The SEIS scheme

The Seed Enterprise Investment Scheme (SEIS) is one of the UK's most powerful tools for helping very early-stage businesses raise investment. It works by offering generous tax reliefs to investors who buy new shares in young companies, making it easier for founders to attract capital at the riskiest stage of growth.

What SEIS is designed to do

SEIS helps a company raise up to **£250,000** in its earliest years by making investment more attractive to individuals. Investors receive benefits such as income tax relief and capital gains tax advantages, but only if the company meets strict eligibility rules and uses the money for genuine growth.

The scheme is aimed at businesses that are:

- very early stage
- UK-based
- carrying out a new qualifying trade
- small in size (assets under £350,000 and fewer than 25 employees)

How SEIS works for a business

To use SEIS, a company raises money by issuing **brand-new ordinary shares** to investors. These shares must be full-risk: no special rights, no guarantees, and investors must pay in cash at the time of issue.

The money raised must be spent within **three years** on:

- a qualifying trade
- preparing to trade
- research and development leading to a qualifying trade

It cannot be used to buy another business or pay off existing debts.

Eligibility checklist for small business owners

A company can apply for SEIS if it meets all of the following:

- **Trading for less than three years**
- **Gross assets under £350,000** at the time shares are issued
- **Fewer than 25 employees**
- **Not listed** on a recognised stock exchange and no plans to become listed
- **Not controlled** by another company
- **Carrying out a new qualifying trade** (not excluded activities)

- **Has not previously raised investment through EIS or VCT** schemes

These conditions ensure SEIS is reserved for genuinely early-stage, high-risk ventures.

What a small business owner must do to apply

Applying for SEIS involves two main stages: **Advance Assurance** (optional but recommended) and **Compliance** (mandatory after investment).

1. Check eligibility and prepare

Before applying, the founder must confirm the company meets all SEIS rules and the "risk-to-capital" condition—meaning the investment is genuinely at risk and intended for growth.

2. (Optional but helpful) Apply for Advance Assurance

Advance Assurance is a pre-approval from HMRC that reassures investors they will qualify for SEIS tax relief. While not required, it is often essential for closing a funding round.

3. Issue the shares

Once investors commit, the company issues new ordinary shares and receives the investment funds.

4. Submit the SEIS1 compliance statement

After the company has spent some of the money on qualifying activities, it must submit form **SEIS1** to HMRC Apply to use the Seed Enterprise Investment Scheme to raise money for your company - GOV.UK. This confirms the investment meets all SEIS rules.

5. Provide SEIS3 certificates to investors

If HMRC approves the SEIS1, they issue **SEIS3 certificates**, which the company passes to investors so they can claim their tax relief.

What happens next

The company must continue to follow SEIS rules for **three years** after the investment. If it breaks the rules, e.g. by changing its trade or returning capital to investors HMRC can withdraw the tax relief.

Why SEIS matters for founders

For small and micro businesses, SEIS can be transformative because it:

- reduces investor risk, making fundraising easier
- brings in early capital for product development, hiring, or market entry
- signals credibility to future investors
- can be combined with later EIS rounds (but SEIS must come first)

SEIS readiness

1. Confirm basic company eligibility

- **UK company:**
    - Company is registered in the UK and has a UK permanent establishment.
- **Age of company:**
    - Company has been trading for **less than 3 years** at the time of share issue.
- **Size limits:**
    - Fewer than **25 full-time equivalent employees**.
    - **Gross assets under £350,000** immediately before the SEIS share issue.
- **Independence:**
    - Not controlled by another company.
    - Not listed on a recognised stock exchange and no plans to list.
- **Funding cap:**
    - Total SEIS investment (including this round) will not exceed **£250,000**.

