

THE SAPPHIRE GUIDE TO ENTERPRISE INVESTMENT SCHEMES

Everything an entrepreneur needs
to know about the
Enterprise Investment Scheme



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Introduction

There has never been a better time to start a new company in the UK. The government support offered by both the Seed Enterprise Investment Scheme (“Seed EIS”) and the Enterprise Investment Scheme (“EIS”) provide start-ups with an excellent method to attract much needed capital in order to start the company. In particular, the EIS offers a start-up company the ability to raise up to £5,000,000 from investors in a very tax efficient manner. The EIS is one of the most promising ways a company can raise capital we have seen for a long time.

Why is EIS so important?

According to our research there are **three** key findings:

1. **Start-up and early stage companies find it hard to raise money** – the EIS helps start-up companies attract early stage equity investment.
2. **EIS provides a higher level of financing to small and early stage companies** – Whereas the SEIS can only raise up to £150,000, the EIS has a limit of £5,000,000
3. **The rules allow for larger companies to avail of the scheme** – companies with up to 250 employees, or assets up to £15 million thereby opening the scheme to a high number of companies



What is a EIS?

The **Enterprise Investment Scheme (“EIS”)** came into effect in 1994 to replace the Business Expansion Scheme. The EIS is a UK government backed investment scheme that is specifically designed to help small start-up companies raise equity finance.

The EIS provides a range of tax incentives to investors. At the core is an emphasis on reducing the amount of capital at risk by the investor in order to make the investment more attractive. The EIS offers tax relief at a rate (30% income tax relief).

A company can currently raise up to £5,000,000 using EIS.



Why do investors like EIS?

The **EIS** offers generous tax reliefs. Qualifying investors may attract the tax reliefs, depending on their circumstances. The EIS investment offers income tax relief, capital gains tax deferral and inheritance tax relief.

A EIS investment is typically most suitable to the following investor profiles:

1. Those with significant income tax liabilities.
2. Those with capital gains made during prior tax years.
3. Those who have disposed of business assets qualifying for Business Property Relief for the purpose of Inheritance Tax within the last three years.
4. Those seeking assets which will qualify for Business Property Relief after two years of ownership.
5. Those UK resident non-UK domiciled persons wishing to remit overseas income and gains to the UK.



Income tax relief

30%

is the amount of income tax relief an investor receives when investing in an EIS.

If an investor had an income tax liability of £30,000 and subscribed for £100,000 worth of ordinary shares in the EIS investment, the resulting income tax liability may be reduced to zero.

The maximum level of investment qualifying for income tax relief is £1,000,000 per investor per annum in one or more qualifying companies. As a result, up to £300,000 tax relief can be claimed by the investor, providing they have sufficient taxable income to allow the full EIS relief, and make no other EIS investment in the tax year. An investor can carry back 100% of their EIS investment to the previous tax year for income tax purposes. Therefore, an investment made in 2021/2022 can be carried back to the 2020/2021 tax year.



Capital gains tax deferral relief (1)

100%

is the amount of capital gains tax deferral relief an investor receives when **investing** in an EIS

Unlike the SEIS, there is no capital gains tax relief given in an EIS investment. However, 100% of the gain will be deferred for the investment life.

In terms of CGT reinvestment relief, it assumes an investor has previous capital gains from prior years.



Capital gains tax relief (2)

100%

is the amount of capital gains tax relief an investor receives when **selling the shares** in an EIS

When an investor sells the shares which are held in a **EIS** the resulting gain is 100% exempt from capital gains tax.

If an investor invested £50,000 into an EIS and then subsequently sold the shares for £170,000, the resulting capital gains tax liability on the £120,000 capital gain may be reduced to zero.



Inheritance tax relief

100%

is the amount of inheritance tax relief an investor receives when investing in a EIS

The **EIS** provides 100% inheritance tax relief if the shares in the EIS are held for at least two years.

If an investor invested £50,000 into an EIS and then subsequently passed away two years later, the resulting inheritance tax liability on the £50,000 investment may be reduced to zero.



Loss relief

Yes!

EIS provides for loss relief against income.

The **EIS** provides loss relief against income. This is dependent on the individual tax payer status.



Meet the author



Boyd Carson is a partner in Sapphire Capital Partners LLP and specialises in Seed EIS and EIS investments, including HMRC advance assurance applications and drafting investor documents. Boyd also helps companies raise finance and invests in selected companies. Boyd previously worked as a Director of PwC corporate finance in New York, is a Fellow of the Institute of Chartered Accountants and is authorised by the Financial Conduct Authority to conduct investment business. He acts as a director for a number of companies in the UK and is the honorary treasurer of a leading cancer charity.

