ENVESTRY

Tip Sheet on

Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) Tax Relief

Disclaimer: Please note, owing to constant changes in tax legislation, the content of this Tipsheet may not be fully up to date. Also, each individual's tax situation will differ. As such the reader should seek advice from a professional tax advisor in order to obtain up to date tax information pertinent to their individual circumstances.

1 What is the Enterprise Investment Scheme (EIS)?

The Enterprise Investment Scheme (EIS) is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.

2 What are the tax benefits to the INVESTOR of the EIS?

The key benefits can include:

a) Income tax relief of 30% of the amount subscribed for eligible shares
b) Exemption from Capital Gains Tax (CGT) on any gains from selling your EIS shares
c) Further income tax relief at top rate of income tax (40% or 45%) for any losses made on the disposal of EIS shares and
d) Unlimited deferral of capital gains

3 Can you give an example of the EIS relief?

		40% Tax Payer		45% Tax Payer		
Initial investment		£	10,000	£	10,000	**A**
Tax relief	30%	£	3,000	£	3,000	**B**
'Real' Initial Investment		£	7,000	£	7,000	**C**
In the event of the company failing totally						
Disposal of shares ("£0" for total loss)		£	-			
Effective loss		£	10,000	£	10,000	**=A**
Further tax relief on		£	7,000	£	7,000	**=C**
Further tax relief		£	2,800	£	3,150	**D**
Total at risk		**£**	**4,200**	**£**	**3,850**	**A-(B+D)**

Due to the interaction of the above loss reliefs, an investor may be eligible for income tax relief of up to 61.5% of his/her original investment in the event of a total loss.

4 What makes a COMPANY qualify so it can offer tax under EIS?

There are a number of conditions a Company must meet before qualifying. Below are some key rules For full information, please visit (please note, URLs can change):
https://www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction/enterprise-investment-scheme

Throughout its relevant three-year qualifying period, the company must:

- Be an unquoted company
- Be a trading company, carrying on a qualifying trade or have a 90% subsidiary which does so
- Exist for genuine commercial purposes, and not be part of a scheme for the avoidance of tax
- Not be a 51% subsidiary of another company, or otherwise be under the control of another company
- The company issuing the eligible shares must have a "permanent establishment" in the UK.

In addition:

- An investor cannot be 'connected' with the EIS company, i.e. he or she cannot own more than 30% of the shares, directly or indirectly
- Individuals who are paid directors or employees of the EIS company at the time of the issue of shares are normally disqualified from claiming EIS relief. Qualifying investors can in certain circumstances be paid for their work as a director, provided they were not involved in carrying on the trade of the company and had not received remuneration up to the point of making the investment
- The money raised by the EIS share issue must be wholly used for the qualifying business activity
- Schemes that involve guarantees of exit arrangements will not attract tax relief i.e. shares have to be straight ordinary shares
- The company must have a maximum of 249 employees and less than £15m and £16m of gross assets immediately before and after the investment respectively
- The amount of investment which a company can raise through EIS is £5m in any 12 month period
- The annual amount that an individual can invest in qualifying EIS companies is £1m.

5 Are there certain sectors or trades which are excluded from EIS?

Yes, the investee Company has to undertake a "qualifying trade". The definition of qualifying trades is quite extensive and includes most types of businesses activity.

However, certain activities are excludes, such as most dealing operations, banking, leasing, legal, and accounting services. Also excluded are those trades considered to be 'asset backed' (farming, forestry, property development, hotels, and nursing homes).

6 How do I reclaim EIS relief (for investors)

A company in which you have invested should provide you with a EIS 3 form, usually four months after the investment has been made. You will need to enter the total EIS investment amount on your tax return. This will come off your next tax bill or a repayment will be received.

7 What is the Seed Enterprise Investment Scheme (SEIS)?

The Seed Enterprise Investment Scheme (SEIS) was described as "one of the best tax breaks on offer" James McKeigue, Moneyweek, offering a tax relief of 50% for all taxpaying investors, regardless of their marginal tax rate.

8 What is the tax relief on an investment made under the SEIS?

The rate of Income Tax relief given to investors in SEIS companies is 50%.

9 Does the 50% tax relief depend upon your higher level of tax?

No, the 50% rate is available to all UK tax payers, regardless of your marginal rate.

10 Can you give an example of the SEIS relief?

		40% Tax Payer		45% Tax Payer		
Initial investment		£	10,000	£	10,000	**A**
Tax relief	50%	£	5,000	£	5,000	**B**
'Real' Initial Investment		£	5,000	£	5,000	**C**
In the event of the company failing totally						
Disposal of shares ("£0" for total loss)		£	-			
Effective loss		£	10,000	£	10,000	**=A**
Further tax relief on		£	5,000	£	5,000	**=C**
Further tax relief		£	2,000	£	2,250	**D**
Total at risk		**£**	**3,000**	**£**	**2,750**	**A-(B+D)**

Due to the interaction of the above loss reliefs, an investor may be eligible for income tax relief of up to 61.5% of his/her original investment in the event of a total loss.

11 What size of business can I invest in?

The company must be unquoted, have 25 or fewer employees and assets of up to a maximum of £200,000 at the point of investment.

12 How much can I invest?

Up to £100,000 in a start-up company per tax year.

13 What is the maximum equity financing a Company can raise under SEIS?

The maximum cumulative investment in one company is £150,000 per three year period.

14 What else should I know?

- The investment must be in a new business. Broadly, any trade carried on by the company must be less than 2 years old at the date of the relevant share issue.
- Directors or executives cannot use the scheme to invest in their own companies if they hold more than 30% of the equity to the relevant company.
- HMRC will run checks to make sure that a business hasn't just been set up to access the relief.
- The combined effect of the CGT holiday and the income tax break offers relief of up to 72.5% in the first year.

15 Where can I get more information?

EIS: https://www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction/enterprise-investment-scheme

SEIS: https://www.gov.uk/guidance/seed-enterprise-investment-scheme-background