Private Client Tax

Enterprise Investment Scheme (EIS) Factsheet

There are three schemes by which the Government seeks to make investment in small/start up companies more attractive to investors by offering tax relief.

These are EIS, VCT and SEIS. SEIS has broadly the same rules as EIS, but is for smaller companies, has a smaller maximum investment limit, but a greater rate of tax relief to reflect the additional risk.

The **Enterprise Investment Scheme (EIS)** and **Seed Enterprise Investment Scheme (SEIS)** offer significant advantages to individuals investing directly in small unquoted companies, provided both the investment and the company meet certain criteria.

For full **EIS** income tax relief, the shares in the **EIS** company must be ordinary shares that have been subscribed for by the individual, they must be held for at least three years, and the investor must not be connected with the company, which is defined as holding more than **30%** of the share capital, or by being an employee/director, both of which also include associates' interests.

The investment is often made directly into the company but it is possible to get relief for **EIS** funds. The company must be unquoted (to include **AIM** listed shares), invest the funds within certain time limits, and undertake a qualifying trading activity. There are also limits on the number of employees , net assets of the company and on the amount raised under **EIS.** The company must maintain its qualifying status for the minimum holding period.

Qualifying investments receive income tax relief at **30%**, and it is necessary to have paid at least this amount of tax in the tax year of investment to qualify for income tax relief. It is possible to carry investment back as if it were treated as paid in the earlier year to obtain relief if preferred.

If shares qualify for income tax relief, they will also automatically qualify for **CGT** relief in that no **CGT** will arise on any gain on the shares provided they are held for the minimum period. Tax losses are available if the shares value is reduced to nil, but this is reduced by any income tax relief obtained. In most circumstances an **EIS** loss may be utilised against income or gains.

Separately, it is possible to claim **CGT** deferral relief, whereby gains arising on the disposal of other assets may be deferred by the 'reinvestment' of the gain into **EIS** shares.

The gain will fall back into charge when the **EIS** shares are disposed of. Finally, after two years, as unquoted shares the investment would also qualify for **100% BPR** from **IHT,** meaning there