Introduction

Investing in smaller businesses is often viewed as risky. There can, though, be significant tax incentives for investing in some companies, that help to mitigate economic risk.

For those companies looking for alternatives to bank funding, the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) are options well worth exploring. In relation to the EIS and SEIS, tax relief is potentially available to owner-managers of businesses, as well as outside investors.

In this guide, we examine the three main types of investment available: EIS, SEIS and funding from VCTs, which can be an important source of financial support for smaller businesses. Social Investment Tax Relief (SITR) is not covered in this brochure.

Under the EIS and SEIS, individuals invest directly in unquoted trading companies. Under the VCT scheme they invest in a quoted vehicle whose managers invest funds in such companies (‘investee’ companies).

These three schemes have some characteristics in common but a number of important differences. The appendix on pages 18 to 19 provides a comparison between them.

The reliefs that investors are likely to be most interested in are:

- Income tax relief on investment
- Capital gains tax (CGT) relief on sale of EIS/SEIS/VCT shares
- CGT exemption on other gains by re-investing in a SEIS company
- CGT deferral under EIS
- Tax-free dividends on VCT shares
- Inheritance tax (IHT) relief under EIS and SEIS.

This guide is based on legislation and information available as of September 2017.

Adrian Walton
Partner, Business Tax

With tax relief options on income tax, CGT and IHT, the EIS and SEIS could be the last of the great tax breaks.
Qualifying individuals

EIS
Investors must be individuals to qualify for income tax relief. In addition, they must be resident in the UK if they are to qualify for CGT deferral relief.

Trustees of certain trusts can obtain CGT deferral relief, but not income tax or CGT-free sales.

Broadly, the individual must not be connected with the company in which he or she invests in a period beginning two years before the share issue and ending three years after the later of the issue of the shares or commencement of trade.

This means:
• The investor and his or her associates must not own more than 30% of the ordinary shares, or the voting rights, or the total issued share capital, or assets on a winding up. (Associates include business partners and direct relations, being spouse or civil partner, grandparents, parents, children and grandchildren — but not brothers or sisters — in addition to trustees of certain trusts.)
• The investory must not:
  – be a paid director of the company except in limited circumstances;
  – receive value from the company, such as repayment of certain loans, receipt of excessive dividends, assets transferred at an under/over value, repayment of share capital: and/or
  – an employee of the company or any of its 51% subsidiaries.

All investors seeking relief under EIS have to be independent from the qualifying company at the time of the relevant share issue. If the individual holds shares at the time of the EIS investment, he or she must have acquired those shares as either subscriber shares or from a previous issue qualifying for EIS, SEIS or Social Investment Tax Relief.

The rules are complex and have not been covered here in detail. This guide provides an overview of the rules only and professional advice should always be sought.

In addition, not all the above conditions apply if only CGT deferral is being claimed.

Seed EIS
The rules governing qualifying individuals for SEIS are summarised as follows:
• The investor must not own more than 30% of the ordinary share capital, the issued share capital, the voting power, or rights to assets on a winding up.
• Past (but not current) employees to qualify for relief.
• Directors who qualify under SEIS continue to qualify under EIS (provided the EIS shares are issued before the third anniversary of the last date of issue of SEIS shares).

VCT
To receive VCT income tax relief an investor needs to be aged 18 or over. Trustees cannot qualify for this relief. There are complex provisions that can deny income tax relief where the investment is financed by loans.

VCTs/EISs are unquoted investments which are highly illiquid, with investors potentially having difficulty in realising their investment at a given time. They should therefore only be considered as a long term investment, i.e over five years. They also carry the risk of potentially losing all or part of your capital investment and therefore the return of your capital is not guaranteed.
You don’t have to be an investment professional or venture capital specialist to take advantage of EIS and/or SEIS. One of the great things about EIS and SEIS is that they present ordinary investors with the opportunity to invest in exciting growth companies.
Currently, the aggregate annual funding limit under the venture capital schemes is £5m. This is on a rolling twelve-month period, with no reference to tax years or financial years. The venture capital schemes comprise EIS, SEIS, SITR (Social Investment Tax Relief) and investment by VCTs. In addition, there is now a £12m lifetime cap on total venture capital investment a company can receive ($20m for knowledge-intensive companies).

