INTEGRITY

PART OF BROOKS MACDONALD

ENTERPRISE INVESTMENT SCHEMES

www.integritywealth.co.uk

What is an Enterprise Investment Scheme (EIS)?

The Enterprise Investment Scheme (EIS) is a tax-efficient investment that was introduced by the UK Government in 1994 to incentivise investment into smaller UK companies. Investors are incentivised with relief on Income Tax, Capital Gains Tax and Inheritance Tax.

There are 3 types of EIS

1. EIS Portfolio

- Although qualifying rules determine the companies that can be held, a range of risk is available in this investment
- Invest in a range of qualifying companies
- The companies held will typically be larger than those in an SEIS

2. Single Investment Company EIS

- Invest directly into one business
- Typically used by investment professionals
- Used specifically to back companies in which the investor has a lot of confidence

3. Seed Enterprise Investment Scheme (SEIS)

- Investing into smaller businesses than a standard EIS
- Additional reliefs are available as a result to compensate for the extra risk of a smaller business

Headline Reliefs

Due to the benefits that smaller businesses bring to the UK economy, HM Treasury offers a range of tax advantages to incentivise you for investing in these businesses through an EIS. You must hold your investment for a minimum of 3 years to take full advantage of the tax reliefs which are listed below:

Income Tax Relief

You can claim back up to 30% Income Tax relief on the amount invested (provided you have sufficient Income Tax liability to cover it). Income Tax relief can be claimed against the tax year of the investment and/or the previous tax year.

Tax-free Growth

Growth is exempt from Capital Gains Tax.

Loss Relief

Loss relief may be available at your marginal rate of tax.

Inheritance Tax Relief After Two Years

EIS shares qualify for Business Relief so the investment is exempt from Inheritance Tax so long as it is held for 2 years at the time of your death and remains qualifying to the end.

Capital Gains Tax Deferral

Capital Gains can be deferred from 3 years prior and 1 year post investment.

Additional Benefits

Growth Potential

Help smaller companies to generate wealth and contribute to the UK's economic growth. Smaller UK businesses can offer more potential for substantial long-term growth if they are successful.

Tax Relief

Qualify for tax relief and/or deferral on Income Tax, Capital Gains Tax and Inheritance Tax. EIS investors also benefit from the offer of loss relief. Create a combination of tax reliefs with an EIS that, in a single investment, can mitigate a number of tax planning issues.

Investment Opportunities

EISs are considered a higher risk investment; however, portfolios will differ in their investment focus.

Diversifying Your Portfolio

Smaller companies typically follow different investment cycles from other parts of the market, so an EIS can bring extra diversification to your investment portfolio.

Generous Contribution Limits

Complement your pension and ISA portfolio with a tax-efficient investment with a generous annual contribution. There is an allowance of up to £2m in any tax year, provided that investments after the first £1m are made into knowledge intensive businesses.

The Rules

The investment must
be into new shares.

The investee company must
have fewer than 250 employees.

The investee company must
use the money raised within 24 months.

Companies must
be unquoted or listed on the alternative investment market (AIM).

The company must not
be controlled by another company.

Any investment of EIS funds must not
exceed more than £10 million per 12 month period.

Certain trades are excluded
for example Mining and Financial Services companies.

For any new investments
there is an investment cap of £12 million (£20 million for 'knowledge intensive' businesses who may also have up to 499 employees).

For any new investment
managers are no longer able to finance Management Buy-Outs or Acquisitions.

For all new investment
a qualifying company must be no more than 12 years old, unless the fundraise will fundamentally change the business activity and must have made their first commercial sale within the last seven years.

For all new investments
knowledge intensive companies must have made the first commercial sale or reached turnover of £200,000 in the last 10 years.

The Risks

Tax rules
are subject to change.

If you sell your shares early
you will lose the income tax relief.

Your capital is at risk;
you may not get back as much as you put in and in the worst case scenario you could lose all of your capital.

Investing in small companies is inherently risky,
these companies may not perform as hoped and in some circumstances may fail completely.

EISs should be considered longer term investments
and may be higher risk and more difficult to realise than securities listed on a stock exchange.

Who could benefit from EIS investing?

An individual who:

has a medium to long term investment horizon
and accepts the increased risk profile.

wants to reduce
their Income Tax liability

has paid a CGT bill in the last three years,
or who owns property, land, shares or other investments and wants to defer CGT - and subsequent inheritance tax - on disposal.

holds cash
and is looking for a better rate of return.

is close to the annual allowance
for pension contributions.

has IHT issues,
but is not attracted to trusts.

has a combination of tax issues
that they would like to address.

is a non-domiciled individual
wishing to remit overseas income and gains to the UK, tax-efficiently.


640
675
560
560
480
420
480
410
400
320
240
160
80

Notes:

INTEGRITY

PART OF BROOKS MACDONALD

Integrity Wealth Solutions
Eliot Park Innovation Centre, 4 Barling Way, Nuneaton, CV10 7RH

t: 02476 388 911 **e:** advice@integritywealth.co.uk **w:** integritywealth.co.uk