Smith & Williamson

Enterprise Investment Scheme

A tax efficient investment opportunity

Investing under EIS can provide significant tax incentives to individuals, and combining tax reliefs can mean that only 38.5% of an initial investment may be at risk.

The Enterprise Investment Scheme (EIS) has been around for a number of years but the tax incentives that are available mean that it is still a tax efficient method of investment.

The rules are complex and the comments below are only a high level summary, and should not be taken as specific advice. All prospective investors should seek their own professional advice.

The incentives

In summary the key incentives for the 2017/18 income tax year are:

- 30% income tax relief, set off against your income tax liability
- one year carry back of the income tax relief
- capital gains tax exemption on the disposal of the shares
- tax on other gains can be deferred against the amount invested in EIS shares (normally until the EIS shares are disposed of).

Additionally, if the shares were to be sold at a loss, the capital loss (less the income tax relief already given) would be available to offset against income in the current and/or prior tax years.

For a 45% taxpayer, the combination of EIS income tax and loss relief can limit the maximum economic loss to 38.5% for an EIS investment.

The shareholding should attract business property relief at 100% for inheritance tax purposes after a period of two years' ownership.

How does it work?

The individual

The investor must be an individual and subscribe cash for new shares in order to qualify for EIS income tax relief. Furthermore, to qualify for the capital gains deferral relief the individual must also be UK resident. The following criteria (again for the 2017/18 income tax year) must also be met:

- The individual cannot be 'connected' with the company invested in for a five-year period (starting two years before the share issue and ending three years after the share issue or commencement of trade)
- Any holding (including associates) must not equate to more than 30% of the ordinary share capital, total shares, voting rights or assets available for winding up
- The individual cannot be a director except in limited circumstances, nor an employee of the company or any controlled subsidiary
- The maximum investment in any one tax year is £1m.
- With effect for shares issued on or after 18 November 2015, there are also additional requirements that any investors holding shares in the company before the EIS issue must only hold either certain subscriber shares or shares that qualified as Seed EIS, EIS or social investment shares when issued to them.

The company

The company must be a trading company carrying on qualifying activities. There are also a number of other criteria. In summary, these are broadly as follows:

- The gross assets of the company (or group) must not exceed £15m immediately before investment and £16m immediately after
- The company must have: fewer than 250 full-time employees at the time of the proposed and; fewer than 500 employees limit for knowledge intensive companies'
- A maximum of £5m from all venture capital schemes can be raised in any rolling twelve month period. For investments made on or after 18 November 2015, there is a £12m lifetime cap on total venture capital investment a company can receive (£20m for knowledge intensive companies)
- The company must not be 'in difficulty'
- The company must be unquoted (this includes AIM-listed companies)
- The investment must be into newly issued ordinary shares
- The company needs a UK fixed place of business and must not undertake an excluded trade (property development, dealing companies, insurance and banking, legal and accountancy, to name but a few)
- The company cannot be controlled by another company
- For shares issued on or after 18 November 2015, if the shares are issued after the 'initial investing period' then there must have been an SEIS, EIS, VCT or social investment in the initial investing period where the money has been used for the qualifying business. This rule will not apply where the investment represents more than 50% of annual turnover averaged over the preceding five years, and the EIS monies are wholly used for the purpose of entering a new product or geographical market. The initial investing period is the period of seven years (10 years for knowledge intensive companies) from the first commercial sale.
- The purpose of the share issue must be to promote growth and development of the business.

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 largest firms of accountants* in the UK.

Our primary 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.

*According to the latest survey of the market by Accountancy Age magazine, 2016.

Our Enterprise Investment Scheme Specialists

Our team has extensive experience in advising both companies and investors on their eligibility under venture capital schemes. They have advised on fund raisings by single companies, by approved and unapproved EIS funds and venture capital trusts.

> If the shares are retained, the shareholding should attract business property relief at 100% for inheritance tax purposes.

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