**EIS**

Under current rules, the value of the gross assets of the company (or group if appropriate) must not exceed £15m immediately before the investment takes place and £16m immediately thereafter.

To qualify for the scheme, the company must not be ‘in difficulty’, under the EU guidelines on State Aid for rescuing and restructuring firms in difficulty, and investments must be made for the purpose of growing and developing the business.

Investment must be into new ordinary shares that, in general, have no preferential rights.

The company must be unquoted although it could become quoted in the relevant period (three years from the later of the share issue or commencement of trade) without loss of relief, if no prior arrangements for a quotation were in place. AIM qualifies as unquoted for this purpose.

The company issuing the eligible shares must have a ‘permanent establishment’ (essentially a fixed place of business) in the UK. The funds raised must be used in qualifying activities within 24 months of the later of the share issue and commencement of trade.

Additional requirements include:

- The first commercial sale of a qualifying company or the relevant trade must be less than seven years ago when receiving their EIS (or VCT) investment (ten years for ‘knowledge intensive’ companies). This rule will not apply where the investment represents more than 50% of turnover averaged over the preceding five years and the money is wholly used for entering a new product or geographic market.

- In this respect an investment will qualify for EIS/VCT relief (if all other conditions are satisfied) if a previous SEIS/EIS/VCT investment was made in the relevant seven/ten year period.

- There will also be a £12m cap on total venture capital investment a company can receive (£20m for knowledge intensive companies).

- Knowledge intensive companies are broadly ones that are innovative, with significant R&D expenditure, and they must meet criteria relating to employee skills and the future commercial exploitation of intellectual property. There are various tests to be met, which are not detailed here.

Certain trades are specifically excluded, including:

- dealing in property, shares, commodities and other financial instruments;
- property investment and development;
- insurance and banking (though not insurance broking);
- leasing;
- legal and accounting services;
- farming, market gardening and forestry activities;
- hotels and nursing homes;
- exploitation of intellectual property rights (not created by the company);
- ship building;
- coal and steel production;
- subsidised generation or export of electricity attracting FIT subsidies: and/or
- any energy generation.

In addition, the company must not be under the control of another company and is restricted as to how it holds shares in subsidiaries.
Seed EIS
The rules governing qualifying companies for SEIS are summarised as follows:

- In order to qualify for the SEIS, a company must be undertaking, or planning to undertake, a new business which has fewer than 25 full-time employees and gross assets of not more than £200,000 at the time of the SEIS investment.
- Qualifying companies will be able to raise up to £150,000 under the scheme, and the funds raised must be used within three years.
- Companies can qualify in certain circumstances if they have subsidiaries.
- Eligibility is determined by reference to the age of the trade, rather than the company. Any trade being carried on by the company at the date of the relevant share issue must be less than two years old at that date, whether the trade was carried on by the company or another person. For example, an individual carrying on a restaurant business established for more than two years in one location could not use SEIS to set up a company to buy that business. He or she could, however, set up an SEIS company to start a new restaurant business at another location.

VCT
A VCT cannot be a close company and must have received HMRC’s approval to operate as a VCT. Broadly similar rules to the above apply to define the types of companies in which a VCT can invest. A VCT may, however, have up to 30% of its investments in other assets such as fixed interest stocks, i.e. at least 70% by value of its investments must be represented by shares or securities in qualifying companies. Of the 70% of investments that must be in qualifying companies, at least 70% of this must be in ‘qualifying ordinary shares’; for example ordinary, non-redeemable shares (though please note recent changes to allow certain preferential rights in relation to dividends).

