

THE ENTERPRISE INVESTMENT SCHEME AND SEED ENTERPRISE INVESTMENT SCHEME

What is EIS?

The current shift in economic outlook from crisis to recovery means there is now greater investor appetite for risk in the pursuit of better returns. With this in mind, the Enterprise Investment Scheme (EIS) is particularly suitable for investors who are willing to accept a higher risk profile and include unlisted British companies in their investment portfolio. The initiative is part of the government's "StartUp Britain" campaign and has been implemented to help start ups of any size across all sectors.

EIS is designed specifically to provide smaller companies with an alternative means to raise finance. Since its inception in 1994, over £7bn of private funding has been raised into EIS companies in the UK. Investment in unlisted companies is illiquid and therefore carries higher risk. In exchange for taking on this risk, investors benefit from a series of tax reliefs as a means of compensation. There are different ways to invest, either in single companies, or, a collective investment in the form of an EIS fund. Usually an EIS fund is managed by a venture capitalist with the aim of growth on behalf of the investor.

What are the specific benefits of these schemes?

For Investors:

- Income tax relief at 30% rate of tax on the amount invested in qualifying investments up to £1million per annum.
 - The amount subscribed can be carried back to the previous tax year for relief purposes.
- Any gain arising on the sale of the shares after three years is free from capital gains tax
- You can defer capital gains tax on other assets by reinvesting the sum or part of the sum, into a company through EIS/SEIS within one year before, or, three years after the gain accrued
- There is relief for any losses made on the disposal of EIS shares against either capital gains tax, or, income tax (in certain circumstances)
- After two years, investments in EISs are no longer applicable to the family estate meaning they are very useful for inheritance tax planning
- An entrepreneurial opportunity to have partial ownership of a company and to be remunerated for helping run a business
- A total saving and deferral of up to 58% of your investment can be achieved

For Companies:

- The opportunity to obtain capital for either start up or expansion
- A viable, alternative method of raising funds to traditional sources of finance
- Access to an investors contacts, knowledge and expertise to help drive future growth



The rules

A company must:	Investors:
Be unquoted	Can not be paid up directors or employees of the EIS company when the shares are issued
Not have gross assets that exceed £7million prior to share issue or £8m immediately after share issue	Qualifying investors can be paid for their work however, the remuneration package must be deemed "reasonable".
Not have already raised more than £5million in the previous year from EISs or VCTs	Can not hold more than a 30% interest in the company
Have fewer than 250 employees and have a permanent establishment in the UK	Minimum subscription of £500 per company
Exist for genuine commercial trading purposes	Maximum investment of £1 million per annum
Use the money raised only for qualifying business activity/trade	
Not be under the control of another company or be a 51% subsidiary of another company	
Not involve guarantees of exit arrangements, as this will disqualify from tax reliefs	

A qualifying trade is one that is carried out for the purposes of making a profit. Most businesses will be eligible however, there is a list of non-qualifying activities which include:

- Property development
- Financial trading
- Leasing
- Dealing in land

Receiving royalties and licence fees are usually non qualifying. This is not the case where most of the income is generated from intellectual property that was created by the company itself.

What about SEIS?

The Seed Enterprise Investment Scheme (SEIS) is a smaller version of EIS that offers an even larger tax break. If investors commit cash to SEISs for 3 years then they stand to benefit from a 50% income tax break on investments up to £100,000 per annum. Companies that are less than 2 years old with fewer than 25 employees and assets below £200,000 are able to receive up

to £150,000 in qualifying SEIS investment and above this they are able to still qualify for EIS. For the first year of trading, any capital gains in the year to 5 April 2013 were set aside for tax purposes, so, a tax saving of up to 78% of your investment could be achieved. For 2013/14 tax year however, this relief has been reduced to 50% of the gain which means the tax saving could be as much as 64% of your investment.

How Wellers can help you

- Conduct an internal review of both investors and companies to assess whether EIS or SEIS is applicable under the rules set by the Small Company Enterprise Centre (SCEC) at HM Revenue & Customs (HMRC)
- Complete the advanced assurance clearance application on your behalf, providing potential investors with confidence that the company will qualify for EIS relief (companies are not required to obtain this but it is wise to do so if using EIS for the first time as it helps identify any potential matters arising before shares are issued)
- Handle the application to HMRC and all documentation for you thereby ensuring this is conducted in the correct manner and avoiding common pitfalls in the process that can lead to disqualification from these schemes
- Implement and issue shares on your behalf for an EIS/SEIS scheme
- Introductions to and assistance with marketing EIS/SEIS companies to investors
- For individuals, introductions to both funds and EIS/SEIS companies with a view to making a return on your investment whilst achieving tax savings



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