The SEIS/EIS Playbook

A practical guide for founders

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Introduction

The benefits of SEIS and EIS are well understood by investors in the UK.

As such, these schemes are incredibly attractive for entrepreneurs who are seeking funding while minimising the risks to those putting their money on the table.

This guide will outline the essential things you need to know about. It will help you navigate the process of applying for SEIS/EIS. And it will point you to all the resources you need to be successful.

Our mission at Vestd is to help as many founders as possible to use equity as a lever for growth. There are plenty of ways to use your equity; raising funds is one of them.

That's why we've created the most founder-friendly application for SEIS/EIS advance assurance. This guide will explain exactly what that is and why it's so worth having.

But to discover the other ways equity can boost your business, book a free consultation with one of our equity experts.

Best of luck with your fundraising journey!

Ifty Nasir
Founder & CEO of Vestd

What is SEIS and EIS?

The Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS) are two of four government venture capital programs that are designed to encourage investment in early-stage and startup companies.

In order to do this, SEIS and EIS provide significant tax benefits for investors and **minimise their at-risk capital by allowing further write-offs against taxes** should the companies they invest in fail.

For companies to qualify for S/EIS they must meet certain criteria, and there are limits and rules that must be followed in order for investors to receive the tax advantages of their investments.

SEIS is designed for early-stage companies and allows a maximum investment of £250,000. The EIS scheme allows up to £12m total investment, and therefore is useful for scaling businesses.

Also, if you are a knowledge-intensive company (KIC) the EIS maximum is increased to £20m.

Both schemes can be used together, however, **SEIS investments must be completed before** EIS in order to qualify.

What are the benefits for investors?

Investors benefit from favourable tax treatment that reduces the risk of their investment, and companies benefit from the investment that enables them to develop and grow.

		SEIS	EIS
Income Tax Relief	Maximum annual investment you can claim relief on	£200,000	£1M - £2M if at least £1M of that is invested in KICs
	Percentage of investment on which you can claim	50%	30%
	Tax relief on income from dividends	No	No
Capital Gains Tax Relief	Gains exempt from CGT when you sell the shares	Yes - if the investor received Income Tax relief	Yes - if the investor received Income Tax relief
	Relief available for capital losses against income	Yes	Yes
	Reinvestment relief	50% relief on CGT providing gains are reinvested in eligible SEIS companies (this is subject to a cap of £100k pa.)	CGT deferral (the gain made can be deferred over the life of the investment)
Inheritance Tax Relief	Inheritance tax relief	100% relief on qualifying investments held for at least two years	

Note: Shares issued through S/EIS must be held for a minimum of three years to receive these benefits.

What companies are eligible for SEIS and EIS?

The eligibility criteria for SEIS and EIS vary between schemes, and there are different criteria for companies and investors.

Rules for companies (both schemes)

- Permanently established in the UK
- Does not belong to a partnership
- Not trading on a public stock exchange
- Is effectively solvent at the date of issue

SEIS

- Trading for less than three years
- Gross assets of less than £350,000
- Fewer than 25 full-time employees

EIS

- Trading for less than seven years
- Gross assets of less than £15m
- Fewer than 250 full-time employees

EIS for KICs

- Trading for less than 10 years or annual turnover exceeds £200,000
- A certain % of overall operating costs must be spent R&D or innovation*
- Fewer than 500 full-time employees

*Learn more about the operating costs condition.

What are the restrictions?

There are restrictions depending on the industry and sector too. Here's a list of 'non-qualifying' or 'excluded' trades and activities.

Companies

Restrictions for both schemes

The following trades are excluded from S/EIS:

- Coal or steel production
- Farming or market gardening
- Leasing activities
- Legal or financial services
- Property development
- Running a hotel
- Running a nursing home
- Generation of energy
- Production of gas or other fuel
- Exporting electricity
- Banking, insurance, debt or financing services
- Dealing in land or commodities

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The following exclusions apply to a holding acquired on or after 6 April 2008:

- Shipbuilding
- Producing coal
- Producing steel

Learn more about qualifying and non-qualifying trades for S/EIS.

Companies

Restrictions by scheme

SEIS restrictions	EIS restrictions	EIS restrictions for KICs
The total lifetime investment cannot exceed £250,000. Cannot have received funding through EIS or a VCT before issuing shares. Does not control another company that isn't a qualifying subsidiary. Must not (and never have been) controlled by another company.	Total lifetime investment cannot exceed £12m. Investment cannot exceed £5m per year. Investment must be received within seven years of the company's first sale. Does not control another company that isn't a qualifying subsidiary. Can't be controlled by another company (or that company own 50% or more). Must own more than 50% of any qualifying subsidiaries.	Total lifetime investment cannot exceed £20m. Investment cannot exceed £10m per year. Investment must be received within 10 years of the company's first sale.

