



Enterprise Investment Scheme

What is it?

The Enterprise Investment Scheme (EIS) aims to encourage individuals to subscribe for full-risk ordinary shares in unquoted trading companies by offering generous tax breaks.

Who is eligible to invest?

Individual investors (i.e. not companies or trusts) who are liable to UK income tax and unconnected with the company are eligible to invest.

How much can be invested?

An individual can invest up to £1 million in EIS shares each year. A company can raise a total of £5 million from EIS each year.

What reliefs are available?

Provided all the necessary conditions are met, including that the ordinary shares are held for a qualifying period of three years, an investor is able to obtain the following tax reliefs:

1. Income Tax Relief

An individual investor can obtain income tax relief of an amount up to 30% of their subscription cost (meaning a potential income tax reduction in any one year of up to £300,000).

2. Capital Gains Tax Relief

Any gain made on a disposal of EIS shares after the three year qualifying period, will be completely exempt from capital gains tax (CGT).

However, it should be noted that if no claim to income tax relief was made by the investor, then any capital gain will not qualify for relief from CGT. Therefore, it's essential that an investor claims relief from income tax.

If the shares are disposed of at a loss, such loss will be available for set off against other gains in the year. Alternatively, the loss may be set against the investor's income of the same year in which the loss was incurred or their income of the preceding year.

3. CGT Deferral Relief

CGT arising on the disposal of any asset can be deferred by reinvesting amounts arising on such disposal into EIS qualifying shares.

There are no minimum or maximum amounts for deferral relief, although to obtain full relief an individual must invest an amount at least equal to the capital gain. The investor can be connected with the company and need not have claimed income tax relief in order to benefit from CGT deferral relief.

CGT deferral relief can be claimed where the subscription for EIS shares was made in the period beginning one year before, and ending three years after, the investor realised a capital gain.

The deferred gain will be brought back into charge whenever the EIS shares are disposed of or are deemed to have been disposed of under the EIS legislation.

Inheritance Tax

Provided the investor held the EIS shares for at least two years (and certain other conditions are met) at the time of transfer or death, business property relief should be available so that the value of the shares will be fully exempt from inheritance tax upon a lifetime transfer or death.

Summary

EIS provides a number of very attractive tax reliefs to encourage investment in unquoted trading companies.

Indeed, EIS can be of particular interest to individuals who have realised a significant capital gain and wish to defer payment of the CGT (potentially forever) whilst at the same time making an investment which (hopefully) will bring financial rewards in the future.

New Quadrant Partners Limited has extensive experience advising both companies who wish to use EIS (and other tax reliefs) in order to attract investors and individuals looking to acquire shares in EIS companies / funds and other tax efficient vehicles.

For further information and advice, please contact Simon Newsham at New Quadrant Partners Limited on 020 7430 7176 or email him at simon.newsham@nqpltd.com.

October 2015

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