

# ABG<sup>®</sup>



## Enterprise Investment Scheme

[www.abgggroup.co.uk](http://www.abgggroup.co.uk)

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# Enterprise Investment Scheme

## What are Enterprise Investment Schemes?

They are tax-efficient investments which are designed to provide finance for smaller, start-up companies and so encourage entrepreneurial activities.

In return for investing in qualifying companies the Government provides generous tax breaks. EIS is probably the most tax advantageous investment available to the UK Investor. Investors can potentially claim Income Tax, Capital Gains Tax as well as Inheritance Tax relief.

## Benefits for the investor

Income tax relief is available on the amount invested in EIS shares. The maximum investment in a tax year is currently £1m.

The maximum tax relief available is the lower of 30% (20% prior to 6 April 2012) of the monies invested and the amount that would reduce the investor's tax liability to nil. The minimum investment limit of £500 was removed as from 6 April 2012.

An election can be made to "carry back" up to 100% of the EIS investment to the previous tax year for relief. If the EIS shares are held for at least three years any subsequent disposal is exempt from CGT.

Gains on other assets can be deferred by reinvesting the gain in EIS shares. Any amount of capital gain can be deferred - even above the £1m annual limit. The gain is triggered when the EIS shares are sold and CGT then becomes payable at the prevailing rate at that time.

For EIS to apply there must be some taxable income otherwise all of the advantages of EIS will be lost. As long as the EIS shares are held for at least two years 100% business property relief should be available to reduce their value for inheritance tax purposes to £nil.

Dividends from EIS companies are taxable and are paid net of basic rate tax.

## Benefits for the qualifying company

The company can enjoy the opportunity to raise finance, either for initial start-up or for expansion.

## Outline of the Scheme Rules

Since 6 April 2012, an EIS company can employ up to 250 people at the time of investment and receive up to £10m in tax efficient funding in any 12 month period.

Prior to 6 April, the figures were up to 49 employees and up to £2m in EIS investment. Certain activities preclude companies from offering EIS relief, including forestry, farming and hotels. The company's gross assets also need to be less than £15m before and no more than £16m after the issue of shares.

Throughout the relevant three-year qualifying period, the company must:

Be an unquoted company

- Be a trading company, carrying on a qualifying trade, and have a permanent establishment in the UK.
- Exist for genuine commercial purposes, and not be part of a scheme for the avoidance of tax
- Not be a 51% subsidiary of another company, or otherwise be under the control of another company

In addition:

The EIS shares must be fully paid up at the time of issue.

An investor cannot be 'connected' with the EIS company, i.e. he or she cannot own more than 30% of the issued nominal share capital, shares, directly or indirectly, inclusive of any shares held by his or her spouse and other connected persons e.g. parents and children. Since 6 April 2012, loan capital is disregarded for the purposes of determining connection.

Individuals who are paid directors or employees of the EIS company at the time of the issue of shares are normally disqualified from claiming EIS relief. However, qualifying investors can subsequently be appointed as paid directors, provided their total remuneration package is 'normal and reasonable'

The money raised by the EIS share issue must be wholly used for the qualifying business activity within 2 years of the shares being issued or if later, within 2 years of the trade commencing.

Schemes that involve guarantees or exit arrangements will not attract tax relief.

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