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Rules for investors

- Must invest in an eligible company
- Be liable for UK Income Tax
- Not an employee but can be a director*
- Keep shares for at least three years
- No put option or call option in the first three years
- Receive no value from the company for three years
- No related investment agreement or linked loans
- Pay for your shares upfront
- Not for the purpose of tax-avoidance
- Can't own more than 30% of the company's shares
- Not a spouse, civil partnership, parent, grandparent, child or grandchild.
- Invest less than £200K (SEIS) or £1M (EIS) or £2M for KICs

*Directors are eligible for SEIS/EIS tax relief in certain situations. Learn more.

Read more about S/EIS restrictions.

When should you take investment?

The answer to this question will depend largely on who you ask. Investors and founders will have differing priorities in this area.

Founders

Founders should look for investment when they need it and know how they'll deploy it.

Investment can give founders the opportunity to secure key hires, scale teams, and focus on the development and growth of their business, but it should only be taken if and when it is needed to make these things happen.

It is also worth remembering that many angel investors bring extensive experience, skills, and connections - all of which could be invaluable for an early-stage business.

Investors

For investors, there will be a range of boxes that they will want ticked before handing over their money.

For example, it will be a requirement for many investors (especially Venture Capital firms) that your organisation has an employee share scheme in place before their money goes on the table to minimise subsequent dilution.

At the same time, investors should want teams to have real skin in the game, to incentivise them.

What is advance assurance?

There is significant overlap in terms of the ways that S/EIS work.

There are a number of qualification criteria that must be met in order for investments to qualify for tax relief, and investors will want to be sure that any company they are investing in qualifies before parting with their money.

The only way to do this is to apply for what's known as **advance assurance** from HMRC.

Essentially, this is a way of asking HMRC whether they believe that a company will qualify for S/EIS before actually applying.

Unfortunately, advance assurance does not tell you whether an investor will qualify, and separate applications will also have to be completed for each investment that you wish to take.

Applications for advance assurance can only be completed by:

- A company director
- A corporate secretary
- A trustee (if the enterprise is a charitable trust)

Securing advance assurance will give investors peace of mind.

How to apply for advance assurance

Get investment ready! Apply for SEIS/EIS advance assurance with Vestd.

Applications for advance assurance can be completed on the gov.uk website. Or you can apply through Vestd.

We've created the most comprehensive end-to-end application for SEIS/EIS advance assurance.

Before you begin your application, you can check whether your company is eligible to save you time. And we provide guidance every step of the way, so you have absolute clarity on the conditions your company must meet to get approved.

Once you've received investment through SEIS or EIS, you can issue shares and share certificates to investors directly through the platform. And get a clear view of your company ownership with a digital cap table that updates automatically.

SEIS/EIS advance assurance is free for customers on our Guided plan, or £350 + VAT for customers on all our other plans.

If you're already a Vestd customer, you can find SEIS/EIS in the app navigation.

Otherwise, please book a free consultation to speak to a member of the team to get started.

Checklist for advance assurance applications

Here's a checklist of some of the information you will need for an advance assurance application:

Documents & Information	Status
Your company's Unique Tax Reference (UTR) number.	☐
List of current shareholders in the company at the date of submission of the application.	☐
Names & Registration Numbers of all subsidiaries.	☐
Date of when your company started trading	☐
If you have subsidiaries, then a group structure diagram.	☐
Latest Memorandum & Articles of Association.	☐
Latest available accounts of the company, & of any subsidiary company.	☐
Company's business plan with financial forecasts.	☐
Details & an explanation of why & how you consider the company is a genuine growth company that meets the risk to capital condition (see VCM8500).	☐

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Documents & Information	Status
Details of how the company's proposed trading activities will be structured; include evidence (see VCM8500 and also VCM12050).	☐
Copies & details of any subscription agreement or other side agreement entered into by investors.	☐
The amount of money to be raised by this share issue.	☐
Explain how the company will use the money raised.	☐
Are you applying as a knowledge-intensive company (KIC)?	☐
If 'yes', you'll need to know which KIC threshold(s) your company needs to meet.	☐
Information of all trading or other activities to be carried on by the company and any subsidiary (see VCM12050).	☐
Name & address of at least one investor	☐
Latest prospectus to be issued to potential investors.	☐
Details of all EIS, SEIS, VCTs, SITR and other risk finance investments received by the company.	☐

Preparing a business plan for advance assurance

One of the most important items on the advance assurance checklist is your business plan.

It must be clear to inspectors at HMRC how you plan to use your S/EIS investment to develop and grow your business.

Here are some of the must-haves for your business plan:

- Clearly explain what your company does.
- Highlight the gap in the market you are trying to fill.
- Write in plain English.
- Describe the day-to-day operations of your business.
- Identify the market you are/will be operating in.
- Outline products and services clearly.
- Include details of any trademarks, patents, or any other intellectual property, and who will own these rights.
- Highlight how many full-time equivalent employees your business will have when shares are issued.
- Give details of any outsourced work - this can decrease your chances of getting advance assurance.
- Include details of revenue/income streams.
- Highlight the potential size of the market, as well as any key competitors.

