



## Enterprise Investment Schemes (EIS)

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## The basics

EIS can provide a variety of tax reliefs for individuals investing in UK trading companies. The allure of these tax reliefs can help companies attract the investment they need to meet their aspirations.

Seed Enterprise Investment Scheme (SEIS) is effectively the baby brother of EIS, aimed at supporting young and early stage companies. Both EIS and SEIS tax reliefs are extremely valuable, but they are complex and can catch out the unwary.

## The tax reliefs

### EIS can provide the following tax reliefs:

- > Income Tax relief of up to 30% on money invested (maximum investment of £1m pa)
- > Capital Gains Tax deferral relief allowing investors disposing of assets to defer gains against subscriptions in an EIS company

### SEIS can provide the following tax reliefs:

- > Income Tax relief of up to 50% on money invested (maximum of £100k pa)
- > Exemption of 50% of Capital Gains Tax on other relevant gains

### EIS and SEIS also provide the following tax reliefs:

- > No Capital Gains Tax on disposal after holding the shares for 3 years
- > 100% IHT mitigation after holding the shares for 2 years
- > If you make a loss on your investment, you can offset that loss against income tax

## Now for the sums

- > These sample figures illustrate the impressive savings that EIS relief can deliver for individuals and therefore how attractive companies with EIS status can be

### EIS Example:

Tom Smith is a top rate tax payer and recently sold some shares (the gain after exemptions was £100k).

His total tax liability is currently £100k, split as follows:

Capital Gains Tax	Income Tax
£24k	£76k

Tom invests £100k in EIS qualifying shares.

He defers his CGT and offsets 30% of his investment against income tax, saving £54k (if CGT deferral is treated as a tax saving).

So the net cost of his EIS investment is just £46k.

Saving	Net Cost
£54k	£46k

## What qualifies?

In order to qualify for EIS and SEIS relief there are three overarching areas to be considered:

- > Qualifying shares
- > Qualifying company
- > Qualifying individual

Each of these areas have numerous complex conditions which require to be met.

It is possible for a company to obtain Advance Assurance that the qualifying conditions are met in relation to proposed EIS and SEIS fund raises. In our experience, investors are typically well versed in EIS rules and may request confirmation from HMRC of an Advance Assurance before making an investment.

## How we can help

- > By understanding and appreciating the technical requirements and application of the conditions to the proposed fundraising
- > Seeking Advance Assurance from HMRC to provide certainty to potential investors that a company is a qualifying company for the purposes of SEIS or EIS
- > Managing HMRC expectations to reduce unnecessary negotiations
- > Assisting with reporting obligations to HMRC, including completion of investor certificates

Due to recent legislative changes, it is becoming increasingly vital to involve us at an early stage of any investment proposition. This allows us to safeguard your interests and maximise any tax benefits on your behalf.

## Find out more

We're here to help.

If you'd like further information on how you could benefit from EIS and SEIS reliefs, please contact:

**Andrew Holloway**  
T: 07769 648326  
E: [andrew.holloway@jcca.co.uk](mailto:andrew.holloway@jcca.co.uk)



**Aberdeen**  
01224 212222  
**Edinburgh**  
0131 220 2203  
**Elgin**  
01343 547492

**Forfar**  
01307 465565  
**Fraserburgh**  
01346 518165  
**Glasgow**  
0141 222 5800

**Huntly**  
01466 794148  
**Inverness**  
01463 796200  
**Inverurie**  
01467 621475

**London**  
0207 936 9191  
**Perth**  
01738 634001  
**Stirling**  
01786 459900



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