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# The Seed Enterprise Investment Scheme (SEIS): Your complete guide

As a seed-stage business, angel investors may see you as a high-risk investment – but with the tax relief benefits offered through SEIS they could be ready to take the plunge.

If you're looking to raise under SEIS you will need to apply for SEIS Advance Assurance from HMRC.

In this article we explain how your company can qualify for SEIS, enabling you to attract investors with the incentive of SEIS tax relief.

## **What is SEIS? An introduction**

In 2012, the UK government set up the **Seed Enterprise Investment Scheme (SEIS)** as an initiative that would incentivise investment in small, seed-stage companies. By offering tax relief benefits to private investors who invest in these businesses, it was hoped that this would stimulate the growth of the economy and encourage entrepreneurship.

## **SEIS: Advantages and Rules for Companies**

As a company, the main advantage of SEIS is the ability to raise funds that would otherwise be hard to secure as a seed-stage business. If you're eligible for SEIS (we discuss the eligibility criteria below) you **can raise up to £150,000** in total under the scheme.

A further advantage of SEIS funding is that you aren't prevented from using the money to repay any third party loans, as long as the loan is not connected to the SEIS investor. The loan must also have been taken out "for the purposes of trade" (i.e. not to cover that extravagant company Christmas lunch!).

According to HMRC's rules, the funds raised through SEIS shares must:

- Be used to grow or develop your business
- Present a risk of loss of capital for the investor
- Not be used to buy all/part of another business
- Be spent within 2 years of the investment or the date you started **trading** (if later)

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### **SEIS: Advantages and Rules for Investors**

SEIS investors must be UK taxpayers to take advantage of the scheme. An individual investor can invest up to £100,000 under SEIS each tax year. He or she can't be a company employee, but they can be a paid director.

It's important to note that if you're hoping to raise a Bootstrap Round with investment from family and friends, certain family members can't claim SEIS benefits as they count as "associates" of the company. These include spouses, civil partners, parents, and children – but not siblings.

To qualify for SEIS tax relief, the investor must not hold more than 30% of the company's overall shares. He or she is also technically disqualified from liquidation preference, but there is a workaround by using "A Ordinary Shares". If they're specifically requested, you should be prepared to grant these SEIS-compliant A Ordinary Shares.

SEIS investors qualify for the following tax relief benefits:

- Up to 50% income tax relief offset against the amount invested
- Capital Gains Tax relief of 50% on investment in a non-SEIS company, if the gains from that investment are reinvested into an SEIS-eligible company
- No CGT payable for any gains from the SEIS investment, as long as shares are held for at least 3 years
- If the business performs badly, the investor can claim loss relief equivalent to his or her highest rate of income tax
- No inheritance tax is payable on SEIS shares as long as they are held for at least 2 years
- Tax relief can be carried back to the previous tax year, providing that the investor had not already invested the maximum of £100,000 under SEIS in that year.

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### **Is my Company Eligible for SEIS?**

If you want to attract investors through SEIS, you'll need to start by checking that your company is eligible for the scheme.

### **Excluded Trades**

First, you should make sure that your business activities don't fall under one of HMRC's **excluded trades**. These include: banking, insurance, or money-lending; property development; dealing in land or commodities; legal or accountancy services; and generating or exporting electricity.

However, if you're worried that some of your business activities might be excluded, the good news is that they must be a "substantial" proportion (+20%) of your overall activities to prevent you from qualifying from SEIS. Your eligibility may also not be affected if you are simply supporting an excluded trade (for instance, you have an app that monitors electricity usage).

### **Key Figures for SEIS Eligibility**

The next step in checking your company's SEIS eligibility is to compare it against some figures. You must:

- Have been trading for less than 2 years
- Employ fewer than 25 people
- Possess no more than £200,000 in **gross assets**

### **Non-UK Companies**

If your company is not UK-owned you may still qualify for SEIS. HMRC will expect you to prove that you have a "**permanent establishment**" in the UK. That is, you'll need to demonstrate that your company has a fixed place of business in the UK or a UK-based agent, through which business is regularly conducted.

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### **Risk to Capital Condition**

Only added to the SEIS criteria in 2018, the **Risk to Capital Condition** requires you to prove that:

- Your company's objective is to grow over the long term, as a result of the SEIS investment, and
- Investors will be putting their capital at significant risk by investing in your company.

This condition means you have to perform a bit of a balancing act: between convincing HMRC that you pose a risk to investors and convincing investors that funding you is a sound financial proposition!

### **Advance Assurance for SEIS**

So, you've established that you should qualify for SEIS funding and you want to tell investors all about the exciting investment opportunities you can offer.

Stop for one moment. If you are going to convince investors to fund your enterprise, they will want to see some form of "proof" that their investments will be eligible for SEIS tax relief. That's where **Advance Assurance (AA)** comes in.

