TaylorWessing

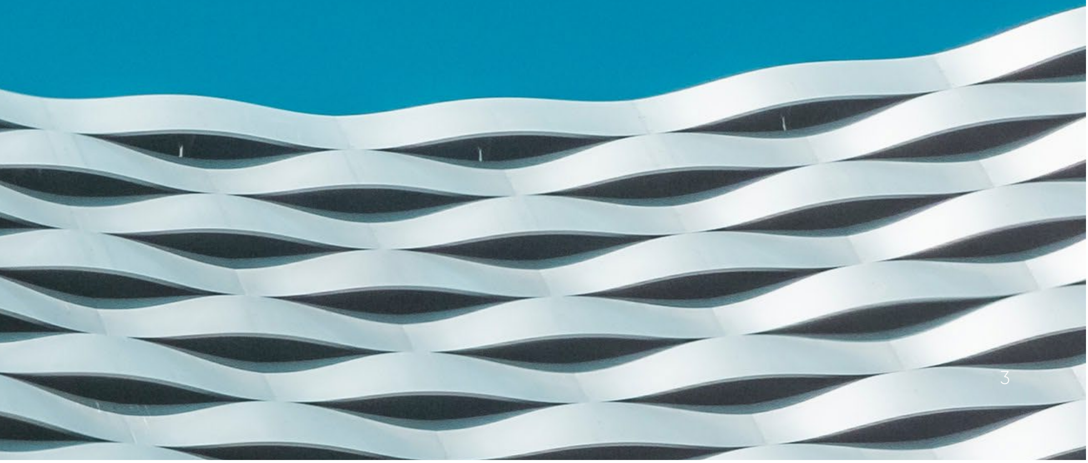
Seed Enterprise Investment Scheme (SEIS)

April 2025

The SEIS is aimed at incentivising investment into so-called 'seed-stage' companies.

This note covers the basics of how the scheme works, what tax relief is available and who is eligible for the scheme. It reflects the law and practice as applicable at April 2025.

Contents



How does the scheme work?

SEIS operates in a similar manner to the Enterprise Investment Scheme ("EIS"), providing income tax and capital gains tax reliefs for individual investors who subscribe in cash for qualifying shares in qualifying companies. Qualifying shares include ordinary shares, but also shares that may have certain non-cumulative preferential dividend rights.

Income tax

An investor who qualifies for the relief can claim an income tax reduction equal to 50% of the money subscribed, subject to an annual subscription limit of £200,000 (so the maximum income tax saving is £100,000). Relief can only be used to the extent that the individual has an income tax liability (it cannot create a loss or a repayment of tax) but investors can also use the tax reduction against their income tax liability for the previous tax year, or can split the reduction between the two tax years.

Capital gains tax

Where income tax relief is available for an investment in SEIS shares, broadly any capital gain realised on a disposal of the shares will be exempt from tax.

In addition, the scheme includes a partial exemption from capital gains tax for proceeds of disposals made in the relevant tax year that are 'matched' with investments in SEIS companies during the same period. There is no restriction on the type of capital asset to which this applies, but a gain that would be subject to capital gains tax must be realised on the disposal. It is not necessary to reinvest the entire proceeds of any disposal – only an amount of the proceeds equal to the gain (or part of the gain) to be exempted. The reinvestment relief offers a 50% exemption for reinvested gains.

Practical example

An individual earning £155,000 in taxable earnings during 2025/26 will be liable to approximately £55,953 in income tax for the tax year.

An investment of £100,000 in a SEIS company would generate a tax saving of £50,000 against that tax liability, leaving a net income tax bill of approximately £5.953.

Furthermore, if the same individual disposed of a non-residential investment property (for example) for £200,000 in the same tax year, realising a gain of £100,000, they would be able to 'match' half of the gain to the SEIS investment and thereby save half of the 24% capital gains tax otherwise payable on that disposal (ie, £12,000) in addition to the £50,000 income tax saving. If the gain was £120,000, but the individual still reinvested £100,000, the saving would remain £12,000.

Time limits

The scheme is only available to small 'start-up' companies. This, in effect, means that the company must not have been actively trading at any time before three years before the shares are issued.

As is the case under EIS, the shares must generally be held for three years from issue to benefit from the full income tax and capital gains tax reliefs above. If SEIS shares are disposed of within three years of their issue, then there is a potential claw-back of the income tax relief claimed (and no capital gains tax exemptions will be available, either on the disposal or in respect of any other disposal the proceeds of which were reinvested in the SEIS shares).

Note that SEIS relief can only be claimed by an investor (via their self-assessment return) once the company has either spent at least 70% of the SEIS monies invested or been actively trading for at least four months (as opposed to preparing to trade or conducting R&D in advance of trading). This marks the trigger-point for the company to issue a certificate of qualification to the investor, permitting the relief to be claimed.

Who can be a qualifying investor?

The SEIS has a number of similarities with EIS in relation to the requirements that have to be met for an individual investor to qualify.