2. Check trade and activity eligibility

- **Qualifying trade:**
    - Main business activity is a **qualifying trade** (not mainly in excluded activities such as property development, financial services, energy generation, etc.).
- **New trade:**
    - Trade is **new** (not previously carried on by another person or company).
- **Risk-to-capital condition:**
    - Investment will be used to grow and develop the business.
    - Investor's capital is genuinely at risk (no guarantees, no artificial structures).

3. Get the company structure and shares right

- **Share type:**
    - SEIS shares will be **new, ordinary shares**.
    - No preferential rights to dividends, assets on winding up, or redemption.
- **Voting rights:**
    - Shares carry normal voting rights (or none), but no special protections that reduce risk.

- **No pre-arranged exits:**
  - No agreements in place to buy back shares or guarantee investor returns.

4. Plan how the SEIS money will be used

- **Use of funds:**
  - Funds will be spent within **3 years** on:
    - a qualifying trade,
    - preparing to trade, or
    - R&D leading to a qualifying trade.
- **No disallowed uses:**
  - Money will **not** be used to:
    - buy another business or shares,
    - repay existing loans, or
    - pay out to founders or connected persons.
- **Business plan and forecasts:**
  - Clear written plan showing:
    - how much is being raised,
    - what it will be spent on,
    - how it supports growth.

5. Prepare for Advance Assurance (strongly recommended)

- **Documents ready:**
  - Latest **business plan and financial forecasts**.
  - **Cap table** (current and post-investment).
  - Details of any **previous state aid / risk finance** received.
  - Draft **term sheet** or outline of investment terms.
- **Advance Assurance application:**
  - Complete HMRC's **Advance Assurance** form for SEIS (and EIS if relevant).
  - Include details of at least one potential investor (even if indicative).
- **File and wait:**
  - Submit to HMRC and keep a copy for investors.

  - Use the Advance Assurance letter as part of your investor pack.

6. Get investor and process readiness in place

- **Investor eligibility awareness:**
  - You understand that investors must be individuals (or certain funds) and not "connected" in disqualifying ways (e.g. too large a shareholding or employment in some cases).
- **Share issue process:**
  - You know how and when shares will be issued (on completion, not later).
  - Cash will be fully paid for the shares at the time of issue.
- **Record-keeping:**
  - Board minutes approving the share issue.
  - Updated statutory registers and Companies House filings.

7. Plan for SEIS compliance after the raise

- **SEIS1 form:**
  - You know you must submit **SEIS1** to HMRC **after**:
    - the company has started trading, and
    - at least some of the SEIS money has been spent on qualifying activity.
- **SEIS3 certificates:**
  - Once HMRC approves SEIS1, you will receive authority to issue **SEIS3 certificates** to investors so they can claim tax relief.
- **Ongoing compliance (3-year period):**
  - You understand the company must, for 3 years after the share issue:
    - continue to meet SEIS conditions,
    - not change to a non-qualifying trade,
    - not return capital or provide value to investors in disqualifying ways.

8. Final "ready to raise under SEIS" check

- **All eligibility tests passed?**
- **Business plan and use of funds clearly documented?**
- **Advance Assurance submitted or obtained?**
- **Legal/share structure aligned with SEIS rules?**

- **Internal records and processes ready for SEIS1 and SEIS3?**

If the answer is "yes" to all of these, the business is effectively **SEIS-ready** and can confidently present itself as such in investor materials and toolkits.

What is a 'qualifying trade' under the SEIS scheme?

A *qualifying trade* under the Seed Enterprise Investment Scheme (SEIS) is a commercial, profit-seeking business activity that **does not consist to a substantial extent of any of HMRC's excluded activities**. This definition is set out in HMRC's Venture Capital Schemes Manual and applies to both SEIS and EIS.

What HMRC means by a "qualifying trade"

A qualifying trade must meet three core conditions:

- **It is carried on with a view to profit.** The company must be genuinely trading on a commercial basis, not holding investments or operating as a passive vehicle.
- **It is not substantially made up of excluded activities.** HMRC allows some incidental involvement, but excluded activities cannot form a "substantial" part of the business.
- **It is a new trade.** For SEIS specifically, the company must exist wholly for the purpose of carrying on a *new* qualifying trade or be preparing to do so.