There is a three-year grace period for satisfying these conditions for new VCTs. The VCT’s shares must be admitted to trading on an EU regulated market. Any money held by a VCT, or held on its behalf, is treated as an investment for the purpose of these tests even if the funds are held on non-interest bearing accounts. No more than 15% of the value of a VCT’s investments can be represented by shares in any one company.

In addition, a VCT is not allowed to invest in companies that breach the aggregate annual funding limit (from SEIS, EIS and VCT sources).

You can’t use the EIS and VCTs to invest in all business types. Some business activities are excluded, such as property development, hotels, farming and some financial services.
8 Investing in companies
Overview of significant changes in recent years

Significant changes that have been made over the past few years include the following:

- Clarification that investors are disqualified from claiming SEIS/EIS income tax relief if, together with associates, their shareholding or voting power exceeds 30% (previously there was an additional a 30% test for the aggregate of issued share capital and loans made to a company).
- Replicating the definition of eligible shares for EIS purposes to that used for VCTs with respect to certain preferential rights in relation to dividends. Previously, shares with certain preferential rights were excluded.
- Shares issued in connection with ‘disqualifying arrangements’ will not attract SEIS, EIS or VCT relief. This has been designed to catch the following two scenarios:
  (i) where the whole or majority of the amounts raised is paid to or for the benefit of another party:
  (ii) in the absence of arrangements, it would have been reasonable to expect that the qualifying activities would have been carried on as part of another business.
- For some time, HMRC has wanted to target companies specifically set up for EIS/VCT purposes that fulfil a financing role but have no real commercial substance; typically, with no employees or premises. These changes are designed to stop the scenario where all or most of the trading activities are sub-contracted to another party or parties.
- Tax relief will also not be available under SEIS/EIS or from VCTs where the funds raised are to be used to acquire shares in another company. This particularly impacts on typical management buy-out and buy-in structures. For shares issued on or after 18 November 2015, this restriction was extended to disallow the acquisition of trade and assets, and intangible assets to be used in a trade.
- Removal of the £1m a year limit on investment by a VCT in a single company (except for companies in a partnership or a joint venture).
- Removal of the £500 minimum investment limit for EIS investments.
Income tax relief on investment/dividends

**EIS**
Individuals can currently obtain an income tax credit of 30% on a maximum investment of £1m in cash for newly-issued shares in a single tax year. The maximum income tax relief is therefore, £300,000. The credit is set off against the individual’s tax liability but he or she must have an income tax liability sufficient to cover the credit in order to obtain the relief in full. The relief can only reduce the income tax liability to nil.

An individual may carry back any EIS income tax relief arising at any time in an income tax year, to the previous income tax year. This is subject to the overall cap for each income tax year, and subject to the individual having sufficient income to utilise the relief.

Income tax relief will be partially or wholly withdrawn if the relevant shares are disposed of within three years of acquisition or within three years of the company starting to trade if later, or if the investor or company ceases to qualify within that period, or if the investor receives value in that period or the 12 months prior to the share issue.

Income tax relief will not be withdrawn if the company becomes quoted within three years of the qualifying investment, so long as this was not part of a pre-arranged scheme.

Dividends from EIS companies are taxable in the normal way.

**SEIS**
The rate of income tax relief is 50% on a maximum annual investment of £100,000 each tax year. A one-year carry back facility is available.

Income tax relief is given as a credit against the individual’s income tax liability for the year of subscription.

Income tax relief will be partially or wholly withdrawn if the SEIS shares are disposed of within three years of the date of issue, the investor receives value in that period, or the relief is subsequently found not to have been due.

Dividends are taxable in the normal way.

**VCT**
The rate of income tax relief is 30% on a maximum annual investment of £200,000 each tax year. No carry back facility is available.

Income tax relief is given as a credit against the individual’s income tax liability for the year of subscription.

