

Start-up to Scale-up

How EIS & SEIS reward smart investment



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Guide to the Enterprise Investment Scheme



The Enterprise Investment Scheme (EIS) is designed to encourage individuals to make equity investments in the higher risk small to medium sized unquoted company sector, by offering a raft of tax reliefs

The tax reliefs

In order to encourage investment in EIS companies, the government offers tax reliefs.

These can give total tax reliefs of up to 98% of the sum invested:-

EIS cash subscription	£100,000
Income Tax relief at 30%	£(30,000)
CGT Deferral relief at 24%	£(24,000)
Inheritance Tax relief at 40%	£(40,000)
Net cost of investment	£6,000

The tax reliefs in detail

A.Income Tax Relief

An investor who subscribes in cash for ordinary or non-cumulative fixed preference shares in an EIS qualifying company can obtain income tax relief of up to 30% on investments of up to £1,000,000 each year. This relief can be claimed either in the tax year the investment is made, or in the previous year.

B.Inheritance tax exemption

Provided a shareholder has owned shares in a qualifying unquoted trading company for at least two years and certain conditions are met at the time of transfer, inheritance tax business property relief of 100% is available, which reduces the inheritance tax liability on the transfer to nil.

There is no limit on the amount you can invest in EIS companies for inheritance tax relief purposes. There is a £1m cap for relief at 100% for IHT.

C.CGT Deferral Relief

Investors with capital gains made up to three years before or one year after an EIS investment is made can claim 'deferral relief' against those gains.

Deferred gains do become taxable again on certain events, such as a sale of the EIS shares.

The £1,000,000 annual limit does not apply for CGT deferral relief purposes – any amount can be deferred.

D.Exemption from Capital Gains Tax

If an investor holds EIS shares for at least three years, any capital gain realised on the disposal of the shares will be both income tax and capital gains tax free, provided income tax relief has been given and has not been withdrawn.

E.Loss relief

If a loss is made on the disposal of EIS shares at any time, the loss may be claimed against either current year or future capital gains, or, by election, against income of the current or previous tax year. The effect of this, for a 45% taxpayer, is to reduce the loss as follows:

EIS cash subscription	£100,000
Income tax relief at 30%	£(30,000)
Loss relief	£(31,500)
Net loss	£38,500

Qualifying unquoted trading company

There are a number of conditions that a company must fulfil in order to qualify under the Enterprise Investment Scheme. In brief, the main conditions are as follows.

The company must carry on a trade which did not commence more than 7 years before the share issue, whether or not it was carried on by the Company or someone else at the outset.

The company or its subsidiary must carry on a qualifying trade which excludes certain financial and so-called 'passive' activities such as hiring plant, letting property and receiving royalties.

Additionally, certain land-backed trades such as operating hotels, nursing homes, farming, forestry and property development do not qualify, nor do shipbuilding, coal mining, steel production, or legal and accounting services.

A company does not qualify if its gross assets immediately before the EIS share issue exceed £15m or immediately afterwards exceed £16m.

The company must have fewer than 250 employees when the shares are issued, and the maximum amount that can be raised from Venture Capital Schemes is £5m in a 12 month period.

If a company is a Knowledge Intensive Company (KIC), the above-mentioned thresholds are higher. The company may have up to 500 employees, be within the first 10 years of its trade, the total investment the company may raise is £20m, and the individual may make up to £2m investment which will qualify for the relief.

The company may raise up to £10m qualifying investment in one year. The definition of a Knowledge Intensive Company centres around factors such as the proportion of expenditure on R&D related activities and the proportion of skilled employees employed by the company.

If a company fails to meet the conditions in the three years following the investment, or an investor sells or otherwise disposes of the shares, the tax reliefs will be lost.

The Investment Process

Before investing in a company offering EIS reliefs, investors should consult their tax and financial advisers.

Additionally, investors should ask to see the Company's Advance Assurance letter from HM Revenue & Customs.

Advance Assurance does not guarantee that EIS tax reliefs will be available, but it does give a degree of comfort.

Provided the company has been trading for at least four months, they will then apply to HM Revenue & Customs for the EIS certification and investors should receive an 'EIS 3 Certificate' within a couple of months.

However, the Company cannot apply for the certificates from HMRC until it has traded for four months.

The EIS 3 certificate is needed before a claim for any of the EIS tax reliefs can be made. Investors' tax or financial advisers will be able to assist with the claim if necessary.

EIS funds

Finding the right company to invest in can be problematic for investors. One approach to this problem is to invest in an EIS Fund. These operate in a similar way to Venture Capital Trusts or Unit Trusts – the fund manager selects and monitors the companies invested in.

However, with an EIS Fund the investor is the beneficial owner of the underlying investments, rather than owning units in a unit trust.

Investing through a Fund also enables the investor to spread their risk as a Fund will typically invest in at least four different companies.

The 30% test

EIS relief is not available to an individual who possesses or is entitled to acquire more than 30% of the issued share capital, ordinary share capital or voting rights of a company or any subsidiary.

Holdings of business partners and relatives (excluding siblings) are added together for the 30% test.

This test is a "once and for all" test. An individual who holds or has held more than 30% cannot qualify for EIS, even if a new share issue dilutes their holding below 30%.

The only exception to this is that an individual is not disqualified if he holds more than 30% at a time when the company has not issued any shares other than subscriber shares, and the company has not begun to trade or make preparations for carrying on any trade or business.