The dos and don'ts of S/EIS

From the outside, applying for advance assurance and receiving investment through S/EIS can seem complicated and arcane. That's why we've developed a guided process to give you the confidence that you're doing the right thing.
But as with most complex processes, it's always good to take a look at what others have done and learn from their mistakes.

Do

- Make sure you complete the correct forms.
- Have a clear and concise business plan.
- Keep your business plan under 10 pages long.
- Make sure that investors hold S/EIS shares for at least three years.
- Ensure that an investor's ownership does not exceed 30%.
- Issue shares once investment has been received (not before).
- Issue ordinary full-risk shares to investors under S/EIS.
- Check for updates to the S/EIS legislation regularly.

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Don’t

- Issue shares through EIS or any other VCT investment before SEIS.
- Take investment before you’ve received advance assurance.
- Use words with legal meanings (such as ‘partners’ or ‘partnerships’ - use ‘collaborators’ or ‘distributors’ instead) in documents submitted to HMRC.
- Mention investor exits in any documents submitted to HMRC for advance assurance.
- Downplay the risks of investments in any prospectus given to your potential investors.
- Make your business plan unnecessarily long or complex.
- Issue EIS and SEIS shares on the same day.

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What happens after the investment?

Once you have applied for and received advance assurance - and secured your S/EIS funding - there are still some important things to consider in order for the investment, and your company, to remain compliant.

In order for the tax relief to be realised, companies must remain compliant with the criteria discussed earlier.

Completing your compliance statement

Following the completion of your S/EIS fundraise, you will need to complete a formal application for approval from HMRC called a compliance statement (SEIS1 and EIS1).

If you haven't received advance assurance, you will also need to submit your company's:

- Business plan.
- Memorandum and articles of association.
- Last annual accounts and cash flow forecasts.
- Shareholder agreements.
- Prospectus/documents for attracting investment.

Your S/EIS1 must be submitted within two years of share issue or within two years of the end of the tax year in which shares were issued (whichever falls later).

What to do after your S/EIS1 is submitted

Once your compliance statement has been submitted to HMRC, providing your investment complies, they will give your company the authority to issue certificates to the subscribers listed on the compliance statement.

HMRC does this by sending completed S/EIS2 certificates to you by post along with the appropriate number of S/EIS3 certificates.

The former include an authorisation number that will allow the company to issue S/EIS3 certificates to investors.

S/EIS3 certificates confirm that the investment made in the company qualifies for tax relief through the S/EIS schemes.

However, they do not guarantee that investors will continue to qualify for tax relief. Investors can then claim their tax relief in two ways:

- If the investor is submitting their own tax return, then **they must complete the Additional Information (SA101) page** of their tax return, filling out the '**other tax relief**' section.
- If the investor is not submitting their own tax return, they need to **complete pages 3 and 4** of the S/EIS3 document and send it to the HMRC office that handles their tax deductions.
- It is worth noting that it usually takes between four and six weeks from HMRC receiving an S/EIS1 compliance statement for a company to receive S/EIS3 certificates.

  Your S/EIS1 must be submitted within two years of share issue or within two years of the end of the tax year in which shares were issued (whichever falls later).

What happens if the company is sold?

Usually, if S/EIS shares are disposed of before the three years after issue - because the company floats or is sold - the tax relief for investors is lost.

It is possible to enter into pre-sale agreements in which S/EIS shares are reorganised into a new holding in the company by way of a share exchange with HMRC clearances.

These clearances need to be obtained in advance of any transaction.

What happens if the company folds?

If the company becomes insolvent, the capital risk provisions of S/EIS come into play for investors, allowing them to offset losses against income tax.

Resources

Raising investment through S/EIS can be complicated. We've created a **resource centre** for that reason, but you may also find the following links helpful:

All resources are clickable

General Information

- HMRC Venture Capital schemes
- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment Scheme (SEIS)
- How to get SEIS funding for your startup
- Why should I apply for SEIS/EIS?

Restrictions

- Excluded activities

Eligibility

- Knowledge Intensive Company overview
- Eligibility criteria for KICs

General Information

- SEIS1 and EIS1 forms
- Information on S/EIS2 and S/EIS3
- SA101 additional information for tax self-assessment

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Resources

Benefits

- Tax relief for investors

Eligibility

- Eligibility criteria
- Qualifying trades

Talk to us

Not only can we help you kick-start your SEIS/EIS journey with advance assurance, but we can help you unlock the power of equity too.

We specialise in helping UK founders use equity to grow their businesses (share schemes and other equity-based agreements).

As such, if you need any help understanding how to get the best from your equity then book a free discovery call.

We will explore:

- Your company structure
- What you are looking to achieve
- The best scheme types for your needs
- Setting conditions and milestones
- How to protect existing shareholders
- The costs and tax implications

We'll also answer any questions you have about sharing ownership. There's no obligation to use Vestd but if you'd like a demo then we'll show you the platform too.

vestd

Vestd is the platform of choice for UK SMEs issuing shares and options. We help businesses create, execute and manage shares & options schemes simply and affordably.

Vestd Ltd is authorised and regulated by the Financial Conduct Authority (685992).