

## Enterprise Investment Scheme (EIS) Factsheet

### **Summary**

The EIS was introduced by the Government to encourage investment into unquoted or AIM listed trading companies by providing significant income tax and capital gains tax (CGT) reliefs.

### **The reliefs**

#### *Income tax relief*

Up to £1m of investment can be relieved at 30% by reducing your income tax bill. For example, if you invest £500k, your income tax bill would be reduced by £150k. To the extent that your income tax for the year is less, the relief can be carried back to the previous tax year only.

#### *CGT exemption*

When the qualifying shares are sold, no CGT will arise. However, if there is a loss, this can still be used and can be converted into an income loss.

#### *CGT deferral*

If you have made a gain within the three years before investing into an EIS company or one year after, the charge to CGT on that gain can be deferred until the shares in the EIS company are disposed of.

#### *Inheritance tax relief*

Once the shares have been held for two years, they will qualify for business property relief and therefore be outside of your inheritance tax estate.

### **Qualifying investments**

To qualify, an individual must not be employed by or otherwise connected with the company; however, investors can subsequently become directors, thereby allowing

for business angels to invest. Additionally, the income tax relief and CGT exemption are only available if the investor owns 30% or less of the company.

There are various conditions attached to the company, the investor and the investment that must be met for three years following acquisition of the shares. These are complex, with many traps and pitfalls, and too numerous to set out here.

The company can obtain advance assurance from HMRC that it qualifies, thereby increasing its appeal to potential investors.



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