# 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.