PKF Littlejohn LLP

Accountants & business advisers

Tax Insights

EIS/VCT Tax Reliefs

Aiming to attract investors?

How about securing tax relief in the process?

If you're thinking about achieving a tax break, it's good to know what's on the table. It's only when you're aware of all the possible options, can you start to realise what's best for you or your business.

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Did you know for example, that if the requirements for investing in an Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Relief (SEIS) or a Venture Capital Trust (VCT) are met, your investors could be in line for tax relief?

Read on to discover more about qualifying and how much tax relief your investors can realistically expect to obtain.

What is EIS?

Introduced by the UK Government in 1994, the EIS, is a tax relief designed to help smaller, higher-risk companies raise finance.

EIS is aimed at wealthier, sophisticated investors. An investor can invest up to £1 million in any tax year and receive 30% income tax relief and up to a further £1 million in qualifying Knowledge Intensive Companies (KICs below). However, it's vital that they hold the shares for a minimum of three years or the benefit must be repaid to HMRC.

What is SEIS?

Similarly to EIS, the SEIS, is another Government initiative designed to help early-stage startups by offering tax reliefs to individual investors who purchase new shares in those companies.

It was introduced in 2012 and helps investors obtain 50% relief for income tax on the cost of shares, on a maximum annual investment of £100,000.

What is a VCT?

VCTs are companies that invest in small businesses to help them grow.

Introduced in 1995, they generally help with businesses that have good potential for growth and need some vital financial support. They're seen as one of the most tax-efficient investments available.

Knowledge Intensive Companies (KICs)

A KIC is one that devotes a significant amount of time and cost to R&D and innovation activities. Should a company qualify as a KIC, the investment limits are increased.

What are the main differences?

The main difference between EIS and VCT investments is that a VCT is a quoted company that invests in a portfolio of shares and securities issued by qualifying unquoted trading companies, whereas with EIS/SEIS, an individual invests directly in the qualifying company.

Are there any limitations?

There are a number of trades that do not qualify for EIS, SEIS or VCT relief. Examples are:

- Accountancy and legal services
- Insurance companies
- Certain financial services
- Property development
- Hotels

You can't make an investment and qualify for EIS relief if you are, or have been, an employee in the company. However, some Directors may still qualify.

What are the tax relief rates?

There are three key reliefs available to investors (for newly issued shares only):

	EIS	SEIS	VCT
Income Tax*	30% (3 years)	50% (3 years)	30% (5 years)
Capital Gains Tax	Exempt after 3 years	Exempt after 3 years	Exempt from outset

EIS and SEIS also have a reinvestment relief, which permits them to defer gains arising on the disposal of other assets into an EIS or SEIS investment.

It is possible for the initial EIS/SEIS relief to be withdrawn or restricted, for example if the money raised is not used in the company's trade within two years or if the shares are sold within three years.

How do I qualify?

There are certain mandatory requirements and restrictions that apply to each investment. Plus there are benefits that you might not be aware of. We've outlined them on the next page:

*Time period shown is the minimum holding period required to prevent withdrawal of relief.

For the investor…

Benefits

- Under EIS, an individual can annually invest up to £1 million. For SEIS, the figure is up to £100,000.
- For both EIS and SEIS, it is possible to carry back the investment into the previous tax year, although not earlier than 2012/13 for SEIS.
- Investments can be made either directly into the EIS/SEIS company or through an EIS 'fund' which holds a portfolio of EIS investments.

Restrictions

- For existing shareholders, relief can only be claimed if all of the existing shares were issued under a risk finance scheme.

For the company…

Mandatories

- The company issuing the shares must be a UK company carrying out a qualifying trade in the UK or be an overseas company with a UK permanent establishment carrying on a qualifying trade.
- The company must have fewer than 250 full time employees and no more than 25 full time employees for SEIS.
- The shares must be ordinary shares, with no preferential right to assets in a winding-up and must not be subject to any prearranged exit arrangements. They must be fully paid-up and subscribed for wholly in cash on the date of issue.
- The shares must be issued to raise money for the purpose of a qualifying business activity, and these monies must be fully used for that purpose within two years of the date of the share issue.

Restrictions

- The company must not be in financial difficulty, must be unquoted and must not be under under the control of another company.
- The gross assets must not exceed £15 million immediately before the shares are issued and £16 million immediately afterwards. For SEIS, the company must have no more than £200,000 in gross assets.
- There is a lifetime limit of £12 million (£15 million for a KIC) to cap the maximum raised under venture capital schemes (EIS, SEIS and VCT) by a company.
- The amount of all EIS investment and other State Aid received in any twelve months (including other venture capital scheme investments) must not exceed £5 million (£10 million for a KIC).
- EIS is not available in relation to companies which have been trading for more than seven years, unless there has been a previous issue under EIS/SEIS/VCT or a fundamental change in the nature of the business.
- The investment cannot be used to fund the acquisition of an existing company or trade.
- If the company has any subsidiaries, it must have more than 50% of the issued share capital of each subsidiary.

And if you're wondering about VCTs…

Benefits

- An individual can invest up to £200,000 under a VCT each tax year.
- The VCT distributes by way of dividend at least 85% of its income from shares, and these are exempt from Income Tax.

Mandatories

- The VCT ordinary shares must be listed on the official list of the London Stock Exchange or another EU regulated market. AIM does not satisfy this.
- At least 70% of the VCT investments must be in unquoted trading companies carrying on a qualifying trade.

Restrictions

- The VCT must not be a close company (broadly controlled by five or fewer shareholders) and it must derive its income wholly or mainly from shares.

Our expert team can show you how an EIS/VCT could benefit your business.

To find out more, please contact us.

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