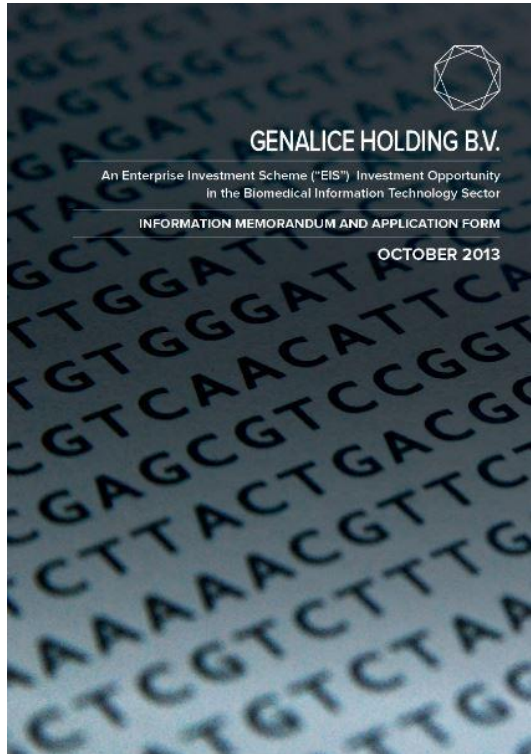
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For further information and advice on the Seed EIS or EIS, please contact Sapphire Capital Partners LLP at the following:

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- Or visit our website at www.SapphireCapitalPartners.co.uk
- Twitter at @SapphireCap



Example EIS client



Genalice Holding B.V.

A HMRC advance assured EIS.

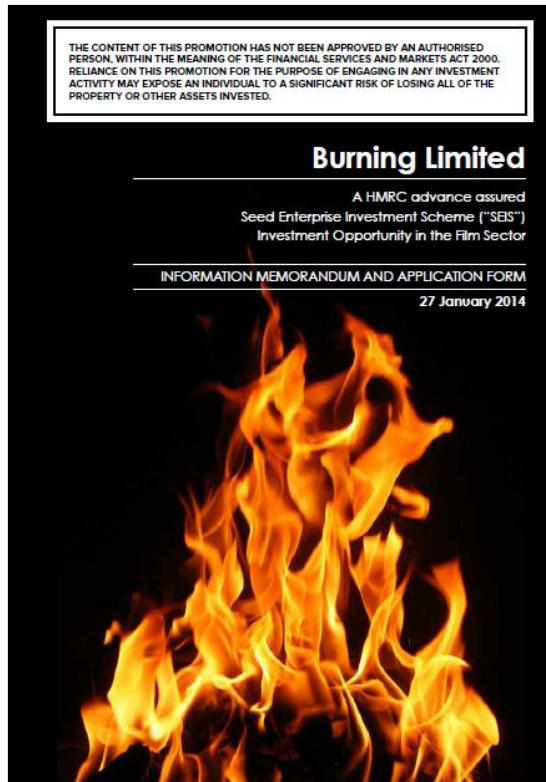
Genalice Holding B.V. is an EIS approved biomedical company based in the Netherlands. Genalice has developed a unique solution, which provides resolutions to a number of bottlenecks in the preprocessing of next generation sequencing data processing.

Company highlights:

1. Company is based in the Netherlands.
2. Sapphire Capital obtained HMRC EIS advance assurance for Genalice.
3. EIS qualifying investors receive 30% income tax relief.
4. Advisory work by [Sapphire Capital Partners LLP](#).
5. Company raised significant investment capital.



Example Seed EIS client



Burning Limited.

A HMRC advance assured Seed EIS.

A movie about a former bomb disposal expert who is suffering from post-traumatic stress disorder. The Company obtained HMRC Seed EIS advance assurance.

Company highlights:

1. Company is based in London.
2. Sapphire Capital obtained HMRC Seed EIS advance assurance for the Burning Limited.
3. Film is backed by Film Engine Limited based in London.
4. SEIS qualifying investors receive 50% income tax relief.
5. Advisory work by [Sapphire Capital Partners LLP](#).



Our services

A

SEIS AND EIS SERVICES

We help our clients regarding SEIS and EIS schemes and raise finance.

B

UK PATENT BOX

We help our clients take advantage of the UK Patent Box.

C

REIT SERVICES

We help our clients set up Real Estate Investment Trusts (REITs).

D

INVESTMENT MANAGEMENT

We are authorised by the FCA to act as a fund investment manager.

E

CORPORATE FINANCE

We help our clients with the ongoing management.

F

PROPERTY

We help our clients in regard to property development.



Learn more about our services [request more information](#).