One of the key requirements is that the investor must not hold (directly or indirectly) more than 30% of the company's ordinary share capital, issued share capital or voting rights. There are no restrictions on how much loan capital in the company the investor can hold (although care must be taken with regard to convertible loan stock).

Investors who are employees of the company cannot benefit from SEIS. However, there is a distinction between SEIS and EIS in that with SEIS, existing or new directors in the company will be eligible (whereas for EIS, the scheme is not generally (subject to certain limited exceptions) available to directors). So, for example, an existing director of the company could invest and still qualify for SEIS relief.

Which companies can qualify for SEIS?

Similar to the other venture capital schemes, there are a number of qualifying conditions that the relevant company must meet in order for it to issue shares under SEIS.

One of the key conditions is that the company must exist wholly for the purpose of carrying on one or more 'new' qualifying trades. As mentioned above, companies that had active trades more than three years before the investment do not qualify. The company must not have carried on any other trade before the qualifying trade. Subject to limited exceptions, the legislation also excludes situations where trades or activities that have previously been carried on are in effect transferred to the company. This is in part to prevent avoidance schemes of a type that have exploited the EIS regime through (for example) partitioning of existing non-qualifying businesses into new companies established specifically to enable investment to benefit from the tax reliefs.

However, the company need not carry on a trade immediately – it can be engaged in research and development with the intention of trading. In addition, the monies raised under SEIS can be used in such R&D and there is no time limit placed on the company starting an actual trade.

Companies can only raise a maximum of £250,000 under the scheme – this is a lifetime limit. Monies raised under SEIS must also be used by the company in its qualifying activity within three years (but, as explained above, this can include R&D work preparatory to the carrying on of an actual trade).

In addition, the company must not have had any investment under EIS or the Venture Capital Trust ("VCT") scheme before any shares are issued under SEIS. However, it can raise EIS and/or VCT funding after an SEIS round, as noted above.

The other main conditions are:

- The company's gross assets must not exceed £350,000 immediately before the investment (although there is no gross assets test following the investment, as can be found for other venture capital schemes).
- The company must have fewer than 25 full time employees.
- The company must have a UK permanent establishment.
- The company must not be listed on a recognised stock exchange (note that, although improbable, this means that AIM listed companies, if within the other limits, would qualify).
- The company must not be controlled by another company (although there is an exception for shelf companies).
- The company must not control another company (although the rules do permit the investee company to have certain qualifying subsidiaries).
- The company must not be a member of a partnership.
- The company in which the investment is made must have objectives to grow and develop over the long term.
- The investment should carry a real risk that the investor will lose more capital than they are likely to gain from a combination of income from dividends, interest and fees, capital growth and upfront tax relief. HMRC will decide whether an investor's capital is at risk by looking at the company's financial position, but if any arrangements have been put in place to reduce an investor's risk (such as that investor receiving priority over other investors in payment waterfalls) these are likely to exclude that investor from the SEIS scheme.

The rules also contain a number of anti-avoidance provisions. These include:

- a requirement that the investment be undertaken for genuine commercial reasons and not with a main purpose of avoiding tax, and
- a prevention of the terms of issue of the shares including any form of protection against the ordinary risks of investment (eg 'anti-dilution' rights to protect against future fundraising at a lower price).

HMRC offer an SEIS advance assurance procedure, which broadly allows a company to obtain some comfort for its investors that certain conditions for the relief are expected to be met, based on information supplied in the application (most notably the qualifying company conditions). If you are seeking advance assurance from HMRC, you will need to use their mandatory online form.

Joint SEIS/EIS funding rounds

Quirks in the scheme do cause issues, particularly for the many businesses for whom funding rounds exceed the maximum £250,000 available under SEIS. There, investors will typically seek a 'blend' of SEIS and EIS tax relief. Care must be taken with such arrangements to ensure that any shares intended for EIS relief are issued at least one day after SEIS shares, and that investment monies for EIS shares are not received by the company before the SEIS shares are issued (as those monies may impact the "gross assets" threshold test referred to above).

The team

James Ross
Partner
+44 20 7300 4985
j.ross
@taylorwessing.com

Graham Samuel-Gibbon
Partner
+44 20 7300 4916
g.samuel-gibbon
@taylorwessing.com

Liz Wilson
Partner
+44 20 7300 4979
l.wilson
@taylorwessing.com

Peter Jackson
Consultant
+44 20 7300 4721
p.jackson
@taylorwessing.com

Harriet Revington
Senior Counsel
+44 20 7300 7109
h.revington
@taylorwessing.com

Bridget Winters
Senior Counsel
+44 20 7300 4251
b.winters
@taylorwessing.com

Sally Robertson
Senior Associate
+44 20 7300 4737
s.robertson
@taylorwessing.com

Sophia Hampton
Associate
+44 20 3077 7560
s.hampton
@taylorwessing.com

Freddie Knottenbelt
Associate
+44 20 7300 4756
f.knottenbelt
@taylorwessing.com

Calum Young
Associate
+44 20 3077 7441
ca.young
@taylorwessing.com

About us

Taylor Wessing is a global law firm that serves the world's most innovative people and businesses.