Income tax relief will be withdrawn if the VCT ceases to qualify within five years of the issue of shares or if the shares are disposed of within five years of issue.

Dividends in respect of up to £200,000 of VCT investment a year are free of income tax. This, unlike the income tax relief on subscriptions, is also available on ‘second-hand’ shares as well as newly issued ones.
Capital gains tax relief on sale of shares

**EIS**
As long as income tax relief was given on shares subscribed for and not withdrawn then those shares will be free of CGT when ultimately sold. It follows that the company must carry on its qualifying activity for three years from the date of acquisition of the shares, or three years from commencement of trading, if later. After that time it can carry on non-qualifying activities, including carrying on an investment business, and the shares will still be free of CGT when sold.

In cases where a disposal of EIS shares does not meet the tests for CGT exemption (as EIS income tax relief has been withdrawn or not available in the first place), the relevant EIS shares will be subject to CGT on a disposal.

The current rates of CGT that apply to an individual for disposals of interests in shares are:
- 10% for gains qualifying for entrepreneurs’ relief (ER), including the extension to ER for the new investors’ tax relief to be introduced in Finance Act 2016, within the lifetime allowances (but see below on interaction with ER);
- 18% to the extent that there is any income tax basic rate band not being used against income (or ‘allocated’ against gains taxed at the ER 10% rate); and
- 20% for the remaining gains.

ER is subject to a lifetime allowance, which currently stands at £10m per individual. The new investors’ relief will have its own £10m lifetime allowance for ER purposes.

**SEIS**
Similar to the rules above for EIS, gains on disposals of SEIS shares are exempt from CGT if held for at least three years from the date of issue.

**VCT**
Disposals of VCT shares will be free of CGT as long as the VCT qualified when the shares were bought and sold and provided the amount invested did not exceed the permitted annual maximum of £200,000. Relief is available on shares that were subscribed for or purchased ‘second-hand’.

EIS, SEIS and VCT investments provide capital for smaller unquoted companies. This type of investment is generally considered to be higher risk than mainstream investments, so it is important to assess the investment risks as well as the possible tax breaks.
EIS
Capital gains made on the disposal of any kind of asset can be deferred by reinvestment in EIS companies. The investment must be in newly issued ordinary shares, subscribed for in cash.

Gains that can be deferred are those made on the disposal (not deemed disposal) of a chargeable asset not more than three years before, nor more than one year after, the EIS investment is made.

The maximum gain that can be deferred is not limited to the £1m applicable to EIS income tax relief. It is possible to invest more than that and get deferral relief on the total investment. In addition, deferral relief is available where the investor does not meet the strict conditions of being unconnected with the EIS company. They can, for instance, be the sole shareholder. Deferral relief is not therefore dependent on income tax relief.

The deferred gains will become taxable if:
1. the EIS shares are sold or disposed of other than to a spouse.
2. the EIS shares are exchanged for non-qualifying shares.
3. the EIS shares cease to be eligible shares (e.g. conversion to deferred or preferred shares) within three years of issue or three years of commencement of trade, whichever is the later.
4. the investor becomes non-UK resident within three years of issue or three years of commencement of trade, whichever is the later, unless he or she is going to work full-time offshore for three years or less.
5. an EIS company ceases to qualify for any reason (e.g. starting a non-qualifying trade) in the three years following the issue of the shares, or in the three years from the commencement of trade, whichever is later.
6. the investor receives certain prohibited benefits in the period beginning one year before and ending three years after the issue of the shares or three years after the commencement of trade, whichever is the later. These can include directors’ remuneration, rents, loans or interest, which HMRC regards as excessive. Even a small amount of ‘excessive’ benefit can trigger the whole of the deferred gains although there are de minimis levels. Value can be repaid to the company if it has inadvertently been withdrawn.

The deferred gains will not be taxed on death, or if the shares are transferred to a spouse (though in that case they are taxable on the spouse). Death washes out the deferred gain completely. The death of a life tenant, however, will lead to the crystallisation of a deferred gain when a trust has invested in an EIS company.

