disposal, it will be chargeable to CGT.

If Income Tax relief is given on the shares, and the SEIS shares are held for more than three years from the date of issue, then any capital gains arising on disposal of the SEIS investment itself will be exempt from CGT.

If, however, a loss is made on disposal of the investment, this is an allowable loss. Note though, that the loss is first restricted by the SEIS Income Tax relief received. An election can be made for the capital loss to be set against other income of the year of the disposal, or income of the previous year, rather than being set off against capital gains as would normally be the case.

Eligibility for Income Tax relief

Investor

For an individual to be eligible for Income Tax relief, they must not be connected with the company. This is defined as more than a 30% holding in a company and includes associates' shareholdings. No employees (or associates of employees) can claim this relief, although directors are not treated as employees for this purpose.

Company

The company must be an unquoted company carrying out a qualifying trade. There are some trades that are not eligible for relief.

The company can issue SEIS shares up to the value of £150,000.

Money invested will not be eligible for SEIS relief unless it is used for a qualifying business activity within three years following the issue of the shares.

Conclusion

SEIS is an extremely valuable relief for small start-up companies and prospective investors alike, but there are a number of conditions to ensure that investors and the company are eligible for relief. The summary above provides examples of this but is not exhaustive.

Find out more

For further information, advice and guidance please contact one of our specialists:

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This is a general illustrative guide only and individual professional advice should be obtained on specific issues. Information is believed correct at time of publication but may alter.

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