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Seed Enterprise Investment Scheme

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Seed Enterprise Investment Scheme

Under SEIS, a taxpayer may invest up to £100,000 in a qualifying new start-up business and be eligible for income tax relief of 50%. A further relief is given when capital gains are reinvested into a SEIS company.

Relief is offered regardless of the rate at which the investor pays tax.

The SEIS applies to investment in companies, and not in unincorporated businesses or LLPs. Investment must be in subscription to new shares issued on or after 6 April 2012 until 5 April 2017.

SEIS shares issued before 6 April 2013: start-ups should avoid purchasing potential SEIS companies from incorporated incorporation agents (e.g. companies) because the fact that the company has been owned by another company will disqualify it from relief. This error is corrected from 6 April 2013 when legislation was introduced to prevent a company from being disqualified from SEIS where it was established by a corporate formation agent before sale to its ultimate owners.

Share loss relief is available, after taking into account tax relief already given on the sale of SEIS shares at a loss.

SEIS Reinvestment relief and CGT relief

As an added incentive to encourage more people to back 'riskier' companies, a capital gains tax (CGT) break is also offered for investments made into the new scheme:

Capital gains may be reinvested in SEIS companies to obtain Reinvestment relief. From 2013/14 this relief is restricted to half of the gain in these years. In 2012/13 reinvestment relief was unrestricted.

Disposals of SEIS shares will be exempt from CGT after a three year qualifying period.

If the SEIS investment makes a loss, an individual will also be able to offset the capital loss against income.

In order to obtain capital gains tax relief income tax relief would have needed to have been claimed first.

An investment made during the current tax year can be carried back to the previous tax year although the income tax relief and the capital gains tax relief need to be claimed in the same year, i.e. the current tax year or the previous tax year.

The claimant must have a taxable liability for SEED EIS to apply otherwise all of the advantages will be lost.

Capital Gains Tax - example

Capital gain made during year £200,000.

Amount re-invested into a SEED investment £80,000.

Gain exempt from capital gains tax calculation – 50% - £40,000.

Please note that this is an exemption, this is not a deferral, i.e., it will never be brought back into charge.

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