

EIS and SEIS



Introduction

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) are tax relief schemes designed to encourage investment in early-stage companies in the UK. Both schemes provide significant tax breaks for investors who take a risk by funding small, high-growth businesses. These schemes are an excellent option for businesses looking to raise funds and for investors seeking tax-efficient investment opportunities.

Enterprise Investment Scheme (EIS)

The EIS is a government-backed initiative that encourages investors to support small, high-growth companies by offering various tax reliefs. Businesses that qualify for EIS can raise up to £5 million per year, and up to £12 million in their lifetime.

Tax Benefits for Investors

Income Tax Relief

Investors can claim 30% Income Tax relief on the amount invested in qualifying companies. The maximum investment eligible for this relief is £1 million per year (or £2 million if investing in knowledge-intensive companies).

Capital Gains Tax (CGT) Relief

If the shares are held for at least 3 years, any gains made on the shares are exempt from CGT. Additionally, if an investor disposes of their shares at a loss, the loss can be offset against other capital gains or income.

Inheritance Tax Relief

Shares held under the EIS are generally exempt from Inheritance Tax if the investor has held them for at least 2 years.

Loss Relief

If the investment fails, losses can be offset against other income, reducing the investor's tax liability.

Eligibility for EIS

The company must be a small, unquoted company with assets under £15 million before the investment and less than £16 million after the investment.

The company must have fewer than 250 employees at the date of the share issue.

The company must be involved in a qualifying trade (not dealing in property, finance, or other excluded sectors).

The initial investment must be within 7 years of the company's first commercial sale.

The company must be based in the UK and must use the funds raised for growth and development.

Knowledge-Intensive Companies

A Knowledge-Intensive Company (KIC) is a business that focuses on the development or use of intellectual property or high-level research, often in technology or innovation sectors.

For companies that qualify as Knowledge-Intensive, the EIS rules are slightly more flexible, allowing the company to raise up to £10 million per year (instead of the standard £5 million) and increasing the maximum lifetime limit to £20 million.

Additionally the investment can be made up to 10 years from the first commercial sales (instead of the normal 7 years).

To qualify as a Knowledge-Intensive Company, the business must meet specific criteria, including:

- A significant portion of their operating costs being dedicated to R&D, innovation, or the development of intellectual property.
- At least 20% of the company's total workforce must be involved in R&D or technical activities.
- The company must have substantial intellectual property assets or a high level of innovation relative to its size.

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Seed Enterprise Investment Scheme (SEIS)

The SEIS is aimed at early-stage businesses and offers more generous tax reliefs to attract investment. This scheme helps start-up companies raise up to £250,000 in investment, with significant tax breaks for investors.

Tax Benefits for Investors

Income Tax Relief

Investors can claim Income Tax relief on investments up to £200,000 per year.

Capital Gains Tax (CGT) Relief

If the shares are held for at least 3 years, gains from the sale of SEIS shares are exempt from CGT. Additionally, losses can be offset against other capital gains or income.

Reinvestment Relief

Investors who reinvest a capital gain from another asset into SEIS-qualifying shares can receive CGT relief on that gain.

Inheritance Tax Relief

SEIS shares are generally exempt from Inheritance Tax after being held for 2 years.

Eligibility for SEIS

The main conditions are:

- The company must be a new start-up, and it must have been trading for no more than 3 years at the time of the investment.
- The company must have fewer than 25 employees and gross assets of less than £350,000.
- The company must be involved in a qualifying trade, similar to EIS.

Key differences between EIS and SEIS

Tax Relief

The main difference between the two schemes is the level of tax relief available. SEIS offers a higher rate of relief (50%) on smaller investments but is available to earlier-stage companies. EIS offers lower relief (30%) but is available to a wider range of companies.

Investment Limit

EIS allows companies to raise up to £5 million per year, while SEIS is limited to £250,000.

Eligibility

EIS is for more established start-ups, while SEIS is targeted at companies that are less than 3 years old.

Conclusion

EIS and SEIS are powerful tools for raising funds for small businesses and offer valuable tax reliefs for investors.

Both schemes are ideal for encouraging investment in early-stage companies, with SEIS providing more generous tax relief for newer companies. Knowledge-Intensive Companies have additional opportunities for raising capital under EIS.

Contact Parry & Parry for advice on how to leverage EIS and SEIS for your business or investment strategy.