Risk

Investors considering investing in EIS Companies must remember that the tax reliefs are only available because investing in this type of business is perceived as high risk.

Additionally, shares in unquoted companies can be difficult to sell, should you wish, or need, to liquidate your investment.



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Guide to the SEED Enterprise Investment Scheme

In response to the need for investment in the UK's start-up business sector, the Government introduced this scheme to encourage people to invest in seed stage companies. Whilst there are inherent risks in investing in start-ups, the tax reliefs offered are generous. The scheme came into effect from 6 April 2012.

Summary

The scheme is largely modelled on the long-standing Enterprise Investment Scheme (EIS) but offers enhanced tax reliefs for investment in smaller companies.

The objective is to help start-up companies attract investment by offering tax reliefs to investors.

Importantly, tax relief will be available to directors investing in their own companies, subject only to the "30% Test" – they must not hold more than 30% of the ordinary share capital, issued share capital or voting rights in the company.

Additionally, in line with changes to the EIS, shares with preferential rights to dividends will qualify for SEIS relief providing their amount and date of payment is not dependent on a decision by the company, the shareholder or any other person and providing the dividends are not cumulative.

The Tax Reliefs

Providing the shares are held for three years. Income Tax relief is available at 50%, and the scheme offers exemption from Capital Gains Tax on 50% of the investment. The maximum investment qualifying for relief is £100,000.

An example of the reliefs available in 2025/26:-

SEIS cash subscription	£100,000
Income tax relief at 50%	£(50,000)
CGT re-investment relief at 24%	£(12,000)
Net cost of investment	£ 38,000

Inheritance tax relief could add another £40,000 of tax savings.

The claim for the relief may be done in the current tax year or can be carried back 1 year.

Provided a shareholder has owned shares in a qualifying unquoted trading company for at least two years and certain conditions are met at the time of transfer, inheritance tax business property relief of 100% is available on the first £1m, which reduces the inheritance tax liability on the transfer to nil.

Seed Investment Enterprise Companies

There are a number of conditions that a company must fulfil in order to qualify under the Seed Enterprise Investment Scheme. These largely mirror the rules for Enterprise Investment Scheme companies, except that SEIS companies must have:

- fewer than 25 "full-time equivalent" employees;
- gross assets of less than £350,000;
- must carry on a genuine new trade;
- not have raised any money under the EIS or VCT schemes.

SEIS and Enterprise Investment Scheme/VCT Investment

If a company has issued shares to investors under the EIS or VCT schemes, then it cannot issue shares under the SEIS.

However, a company which has issued SEIS shares can then go on to raise further investment from EIS and/or VCT investors.

This reflects the intentions behind the scheme – it is aimed at start-ups who need to be able to offer greater incentives to investors in their early growth stages. Once that is past, they should then be able to attract EIS and VCT money.

The only requirement is that the company spends 70% of money raised from SEIS investors before it issues EIS/VCT shares.

Qualifying trades

The SEIS is intended to encourage investment in higher risk, trading companies, so a number of types of trade are excluded. As with the EIS, these are:

- Dealing in land, shares, futures and other financial instruments
- Dealing in goods other than in the normal course of a retail or wholesale trade.
- Banking, insurance, money lending or other financial activities.

- Leasing or receiving royalties or license fees, unless the company has created the intangible asset itself.
- Providing legal or accountancy services.
- Farming, market gardening, woodlands and timber production.
- Property development.
- Hotels and nursing homes.
- The subsidised generation or export of electricity
- Coal and steel production, shipbuilding.
- Providing services to a connected party conducting one of the above trades.
- The receipt of Feed-in Tariffs, except for generation by hydro or anaerobic digestion.

Genuine New Trade

The Company must carry on a trade which did not commence more than 3 years before the share issue, whether or not it was carried on by the Company or someone else at the outset.

Additionally, the Company cannot carry on any other trade which is more than two years old – you can't make an established company qualify for SEIS by starting a new trade.

Limits on sums raised

The maximum amount a company can raise from SEIS investment is limited to £250,000, but if the Company has received any other "State Aid" such as grants, this may have to be deducted

There is no reason why a company cannot raise more than £250,000 from a share issue, but only £250,000 will qualify under the scheme.

The 30% test

SEIS relief is not available to an individual who possesses or is entitled to acquire more than 30% of the issued share capital, ordinary share capital or voting rights of a company or any subsidiary.

Holdings of business partners and relatives (excluding siblings) are added together for the 30% test.

This test is a "once and for all" test. An individual who holds or has held more than 30% cannot qualify for SEIS, even if a new share issue dilutes their holding below 30%.

The only exception to this is that an individual is not disqualified if he holds more than 30% at a time when the company has not issued any shares other than subscriber shares, and the company has not begun to trade or make preparations for carrying on any trade or business.

Risk

Investors considering investing in SEIS Companies must remember that the tax reliefs are only available because investing in this type of business is perceived as high risk.

Additionally, shares in unquoted companies can be difficult to sell, should you wish, or need, to liquidate your investment.

How does my company obtain SEIS qualifying status?

Many potential investors will want some form of comfort that their investment will qualify for the SEIS tax reliefs. No guarantees can be given, particularly as the company has to satisfy certain requirements for three years after the share issue.

However, it is possible to obtain 'advance assurance' from HM Revenue and Customs before offering shares to investors, and many potential investors will insist on this. Advance assurance is not a requirement of the SEIS, and does not guarantee that a share issue will qualify, but it is useful, both in attracting investors and in ironing out any problems before it is too late.



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