



ENTERPRISE &  
SEED ENTERPRISE  
INVESTMENT  
SCHEME

**An Investor's Guide to the Enterprise Investment Scheme and the  
Seed Enterprise Investment Scheme**



Trendscout specialise in the government initiatives of the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS).

Open only to high net worth and sophisticated investors, these tax investment programmes were developed and introduced by the government to help stimulate the UK economy.

## **THE ENTERPRISE INVESTMENT SCHEME (EIS)**

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When it comes to investments, there is a lot to consider. You may want to look for investments with high-return potential and the lowest risk exposure. You may also want to support causes that matter to you personally and structure your investments to be as tax efficient as possible.

In order to maximise the value of your assets, balancing tax efficiency and investment potential is crucial. This guide is designed to help you understand more about the Enterprise Investment Scheme and explore whether it's the right investment opportunity for you.

## **WHAT IS EIS?**

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The UK government launched the Enterprise Investment Scheme in 1994. The idea behind it was to encourage private investors to support and stimulate entrepreneurship in the UK. With early-stage companies benefitting from investment support, the government incentivised investors with tax relief advantages. Since 1994, the scheme has continued to grow and benefit businesses and investors. From 1994 until 2016, EIS stimulated £16.2 billion of investment to early-stage enterprises.

In 2015/16, almost £1.9 billion was invested. Demand is continuing to grow for investors looking to increase their tax efficiency and compensate for their potential pension restrictions.

## **WHY DOES EIS EXIST?**

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EIS was set up to encourage investment into early-stage businesses. Typically, EIS-eligible companies will offer competitive returns on investment. Further more, investors will benefit from generous tax relief. As well as this, EIS enables you to create a diversified and balanced investment portfolio to minimise the risk.

For young companies, the ability to access investment funds for growth can help entrepreneurs to achieve their business goals and encourages more entrepreneurs with the level of support available.

## **WHO IS EIS FOR?**

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The Enterprise Investment Scheme is developed for private investors who want to support the future of British business and the economy. It is ideal for those who have experience of direct investing and those who are comfortable with the level of risk and reward, particularly with the illiquidity of investing in unlisted businesses.

For early-stage businesses, the Enterprise Investment Scheme seeks to support ambitious entrepreneurs who are confident that they will be commercially successful. It helps enterprises which require investment for growth but may struggle to gain funding from traditional financial sources due to the limited trading history of the company. The Enterprise Investment Scheme is ideal for those willing to provide an equity stake, which is typically appealing to investors.



## **THE RISK OF EIS AND ILLIQUIDITY**

Due to the early-stage and unlisted status of the companies, there is higher risk. However, there is higher growth potential too. One of the ways to reduce the risk in EIS-eligible investments is to create a diversified portfolio with a mix that mitigates risk.

It is essential, also, to remember that investments in EIS-eligible companies are illiquid. While EIS-eligible companies may be listed on the Alternative Investment Market, they are not listed on the main markets. Usually, investor exits for EIS-qualifying companies will be a result of a management buyout or sale of the company.

## WHAT TAX ADVANTAGES ARE AVAILABLE?

Capital Gains Tax exemption investors are not required to pay Capital Gains Tax on profits from EIS investments. This is an addition to your annual tax-free capital gains allowance across all investments.

A stylized icon showing the number '30' in a large, bold, blue font, with a percentage sign '%' to its right. Below the '30' is the word 'OFF' in a smaller, bold, blue font. The entire icon is set against a white background with a yellow circular accent in the top-left corner.

### 30% Income Tax Relief

If you invest in Enterprise Investment Scheme-eligible companies, then you can enjoy up to 30% upfront income tax relief. This is against the current year's tax bill or the last year's bill by using a carry back facility.



### Defer Capital Gains Tax

Investors are entitled to defer their Capital Gains Tax by investing in EIS-eligible companies, regardless of the source.



### Loss Relief

Should the investment in the EIS-eligible company sell for less than what you paid for it, you are entitled to loss relief. This works by offsetting income tax liability at the rate paid by the investor in the year of the sale.



### Inheritance Tax Exemption

As long as you hold an investment in an EIS-eligible company for at least two years prior to your death (and still hold it at your death), then your investments are exempt from Inheritance Tax.

