

# Seed Enterprise Investment Scheme – Income Tax and Capital Gains Tax reliefs

## **i** **Contacts**

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets or go to **hmrc.gov.uk**

This helpsheet explains how to claim Income Tax relief and two Capital Gains Tax reliefs (reinvestment relief and disposal relief) under the Seed Enterprise Investment Scheme. It also gives some guidance on the circumstances in which an investor is eligible to make a claim. You can find more information on our website at **hmrc.gov.uk/seedis/index.htm**

The Small Company Enterprise Centre (phone 0845 600 2622) can also provide more information.

There are several references below to form SEIS3 *Seed Enterprise Investment Scheme Certificate*. This form is provided to you by the company invested in to certify that certain conditions of the scheme are satisfied.

## **Income Tax relief**

### **The circumstances in which you can claim Income Tax relief**

If you have received a form SEIS3 for any investment you made in shares issued during the year ended 5 April 2013, you can claim relief provided you are eligible for relief in respect of the shares (see below).

### **How to claim Income Tax relief**

Enter in box 11 in the ‘Other tax reliefs’ section on page Ai 2 of the *Additional information* pages, the total amount of the subscriptions on which you are now claiming relief (but not more than the maximum figure of £100,000). Include any amount for which you received relief by way of an increase in your PAYE code or a reduction of a payment on account.

Then enter details of each investment in the ‘Any other information’ box, box 19, on page TR 7 of the tax return.

The details needed in respect of each investment are:

- the name of the company invested in
- the amount on which you are claiming relief for this year
- the date of issue of the shares
- the name of the HM Revenue & Customs office authorising the issue of the certificate, and their reference (as shown on the certificate)
- if you have subscribed more than £100,000 for shares on which relief could be claimed, how you want the relief attributed to them. See ‘How much Income Tax relief can you get for your subscriptions for shares’ on page 3 of this helpsheet.

List all subscriptions on which relief is claimed, even if you had to restrict the amount you entered in box 11 in the ‘Other tax reliefs’ section on page Ai 2 of the *Additional information* pages, because it would have exceeded the maximum.

We may ask to see form SEIS3 to support your claim, so keep it safe.

If you made an investment in shares issued during the year for which you have not yet received a form SEIS3, you cannot claim relief for it until you do. If you receive the form after you have sent your tax return, complete the claim form which is incorporated in it and send it to us.

### **Who can claim Income Tax relief?**

You are eligible to claim the relief unless any of the following apply:

- you subscribed for the shares as part of a scheme or arrangement aimed at avoiding tax
- you subscribed for the shares as part of an arrangement with another person which results in another person subscribing for shares in a company in which you have, or another individual party to the arrangements has, a substantial interest
- you receive a loan which would not have been made, or would not have been made on the same terms, were it not for the investment in the shares (HMRC Statement of Practice 6/98 provides more information on this)
- the share issue includes arrangements which
  - secure a return on your investment
  - will enable you to dispose of your shares at a future date, or
  - provide protection against the normal commercial risks attaching to an investment of this kind
- you have an option under which you can require someone else to buy the shares
- you are, or an associate is, an employee of the company
- you, either individually or together with your associates, have a ‘substantial interest’ in it.

A ‘substantial interest’ means controlling the company, or possessing more than 30% of the company’s share capital or more than 30% of the voting power in the company, or being entitled to more than 30% of the company’s assets in a winding-up. (This does not apply, subject to certain conditions, at any time when the only shares issued are the original subscriber shares.)

For this purpose, an associate includes a spouse or civil partner, lineal ancestor or descendant, a business partner and certain persons with whom you have connections via a trust.

### **What if the shares were issued to you and someone else jointly?**

Where shares are issued to joint owners, they are treated as if each of them had subscribed the same amount in respect of an identical number of shares. For example, if £2,000 is subscribed in respect of 2,000 shares in the name of a married couple, each is regarded as having subscribed £1,000 for 2,000 shares. That is so even if one of them paid the whole amount.

In order to claim relief each joint owner should obtain form SEIS3 from the company.

### **Can you choose to have the Income Tax relief for a different year?**

The general rule is that the relief is available for the tax year in which the shares are issued. (From 2013–14 onwards it will be possible to treat some or all of the shares as issued in the previous year and claim relief in that previous year – Section 257AB(5).)

You will find the date of issue of your shares recorded on form SEIS3.

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## **How much Income Tax relief can you get for your subscriptions for shares?**

Subject to what follows, you can get relief at the rate of 50% on the aggregate of the amounts claimed in respect of shares issued to you in 2012–13.

However, you cannot get relief on more than £100,000 and if your tax liability is not high enough to absorb all the relief you have to forgo the excess.

In either of these cases, you can opt for the relief to be attributed to certain shares, or to be attributed proportionally to all the shares. For example, if you had subscribed £50,000 for shares in each of four companies, but you are limited to claiming relief on £100,000, you could opt for relief to be given at 50% on the subscriptions for all the shares in two of those companies, or you could opt for relief to be given at 25% on all the shares in the four companies. You may want to take professional advice on which course to take.

Also, if you have received value from the company, the amount on which you claim relief must be restricted (the company will have stated the amount on form SEIS3).

The notes on form SEIS3 explain situations where your relief must be withdrawn or reduced, and in which you would be obliged to make a report to us.

## **Capital Gains Tax reliefs**

There are two Capital Gains Tax reliefs within the SEIS:

- **reinvestment relief**, where a gain arising in 2012–13 on a disposal of any asset is reinvested in shares in a company on which you obtain SEIS Income Tax relief
- **disposal relief**, where shares in a SEIS company are disposed of after having been held for three years and certain criteria are met.