An inter-spouse gift means that a later disposal by the donee spouse triggers the deferred gain, which is chargeable on the donee.

Gains that do crystallise can be deferred again by a further EIS investment. It is important to note that there is a risk that the EIS investment may turn out badly, involving loss of funds but still leaving tax to pay on the deferred gains. There may, however, be CGT loss relief available on the EIS investment to soften the blow.

The interaction with Entrepreneurs’ Relief (ER)
In general, investors can potentially benefit both from the deferral of gains which can be reinvested under EIS and from ER on those same deferred gains when they come back into charge.

In overview, ER provides a lower capital gains tax rate of 10% (as compared to a standard rate of 20%) on gains arising when disposing of qualifying assets. ER is subject to a lifetime limit for individual investors of £10m.

SEIS
CGT deferral relief is not available for SEIS investments. Subject to certain conditions, however, gains realised on any asset disposed of in 2012/13 and reinvested in SEIS qualifying shares in that tax year (or the next using the carry back facility), where the SEIS shares are held for at least three years from the date of issue, are exempt from CGT. Transfers to spouses or civil partners do not prejudice this holding period requirement. This exemption was extended to gains realised in 2013/14 and subsequent years, but relief is capped at 50% of the qualifying SEIS investment.

VCT
CGT deferral relief is not available for VCT investments.
Investing in companies
Losses

EIS
If EIS shares are sold at arm’s length at a loss, or the company goes into liquidation, a capital loss will accrue. This is calculated in the normal way less any income tax relief given and not withdrawn. This capital loss can also be set against income in the year it arises and/or the previous tax year. For a 45% taxpayer, this currently limits the maximum economic loss to 38.5% for an EIS investment.

SEIS
Similar rules apply to losses realised on SEIS shares as apply under the EIS scheme, although the rate of income tax relief to restrict the amount of the loss is 50% rather than 30%. For a 45% taxpayer, this currently limits the maximum economic loss to 27.5%, ignoring the effect of any CGT exemption obtained for gains reinvested in SEIS qualifying shares (see page 12).

VCT
No allowable CGT loss accrues on VCT shares if they are sold at a loss or become worthless.

Practicalities

EIS
None of the EIS reliefs can be obtained until the company supplies an EIS 3 certificate to the investor. The company can only submit an EIS 1 form, which gives rise to the EIS 3 certificate if HMRC allow the claim, when it has been trading for at least four months. There may therefore be a significant delay in obtaining relief when a company is not already trading and needs time to prepare for the trade. In all cases, however, the relevant tax year for claiming relief will be based on the date the relevant shares were issued, not when the certificates are issued. There are further requirements as to how quickly the cash raised must be invested into a qualifying trade.

If an EIS 3 is not available when the tax return is submitted, the taxpayer must pay the tax and subsequently amend the return and get a repayment of the tax overpaid.

The company must submit an EIS 1 form within two years of the end of the year of assessment in which the shares are subscribed for, or, if the company completed the first four months of trading in a later year of assessment, within two years of the end of that four month period.

The investor must claim relief within five years from the 31 January following the tax year in which the subscription was made. This time limit for a claim for EIS relief is specifically prescribed in the legislation, and therefore is not affected by the general time limit for making claims having been reduced from five years and ten months to four years.

SEIS
The investor must claim relief within five years from the 31 January following the tax year in which the subscription was made. An SEIS 1 form cannot be submitted until the new qualifying trade has been carried on for at least four months or if earlier, at least 70% of the SEIS monies has been spent.

VCT
The investor must claim relief within four years from the end of the tax year in which the investment was made.
Inheritance tax considerations

The IHT aspects of these schemes should also be borne in mind.