Research and development that leads to a qualifying trade also counts as qualifying activity.

Activities that *do* qualify

Most ordinary commercial trades qualify, provided they are run with the intention of generating profit and do not fall into excluded categories. Examples include:

- Technology and software development (where licensing relates to self-created IP)
- Manufacturing
- Retail and wholesale (normal trading of goods)
- Creative industries
- Food and drink businesses
- Professional services *other than* legal or accountancy services

These are not exhaustive, but they illustrate the broad range of acceptable trades.

Activities that *do not* qualify (excluded activities)

HMRC maintains a list of excluded activities. If a company carries out these to a substantial extent, it cannot qualify for SEIS. Key exclusions include:

- **Dealing in land, commodities, futures, shares, or other financial instruments**

- **Financial services**, including banking, insurance, money-lending, debt factoring, hire-purchase financing
- **Property development**
- **Leasing or letting assets**
- **Receiving royalties or licence fees** (unless from self-created IP such as software)
- **Legal or accountancy services**
- **Farming, market gardening, forestry, timber production**
- **Shipbuilding, coal production, steel production**
- **Operating or managing hotels, nursing homes, or residential care homes**
- **Electricity generation** (with limited exceptions for hydro, anaerobic digestion, or certain community energy structures)
- **Providing services to a business whose main activity is excluded**, where the same person controls both companies

These exclusions are strict, but some have caveats, for example, software licensing can qualify if the company created the IP itself.

How HMRC assesses "substantial extent"

HMRC does not define a fixed percentage, but guidance suggests that if excluded activities make up more than around 20% of the company's activities, measured by turnover, assets, time spent, or other indicators, the trade may be disqualified. This is assessed case by case.

Why this matters for founders

Getting the trade classification wrong can jeopardise an entire funding round. Investors rely on SEIS relief, and HMRC can refuse or withdraw relief if the trade is later found to be non-qualifying. This is why most founders seek **Advance Assurance** before raising.

If you're preparing SEIS guidance for SMEs, would it help to map out the most common "grey areas" where founders accidentally fall into excluded activities, such as platforms, fintech-adjacent models, or mixed-trade businesses?

Please map out the most common grey areas where founders accidentally fall into excluded activities, such as platforms, fintech-adjacent models or mixed-trade businesses

The grey areas around SEIS are where founders *think* they qualify, but HMRC later decides the business is carrying out an **excluded activity to a "substantial extent"**. These are the cases that most often derail Advance Assurance or SEIS1 approval.

The following map breaks down the **most common traps**, why they happen, and how founders can structure their model to stay compliant.

Platform businesses: when "facilitating" becomes "providing services to an excluded trade"

Why platforms are risky

Platforms often sit between buyers and sellers, and HMRC looks closely at **what the platform actually does**, not how the founder describes it. Problems arise when the platform:

- handles payments
- sets prices
- takes possession of goods
- provides services to a business engaged in an excluded activity
- resembles a financial intermediary

Common pitfalls

- **Marketplace for property rentals** can be seen as providing services to a property business (excluded).
- **Marketplace for financial products** may fall into financial services.
- **Marketplace for second-hand goods** if the platform takes ownership of goods, it may be "dealing in goods" rather than providing software.
- **Gig-economy platforms** if the platform is too involved in the underlying service, HMRC may treat it as carrying out that service.

How to stay compliant

- Ensure the company's **core activity is software development**, not the underlying trade.
- Keep the platform's role to **facilitation**, not execution.
- Avoid taking possession of goods or setting prices.
- Make clear that revenue comes from **software/IP**, not from the excluded activity.

