
# Enterprise Investment Scheme (EIS)

**EIS is designed to help smaller trading companies to raise finance by offering a range of tax reliefs to investors purchasing new shares in those companies.**

## What are the main features of EIS?

**Income Tax Relief –** Individuals subscribing for new shares can claim up to 30% income tax relief on the amount of their investment up to a maximum investment of £1 million (up to £2 million in knowledge intensive companies), in the year of investment or the previous year.

**Capital Gains Tax Exemption –** Where income tax relief has been received and the shares are held for at least three years, any gains on disposal are entirely free from Capital Gains Tax.

**Loss Relief –** If shares are disposed of at a loss, subscribers can elect for the amount of the loss, less any income tax relief previously given, to be set against income for the year of disposal or the previous year, rather than being restricted to using such losses against future capital gains only.

**Capital Gains Tax Deferral Relief –** The payment of tax on a capital gain can be deferred where the gain is invested in shares of an EIS qualifying company. The gain can arise from the disposal of any kind of asset but the investment must be made within the period of one year before and three years after the gain arises.

## Who may participate in EIS?

Unconnected shareholders should be entitled to all of the reliefs above. For connected shareholders income tax relief and the CGT exemption are not normally available.

Connection may be by financial interest or by employment with the company. Financial interest occurs where the subscriber and their associates (such as spouses, civil partners, parents, grandparents, children, grandchildren and business partners) control more than 30% of the company.

Employment includes directorships and also precludes the employment of associates (as defined above). However there is an exemption for business angels.

## Which companies can participate in EIS?

The main criteria which companies must satisfy are:

- They must be unquoted and independent.
- Have gross assets of less than £15 million before the share issue (with a cap of £16 million post investment).
- Have fewer than 250 full time employees.
- Carrying on a “qualifying trade”. Most trades will qualify but H M Revenue and Customs have listed some exceptions so individual advice must be taken.

**Funding limits?**

Companies can raise up to £5 million in any 12 month period under EIS, the two other venture capital schemes – Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (“VCT”), or any other investment which is deemed to be State Aid.

The funds raised must then be used in the trade within two years of the share issue.

EIS is a specialist area and advice should always be obtained before investment is sought. Hillier Hopkins LLP have extensive experience here and can assist with obtaining advanced clearance from HMRC that the company will qualify under EIS which can be an important prerequisite in raising external investment.

**For a free initial consultation please contact:**

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