AA is confirmation from HMRC that an investment in your company is likely to qualify for SEIS tax relief, providing that:

- Nothing changes in the company's circumstances to make it ineligible for SEIS, and
- The information you supplied to HMRC, in support of your AA application, is consistent with the information supplied to investors.

The majority of potential investors (maybe except friends & family) will want to see confirmation of your AA before they will consider making an investment. Therefore, it's important to leave plenty of time (1–2 months) for your application to be processed before you start offering SEIS investment opportunities.

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### **How to Apply for Advance Assurance**

Before you get started, make sure you have your company's UTR number to hand, as this will be necessary to identify your organisation on the application form. If you can't find it or you don't think you received one when you registered your company, you can request it from HMRC.

Let's take a look at the main components of the AA application:

#### *Application Form*

In the application form you'll need to provide all the information necessary to demonstrate that you fulfil HMRC's SEIS criteria. This includes:

- The date your company started trading
- Details of any other venture capital schemes you've benefited from
- A 3-year business plan with financial forecast
- A response to the Risk to Capital Condition (usually a brief SWOT analysis)
- The name, address, and intended amount of investment of at least one potential investor (the individual is not committed to invest, however; HMRC is just trying to deter speculative applications).

#### **Cover Letter**

A cover letter isn't required by HMRC, but we strongly recommend including one with your application. It sums up all the key details of your company and how you intend to use the SEIS funds to grow. Once you've filled in the AA application form on HMRC's website we'll use the information you supplied to generate a cover letter, so you don't have to worry about writing it yourself.

#### *Supporting Documents*

You'll now need to gather the supporting documents to attach to your application. These include:

- Your latest bank statements or accounts
- A current copy of the company's memorandum and articles of association
- A pitch deck (essentially the same as you show to potential investors)
- A financial forecast

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- Documents confirming previous investments or grants

Before you submit the application, our expert team will review all your supporting documents to ensure you have everything you need.

#### *Checklist*

HMRC recently introduced an AA Checklist which must be filled in and submitted along with the application form. This is designed to make sure you've included all the right information so the application process isn't delayed. However, when you've completed the application form and supplied all the supporting documents we'll automatically fill in the checklist for you.

#### *Submitting your Application*

The final stage of the AA application process is to send off your application to HMRC. Ideally this will be via email, making sure you attach all your supporting documents. HMRC takes 6–8 weeks to process applications on average.

#### **How to Find SEIS Investors**

Once your AA application has been approved you'll be able to approach potential investors with confidence, armed with the knowledge that their investment should qualify for SEIS tax relief.

One source of investment would be an SEIS investment fund, which specialises in investing in seed-stage companies and small startups. You can also go along to networking events for angel investors, where you'll hopefully find someone who will share your company's vision.

And don't forget that friends and family (with certain restrictions: see "SEIS: Advantages and rules for investors" above) might want to invest in you too.

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### **Completing your SEIS Compliance**

When you've found investors, finished your funding round, and issued your SEIS shares, you'll then need to complete your SEIS compliance for HMRC. As with your Advance Assurance application, it's very straightforward to go through the SEIS compliance process.

Here's what you need to do:

- Create your SEIS1 forms, download them, and email them to HMRC
- Wait until you receive an SEIS2 form from HMRC, containing your SEIS2 authorisation number
- Enter the SEIS2 number on your SEIS certificates
- Share the SEIS2 certificates with your investors.

In just a few simple steps your investors will have what they need to claim their SEIS tax relief.

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### **SEIS vs. EIS: The Two Schemes Compared**

As SEIS is aimed at seed-stage businesses, if you're successful in growing your company you may want to move on to fundraise through EIS – the Enterprise Investment Scheme.

EIS is the “big brother” of SEIS. It was launched in 1992 and provides a tax relief incentive for investors to invest in small-to-medium-size startups. SEIS and EIS have similar rules and benefits for companies and investors, but EIS is tailored towards slightly larger companies and reflects the reduced risk for investors.

The key criteria for EIS-eligible companies (with SEIS figures in brackets) are:

- A company can raise up to £12 million under the scheme (£150,000)
- They must have been trading for less than 7 years (2 years)
- They must have fewer than 250 employees (25 employees)
- They can have no more than £15 million in gross assets (£200,000).

The main differences for EIS investors are:

- Investors can claim 30% income tax relief against the amount invested (50%)
- They can defer up to 100% of the amount they invest under the scheme against any CGT incurred up to 1 year before or 3 years following the disposal of the shares.
- An EIS investor can't be a paid director of the company in which they wish to invest.

You can fundraise under both schemes in one funding round, but the SEIS shares must be issued before the EIS funds are transferred to you.

### **Key Takeaways**

SEIS is a great opportunity for seed-stage companies: it provides the motivation investors need to fund you and help make your vision a reality.

Gaining Advance Assurance from HMRC will give investors confidence that they will be eligible for SEIS tax relief, so make sure you apply in good time before approaching them.

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