**EIS shares**
EIS shares cannot normally be quoted and must be in trading companies. Shares in AIM companies do not count as quoted for this purpose. They should therefore normally attract IHT business property relief (BPR). Holdings of any size attract relief. A holding of less than 30% in an EIS company is therefore potentially very useful since it could attract one or more of the following:
- Income tax relief at 30%;
- CGT exemption on disposal at a gain but relief on a loss;
- CGT deferral (with deferred gains falling out of charge on death): and/or
- 100% IHT relief on a gift or on death.

The IHT relief for EIS shares should be contrasted with the position of any private assets which may be sold to realise the funds to invest; these are normally fully liable to IHT, so by reinvestment a considerable IHT advantage can be obtained. Normally however, the new shares must be owned for two years prior to the IHT event for BPR to be due, so life insurance cover may be advisable in the meantime.

**SEIS shares**
The same IHT considerations apply to SEIS shares as apply to EIS shares.

**VCT shares**
VCT shares will not attract any special reliefs for IHT purposes since they must be quoted.
Important notes

This guide summarises various tax advantages for investment in companies. Anyone contemplating any kind of investment should not be swayed unduly by tax considerations and should first consider, after taking appropriate professional advice, whether the proposal makes commercial sense.

The levels and bases of, and reliefs from, taxation can change and the value of a relief depends upon the individual circumstances of the investor. This guide is only a brief summary of complex tax legislation and detailed tax advice should always be taken.

You should be aware that investing under an EIS, SEIS or in a VCT carries certain risks and you could lose a substantial proportion, or all, of your investment. The risks are highlighted in the prospectus or other investment documentation for each issue, which you should read carefully. As stated above, it is important to obtain detailed advice before taking any action.
About us

Smith & Williamson has been managing the financial affairs of private clients and their business interests for over a century. We are one of the top ten firms of accountants* in the UK.

Our prime aim is to help our clients achieve their financial ambitions, both corporate and personal. Our clients are varied — private individuals, mid-large businesses, professional practices and non-profit organisations.

Our business spans across 12 offices in the UK, Jersey and Ireland, with locations in the City of London, Belfast, Birmingham, Bristol, Cheltenham, Dublin (City and Sandyford), Glasgow, Guildford, Jersey, Salisbury and Southampton and an international capability in over 120 countries through membership of Nexia International (the tenth largest international accounting and consulting network) and Oaklins International Inc.

In a business as diverse as ours, professionalism and teamwork are key. We recognise that clients and intermediaries take comfort from knowing that they can easily reach senior people and decision-makers in our organisation who are able to understand their needs and objectives.

Our business thrives on its people — a pool of highly talented and enthusiastic individuals who deliver a broad and innovative range of services, but without compromising on delivering a genuinely director-led service. Technical excellence underpins how we deliver our services and our teams are dedicated to offering practical financial solutions.

People may ask what sets us apart from our competitors; put simply, it’s our people — ambitious, talented and enthusiastic professionals who enjoy what they do and relish the opportunity to work together and with our clients.

*According to the latest survey of the market by Accountancy magazine.

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**WINNERS**

**Epriivateclient Top 25 Accountancy Firms**

**Portfolio Adviser, Wealth Manager Awards**
2015: Platinum Award, Best balanced portfolio manager — Large firm

**LexisNexis Taxation Awards 2012** — Winner of Best High Net Worth Team

**STEP Private Client Awards 2013/14**
Winner — STEP Accountancy Team of the Year

**EIS Association Awards 2012, 2013, 2014**:
Runner-up for the Best EIS Tax Adviser Award
Appendix: Overview of current rules