Fintech-adjacent models: where innovation looks like financial services

Why fintech is tricky

Financial services are explicitly excluded. Many fintech startups unintentionally cross into:

- money-lending
- insurance
- investment management
- payment services
- credit broking

Common pitfalls

- **Wallet apps** that hold client money.
- **Buy-now-pay-later models** that constitute lending.
- **Savings or investment apps** that manage or advise on portfolios.
- **Insurance comparison platforms** that receive commission.
- **Crypto exchanges** that deal in financial instruments.

How to stay compliant

- Focus on **software/IP creation**, not handling money.
- Avoid regulated activities unless the company is purely a tech provider.
- Structure the model so the company provides **tools**, not **financial products**.
- Use clear language in the business plan: “software”, “analytics”, “infrastructure”, not “lending”, “investing”, “managing”.

Mixed-trade businesses: when a qualifying trade is diluted by an excluded one

Why mixed trades fail

HMRC assesses whether excluded activities make up a **substantial part** of the business. There is no fixed percentage, but anything around or above 20% (by turnover, assets, time, or intention) is risky.

Common pitfalls

- **Retailers with a large rental arm** (letting jewellery, equipment, vehicles).
- **Food businesses with significant catering or hospitality operations** (hotels, cafés inside shops).
- **Software companies that also license third-party IP** (royalties from non-self-created IP are excluded).
- **Manufacturers who also lease equipment**.
- **Creative studios that also run a property-based coworking space**.

How to stay compliant

- Separate excluded activities into a **different legal entity**.
- Ensure the SEIS company’s **main purpose** is the qualifying trade.
- Keep excluded activities incidental and clearly documented as such.
- Demonstrate that future growth is driven by the qualifying trade.

IP-based businesses: when royalties become disqualifying

Why this is confusing

Royalties and licence fees are excluded *unless* they come from **self-created intellectual property**.

Common pitfalls

- Licensing third-party content or white-label software.
- Acting as a reseller of someone else's IP.
- Using contractors to create IP without proper assignment.

How to stay compliant

- Ensure all IP is **created in-house** and properly assigned.
- Document development work clearly.
- Avoid business models based on reselling or sublicensing external IP.

Property-adjacent models: where "tech for property" looks like property development

Why founders get caught

Proptech is allowed. Property development is not. The line between them is thin.

Common pitfalls

- Platforms that source, refurbish, or manage properties.
- Businesses that buy property to demonstrate their tech.
- Models where the company takes a share of rental income.
- "Rent-to-rent" or serviced accommodation models.

How to stay compliant

- Keep the business focused on **software**, **data**, or **analytics**.
- Avoid owning, managing, or developing property.
- Ensure revenue comes from **tech**, not property income.

Service companies supporting excluded trades: the hidden trap

Why this catches founders out

If a company provides services to a business engaged in an excluded activity **and both are controlled by the same person**, the service company is also excluded.

Common pitfalls

- A founder owns a property company and a tech company that services it.
- A founder owns a financial services firm and a software company that supports it.

- A founder owns a hospitality business and a supplier business.

How to stay compliant

- Avoid cross-ownership structures where one company supports an excluded trade.
- Keep the SEIS company independent from any excluded-trade entities.
- Document arm's-length relationships.

Subscription and membership models: when recurring revenue masks excluded activity

Why this is grey

Subscriptions are fine—but what the subscription *buys* matters.

Common pitfalls

- Subscriptions that include equipment leasing.
- Memberships that include accommodation or hospitality.
- Subscription boxes that involve dealing in second-hand goods.

How to stay compliant

- Ensure subscriptions relate to **services**, **software**, or **products**, not excluded activities.
- Avoid bundling excluded activities into the subscription.

The single biggest pattern across all grey areas

Founders describe their business as **tech**, **platform**, or **software**, but HMRC looks at:

- what the company *actually does*
- how it earns money
- where the risk sits
- what the business plan emphasises
- what the company will do with SEIS funds

If the underlying activity is excluded, calling it "tech" won't save it.