## WHAT ARE THE CONDITIONS OF EIS?

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For the tax relief to be available, certain conditions must be met:

- Initial income tax relief, tax-free dividend payments, Capital Gains Tax deferral and loss relief are only possible if you hold the investment for at least three years
- Inheritance Tax exemption is only available if you hold the investment at the time of your death and for at least two years prior
- Income tax relief at 30% is only available up to the £1,000,000 limit of investment with a maximum annual relief amount of £300,000.

## IS EIS RIGHT FOR YOU?

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With an immediate income tax relief of 30%, investment into Enterprise Investment Scheme options are extremely attractive. You can then reinvest capital gains to defer liability and also limit the risk as much as possible with loss relief, which can help to make investors feel more comfortable about investing in EIS-eligible companies.

For every investor, it is essential to find the right opportunity for you. At Trendscout we want to celebrate individuality in investing and will work with you to present the right opportunity to suit your needs and investment objectives.



## **WHAT IS SEIS?**

HM Revenue and Customs introduced SEIS in 2012 to complement EIS. The requirements for businesses wishing to be part of either scheme are different. EIS is available for businesses that are considered to be medium-sized. This applies to UK businesses with 250 employees or less and with assets up to £15 million. For companies that want to be a part of EIS, they can raise no more than £5 million through investors.

In contrast, SEIS is available to businesses that are much smaller. As a seed enterprise, businesses eligible for SEIS must have less than 25 employees and assets of less than £250,000. Funding through SEIS investors has a cap of £150,000. With its beneficial tax relief in place, SEIS is intended to support small enterprises who are focused on growth.

So far, the SEIS scheme has created over £600 million of investment. Like EIS, SEIS is designed to provide balance for investment portfolios while boosting the growth of early-stage businesses.

## **IS SEIS FOR YOU?**

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Typically, investees using SEIS will be ambitious, have sound business plans and strive to be successful and profitable. The companies will require capital to fund their growth and may not be able to achieve this from traditional funding methods due to the length of time they have been trading for. However, these seed enterprises can offer investors equity in their business through SEIS, so that investments can grow along side the growth of the business. It is important to remember that although it's hoped that investments will grow, there is also a risk of downside and that the value of the investment can fall.

In 2015/16, almost £1.9 billion was invested. Demand is continuing to grow for investors looking to increase their tax efficiency and compensate for their potential pension restrictions.

## **WHAT TAX ADVANTAGES ARE AVAILABLE?**

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### **Capital Gains Tax**

One of the biggest advantages of SEIS is the fact that investors do not have to pay any capital gains tax on any profits that are made through investing in an SEIS business. If you invest in an SEIS eligible business, then you will not have to pay capital gains tax on the profits you make from that investment.



### **Capital Gains Relief**

There are 2 CGT reliefs with in the SEIS:

- Reinvestment relief, where a gain arising in the tax year 2017 to 2018 on a disposal of any asset is reinvested in shares in a company on which you get SEIS Income Tax relief.

- Disposal relief, where shares in an SEIS-eligible company are disposed of after having been held for 3 years and certain criteria are met.



## Loss Relief

It may be the case that investments are sold for less than you originally paid, thus making a loss. However, loss relief is available to mitigate the risk. This works by offsetting any income tax liability at a marginal rate.



## Inheritance Tax

As long as you hold an investment in an SEIS-eligible business for more than two years before your death, your SEIS investment would be exempt from Inheritance Tax.

## WHAT ARE THE CONDITIONS OF SEIS?

While SEIS offers significant tax advantages, there are some conditions that need to be met:

- The 50% income tax relief is only available on the first £100,000 of investment in SEIS-eligible companies. The maximum tax relief is £50,000
- Investors may only take a 50% stake through SEIS-eligible investments
- To benefit from the tax incentives, investors must hold the investment for at least three years
- To benefit from the Inheritance Tax exemption, you should keep the investment for more than two years.

## WHAT NEXT?

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At Trendscout we specialise in conducting due diligence to allow private investors to capitalise on high growth opportunities, investing in ambitious EIS-approved ventures that have the potential to grow and become highly successful.

[Click here to schedule a call](#) with one of our consultants. We'll be happy to answer any questions and share details of our latest opportunities.



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