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Introduction to EIS and SEIS

The **Government Enterprise Investment Scheme** (EIS) and **Seed Enterprise Investment Scheme** (Seed EIS or SEIS) are two initiatives that offer appealing tax reliefs to investors and entrepreneurs who invest in new and start-up businesses.

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What is EIS?

The EIS is the first governement enterprise scheme, introduced in 1994, which encourages individuals to invest in smaller, high risk companies. By investing in a EIS, investors can expect:

- 30% income tax relief on up to £1 million each tax year (when shares are invested for a minimum of three years)
- No Capital Gains Tax (CGT) on any profits
- Inheritance tax relief
- Loss relief

What is SEIS?

The SEIS was introduced in the 2012/2013 tax year and offers generous tax reliefs to encourage investors to buy shares from newer, 'seed-stage' start-up companies. Individuals can expect to see:

- Up to 50% income tax relief (and 78% where CGT is involved)
- No CGT on any profits
- Inheritance tax relief
- Loss Relief

This document offers an indepth comparison of the tax treatments for both schemes for both the investor and the company.

If you require further information on either of the Investment Schemes, **please contact Paul Dell** at paul@raffingers.co.uk.

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EIS & SEIS Tax Treatment Comparison for Investors

	EIS	SEIS
Income Tax	Income tax relief at 30% of the amount invested in new shares (maximum annual investment of £1 million.) This income tax relief can be claimed in the preceding tax year. Dividends paid on EIS shares are taxable.	Income tax relief at 50% of the amount invested in new shares (maximum annual investment of £100,000.) This income tax relief can be claimed in the preceding tax year. Dividends paid on SEIS shares are taxable.
Capital Gains Tax relief	Any gain on the disposal of the shares is exempt from CGT provided the shares are held for at least three years.	Any gain on the disposal of the shares is exempt from CGT provided the shares are held for at least three years.
Relief for Losses on Disposal	Relief for a loss arising on the disposal of the shares can be offset against either income or gains in the year of disposal or income of the previous tax year. The amount of the loss is reduced by any income tax relief obtained on investment.	Relief for a loss arising on the disposal of the shares can be offset against either income or gains in the year of disposal or income of the previous tax year. The amount of the loss is reduced by any income tax relief obtained on investment.
Capital Gains Tax	Any CGT due on the disposal of any asset can be deferred by acquiring EIS shares in a period beginning 1 year before and 3 years after the disposal of the original asset. The deferred gain is realised at the time the EIS are disposed of.	50% of any chargeable gain reinvested into SEIS qualifying shares will be exempt from capital gains tax. The remaining 50% of the gain is deferred in the same way as for the EIS shares The reinvested gain must relate to an asset disposal taking place during the same tax year.
Inheritance Tax	EIS shares held for at least two years will normally qualify for 100% business property relief.	SEIS shares held for at least two years will normally qualify for 100% business property relief.

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EIS & SEIS Tax Treatment Comparison for the Company

EIS	SEIS
The company's gross assets must not exceed £15 million before the share issue and £16 million immediately afterwards.	The company's gross assets must not exceed £200,000 before the share issue
The company must be unquoted and there should be no clear arrangements for it to become quoted.	The company must be unquoted.
The company must exist to carry on a qualifying commercial trade. This excludes trades such as property development, leasing and land/share dealing.	The company must exist to carry on a qualifying commercial trade. This excludes trades such as property development, leasing and land/share dealing.
The company must be either a company resident in the UK and trading in the UK or be an overseas company with a permanent establishment in the UK.	The company must be either a company resident in the UK and trading in the UK or be an overseas company with a permanent establishment in the UK.
The company must not be a 51% subsidiary of another company.	The company must not be a 51% subsidiary of another company.
The company must not have any subsidiaries that it does not control i.e. must own at least 51% of the subsidiary's shares	The company must not have any subsidiaries that it does not control i.e. must own at least 51% of the subsidiary's shares
The company must not be in financial difficulty.	The company must not be in financial difficulty.
The company, including subsidiaries, must have less than 250 employees at the time the shares are issued.	The company, including subsidiaries, must have less than 25 employees at the time the shares are issued.
The maximum amount of investment which can be raised via EIS during any 12 month period is £5 million.	The maximum amount of investment which can be raised via SEIS during any 3 month period is £150,000.
	No EIS investment can previously have been made into the company.