## **What is reinvestment relief?**

When you dispose of an asset and make a gain you usually pay Capital Gains Tax for the tax year in which you dispose of the asset. Reinvestment relief lets you treat a gain arising in 2012–13 as exempt from Capital Gains Tax if you acquire SEIS shares.

If you get SEIS Income Tax relief on an acquisition of shares, then you can claim reinvestment relief as well. You cannot get reinvestment relief unless you also get SEIS Income Tax relief. To get full reinvestment relief you must invest in SEIS shares an amount at least equal to the chargeable gain. See the *Capital gains summary notes*.

## **Which gains can you claim to be exempt?**

If you dispose of any asset in 2012–13 and a gain arises in that year you can make a claim to treat the gain as exempt from Capital Gains Tax.

## **Which SEIS shares qualify for reinvestment relief?**

You can claim reinvestment relief if you subscribe for SEIS shares and the shares are issued to you in 2012–13. If the gain in respect of which you are claiming exemption arose after the SEIS shares were issued to you, you must still hold them at the time the gain arose.

If you are issued SEIS shares in 2013–14, you may claim SEIS Income Tax relief as if all or part had been issued in 2012–13. You can claim reinvestment relief in respect of the shares that are treated as issued in 2012–13.

### **How much reinvestment relief can you claim?**

You cannot claim more than the amount on which you receive SEIS Income Tax relief for the tax year 2012–13. You may claim less than the maximum reinvestment relief available to you, for example, if you want to use your annual exempt amount to cover part of your gains.

#### **Example 1**

You have a gain of £100,000 on a disposal in 2012-13. You subscribe £90,000 for 50,000 SEIS shares issued to you in the same tax year and get full SEIS Income Tax relief. The annual exempt amount for the tax year is £10,600. You can claim reinvestment relief on £90,000 of the gain of £100,000 or on any smaller amount, for example £89,400, leaving £10,600 to be covered by your annual exempt amount.

The notes on form SEIS3 explain situations where your relief must be withdrawn or reduced.

### **How do you claim reinvestment relief?**

You must complete the claim form attached to the SEIS3 certificate you should receive from the company you have invested in and attach the form to the *Capital gains summary* pages of your tax return. Please put 'X' in box 26 on page CG 2 of the *Capital gains summary* pages and provide details of the claim in the 'Any other information' box, box 36, or in your computation, providing a clear statement that you are claiming SEIS reinvestment relief.

Enter in box 5 the total of all your gains made on the disposal of assets in the year to 5 April 2013 which are claimed to be exempt because of reinvestment into shares issued to you, or treated as issued to you, in that year by one or more Seed Enterprise Investment Companies.

If you are claiming after you have sent your tax return, complete the SEIS3 claim form and send it to us.

### **What is the time limit for claiming reinvestment relief?**

You cannot make a claim before you have received the relevant form SEIS3. The latest date for making a claim is 31 January 2019.

### **What is disposal relief?**

If disposal relief is due you will not have to pay Capital Gains Tax on a gain on your disposal of SEIS shares. The following conditions have to be met.

- You must have held the SEIS shares for at least three years. SEIS shares cannot be acquired before 2012–13 so disposal relief will not apply to any disposals before 6 April 2015.
- You must have received SEIS Income Tax relief in full on the whole of your subscription for the SEIS shares and none of the Income Tax relief must have been withdrawn.

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You may not have to pay Capital Gains Tax on a gain on your disposal of the SEIS shares, even if you did not receive Income Tax relief in full on all your SEIS shares, provided you received some Income Tax relief. In this case, to qualify for disposal relief, none of that Income Tax relief must have been withdrawn and the only reason you did not receive Income Tax relief in full was that your claim reduced your Income Tax liability to nil. If you have no liability to Income Tax before taking account of your subscription for SEIS shares, you will receive no Income Tax relief and any gain on the disposal of the SEIS shares will be chargeable.

Only part of your gain may not be chargeable to Capital Gains Tax if part of the Income Tax relief on those shares has been withdrawn or if your acquisitions in the year exceed the maximum subscription.

### **When is disposal relief not due?**

There is no disposal relief on any gain arising on a disposal within three years of the date the SEIS shares were issued to you. You can find the actual date of issue on the form SEIS3 which the company sent you. If you sell SEIS shares within three years of the date they were issued (and the sale is not to your spouse or civil partner):

- SEIS Income Tax relief in respect of those you sell will be wholly or partly withdrawn
- if you make a gain on the disposal, it will be chargeable to Capital Gains Tax.

### **Can you claim a loss?**

If you make a loss on a disposal of your SEIS shares at any time you can set this loss against your chargeable gains. In computing the loss, you must reduce the cost of your shares by the amount of any Income Tax relief given and not withdrawn.

#### **Example 2 – Where you sell your shares at a loss**

You subscribe £100,000 for 20,000 SEIS shares on 1 May 2012. Income Tax relief of £50,000 is given. Less than three years later you sell all 20,000 shares for £60,000. Income Tax relief of £30,000 is withdrawn. Income Tax relief of £20,000 is not withdrawn and remains attributable to the shares sold.

The allowable loss is calculated as follows:

Disposal proceeds		£60,000
Minus cost	£100,000	
Reduced by the Income Tax relief which has not been withdrawn	(£20,000)	
		(£80,000)
Allowable loss		(£20,000)

Pages CGN 5 and CGN 6 of the *Capital gains summary notes* explain how losses are allowed for capital gains purposes.