<table>
<thead>
<tr>
<th>Feature</th>
<th>EIS</th>
<th>VCT</th>
<th>SEIS</th>
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<tr>
<td>Available to:</td>
<td>Any individual.</td>
<td>Any individual aged over 18.</td>
<td>Any individual.</td>
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<td>Income tax relief on:</td>
<td>Fully paid ordinary shares newly</td>
<td>Ordinary shares newly subscribed</td>
<td>Fully paid ordinary shares subscribed for cash ONLY.</td>
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<td>Quotation/listing:</td>
<td>No shares or other paper may be</td>
<td>All ordinary shares MUST be quoted on an EU regulated market.</td>
<td>No shares or other paper may be quoted or listed at date of investment except on AIM. A later quotation is possible, subject to certain conditions.</td>
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<td>Limit of income tax relief:</td>
<td>£1m of investment(s) per tax year (f).</td>
<td>£200,000 of investment per tax year.</td>
<td>£100,000 of investment per tax year.</td>
</tr>
<tr>
<td>Maximum% holding per investor for income tax relief:</td>
<td>30% of share capital.</td>
<td>No limit, although the VCT cannot be a close company.</td>
<td>30% of share capital.</td>
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<tr>
<td>Rate of income tax relief:</td>
<td>30% (as credit in terms of tax).</td>
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<td>50% (as credit in terms of tax).</td>
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<td>Priority of reliefs:</td>
<td>Takes priority over all tax credit reliefs except VCT relief.</td>
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<td>Takes priority over all tax credit reliefs except EIS and VCT reliefs.</td>
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<tr>
<td>Time limit for claim by individual:</td>
<td>Five years from 31 January following either the year of investment or the year in which the company had been trading for four months if later.</td>
<td>Four years from the end of the tax year in which the investment was made.</td>
<td>Five years from 31 January following either the year of investment or the year in which the company had been trading for four months if later.</td>
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<td>Minimum holding period to avoid clawback of income tax relief:</td>
<td>Three years from issue of shares or commencement of trade, whichever is later.</td>
<td>Five years from issue of shares.</td>
<td>Three years from issue of shares.</td>
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<td>Taxation of dividends:</td>
<td>Taxable in normal way.</td>
<td>Tax free on first £200,000 of shares acquired in a year.</td>
<td>Taxable in normal way.</td>
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<tr>
<td>Restrictions on ability to distribute profits:</td>
<td>None (except company law).</td>
<td>Minimum 85% of income must be distributed each year; no minimum or maximum for distribution of capital gains.</td>
<td>None (except company law).</td>
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<td>Place of trade:</td>
<td>Must have a UK permanent</td>
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<td>Restrictions on company’s activities:</td>
<td>Must carry on a ‘qualifying trade’ — which excludes most financial sector/leasing, property development, farming, hotels, guest houses, nursing and care homes, ship building, coal and steel production, forestry and certain others — and any other activities must be de minimis.</td>
<td>VCT itself must derive most income from investments AND must be at least 70% invested in ‘qualifying’ companies: those companies must themselves carry on ‘qualifying trades’ (see EIS). Other rules apply to limit types of shares/investments.</td>
<td>Must carry on a ‘qualifying trade’ — which excludes most financial sector/leasing, property development, farming, hotels, guest houses, nursing and care homes, ship building, coal and steel production, forestry and certain others — and any other activities must be de minimis. The trade must be a ‘new trade’ as defined.</td>
</tr>
</tbody>
</table>