Deeply embedded within our sectors, we work closely together with our clients to crack complex problems, enabling ideas and aspirations to thrive.

Together we challenge expectation and create extraordinary results.

By shaping the conversation in our sectors, we enable our clients to unlock growth, protect innovation and accelerate ambition.

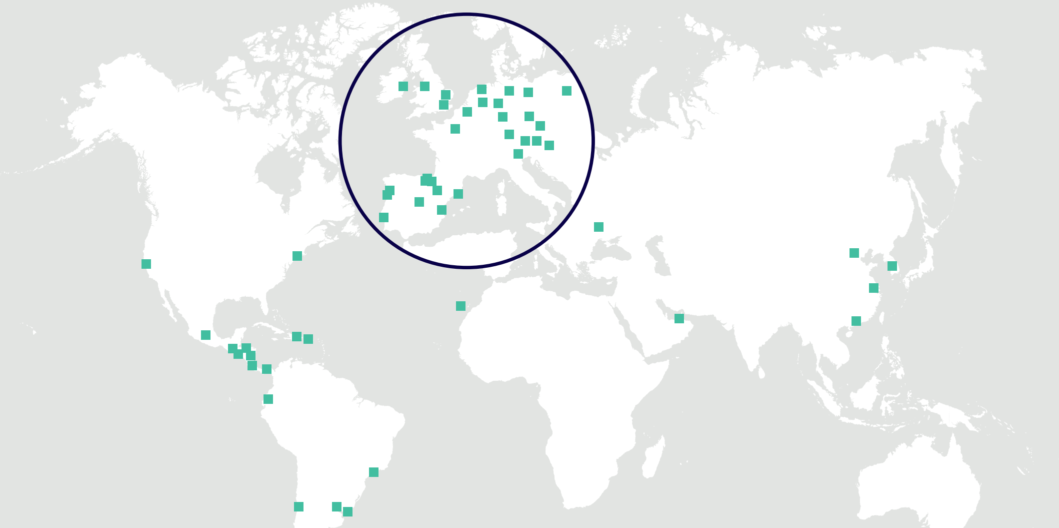
Technology, Media & Communications

Private Wealth

Real Estate, Infrastructure & Energy

Life Sciences & Healthcare

- Aerospace & Defence
- Business & Professional Services
- Consumer & Retail
- Hotels, Hospitality & Leisure
- Manufacturing & Industrials
- Automotive & Mobility
- Chemicals
- Financial Institutions & Insurance
- Logistics & Transport
- Public Services & Education



2000+ people
1200+ lawyers
300+ partners
28 offices
17 jurisdictions

Finalist of Tolley's® TAXATION Awards 2025

Challenge expectation, together

With our team based across Europe, the Middle East, US and Asia, we work with clients wherever they want to do business. We blend the best of local commercial, industry and cultural knowledge with international experience to provide proactive, integrated solutions across the full range of service areas.

2000+ people 1200+ lawyers 300+ partners 28 offices 17 jurisdictions

Argentina*	Buenos Aires	**Mexico***	Mexico City
Austria	Klagenfurt | Vienna	**Netherlands**	Amsterdam | Eindhoven
Belgium	Brussels	**Nicaragua***	Managua
Brazil*	Belo Horizonte | Brasilia | Rio de Janeiro | São Paulo	**Panama***	Panama City
Chile*	Santiago de Chile	**Poland**	Warsaw
China	Beijing | Hong Kong | Shanghai	**Portugal***	Braga | Lisbon | Porto
Colombia*	Bogotá | Bogotá, main office	**Puerto Rico***	San Juan
Costa Rica*	Guanacaste | San José	**Republic of Ireland**	Dublin
Czech Republic	Brno | Prague	**Slovakia**	Bratislava
Dominican Republic*	Santo Domingo	**South Korea****	Seoul
Ecuador*	Cuenca | Guayaquil | Manta | Quito	**Spain***	Barcelona | Canary Islands | Madrid | Pamplona | Seville | Valencia | Vitoria | Zaragoza
El Salvador*	San Salvador	**UAE**	Dubai
France	Paris	**Ukraine**	Kyiv
Germany	Berlin | Düsseldorf | Frankfurt | Hamburg | Munich	**United Kingdom**	Cambridge | Liverpool | London
Guatemala*	Guatemala	**Uruguay***	Montevideo
Honduras*	San Pedro Sula | Tegucigalpa	**USA**	New York | San Francisco
Hungary	Budapest		

* Powered by our strategic alliance with leading law firm ECIJA
** In association with DR & AJU LLC

Taylor Wessing statistics published are correct as of 1 January 2024.

taylorwessing.com

TaylorWessing