* Replaces earlier schemes effective from 1/1/94 (EIS) and 6/4/95 (VCT)
# It is possible to carry back EIS relief to the previous tax year, subject to the annual subscription limits.
<table>
<thead>
<tr>
<th>Feature</th>
<th>EIS</th>
<th>VCT</th>
<th>SEIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loanbacks allowed?</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Loan interest relief on loans to buy shares?</td>
<td>Not available.</td>
<td>Not available.</td>
<td>Not available.</td>
</tr>
<tr>
<td>Capital gains of company:</td>
<td>Taxable in normal way.</td>
<td>CGT Free while VCT is approved.</td>
<td>Taxable in normal way.</td>
</tr>
<tr>
<td>Capital gains on shares:</td>
<td>CGT Free provided EIS income tax relief given and not withdrawn.</td>
<td>CGT Free even if income tax relief withdrawn, while VCT is approved subject to £200,000 p.a. limit as for dividends.</td>
<td>CGT Free provided SEIS income tax relief given and not withdrawn.</td>
</tr>
<tr>
<td>Capital gains exemption on disposal of other assets:</td>
<td>No</td>
<td>No</td>
<td>Yes, Reinvestment of a 2012/13 gain into an SEIS company will lead to an exemption of that gain. For gains realized in 2013/14 and subsequently, the exempt part of the gain is restricted to 50% of the re-investment.</td>
</tr>
<tr>
<td>Treatment of investor’s capital losses:</td>
<td>Losses allowable for CGT subject to restriction by reference to income tax relief not withdrawn. (Also possible to claim relief for losses against total income).</td>
<td>Losses not allowable for CGT while VCT is approved.</td>
<td>Losses allowable for CGT subject to restriction by reference to income tax relief not withdrawn. (Also possible to claim relief for losses against total income).</td>
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<tr>
<td>Maximum capital which can be raised under scheme:</td>
<td>See below.</td>
<td>See below.</td>
<td>See below.</td>
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<tr>
<td>Maximum size of investee company:</td>
<td>Gross asset value not to exceed £15m before individual invests and £16m immediately afterwards.</td>
<td>Gross asset value not to exceed £15m when VCT invests and £16m immediately afterwards.</td>
<td>Gross assets cannot exceed £200,000 prior to investment.</td>
</tr>
<tr>
<td>Maximum number of full-time employees at time of subscription:</td>
<td>249 (499 for knowledge intensive companies since 18 November 2015).</td>
<td>249 (499 for knowledge intensive companies since 18 November 2015).</td>
<td>24</td>
</tr>
<tr>
<td>Maximum amount of investment obtained through EIS, VCT and SEIS in 12 months prior to the issue of relevant shares:</td>
<td>£5m, subject to a lifetime cap of £12m with effect from 18 November 2015 (£20m for knowledge intensive companies).</td>
<td>£5m subject to a lifetime cap of £12m with effect from 18 November 2015 (£20m for knowledge intensive companies).</td>
<td>£5m subject to a lifetime cap of £12m with effect from 18 November 2015 (£20m for knowledge intensive companies).</td>
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<tr>
<td>Pre-arranged exits:</td>
<td>Prohibited</td>
<td>Prohibited</td>
<td>Prohibited</td>
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<tr>
<td>Subsidiaries:</td>
<td>Throughout the relevant period, the EIS company must own, directly or indirectly, more than 50% of the ordinary share capital of each subsidiary. Qualifying EIS activities must be located in the EIS company or subsidiaries that are direct 100% subsidiaries, or 100% subsidiaries of direct 90% subsidiaries of the parent, or 90% subsidiaries of direct 100% subsidiaries, or direct 90% subsidiaries. Any subsidiary of the EIS company that is a ‘property managing subsidiary’ must be at least 90% owned throughout the relevant period.</td>
<td>Throughout the relevant period, the VCT investee company must own, directly or indirectly, more than 50% of the ordinary share capital of each subsidiary. Qualifying VCT activities must be located in the VCT investee company or subsidiaries that are direct 100% subsidiaries, or 100% subsidiaries of direct 90% subsidiaries of the VCT investee company, or 90% subsidiaries of direct 100% subsidiaries, or direct 90% subsidiaries. Any subsidiary of the VCT investee company that is a ‘property managing subsidiary’ must be at least 90% owned throughout the relevant period.</td>
<td>Any subsidiaries must be at least 51% subsidiaries. If it is a subsidiary that carries on the qualifying trade, that must be a 90% subsidiary.</td>
</tr>
<tr>
<td>CGT deferral relief into scheme shares to defer gains:</td>
<td>Yes — reinvestment must be in the period from 12 months pre-disposal to three years afterwards (only newly subscribed shares) (CGT deferral relief not dependent on income tax relief).</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
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