

Experts in the UK's Venture Capital Tax Reliefs

Venture Capital Tax Reliefs are a key part of the UK Government's strategy to help small and growing businesses raise much-needed capital. We specialise exclusively in this area, advising investors and companies raising finance alike.

EIS

EIS has been in place since 1994 and since it was introduced the rules have changed several times. The following description of the rules is as they stood immediately following the enactment of Finance Act 2016 with effect from 6 April 2016. This is a simplified summary and doesn't go into all the detail.

For more information, we suggest you read HMRC's published guidance [here](#).

EIS for Investors

You can invest up to £1m a year in new shares in EIS-qualifying companies to benefit from Income Tax relief at 30% of the amount invested. You must hold the shares for a qualifying period of at least 3 years, starting from the date of the investment or the date the company begins trade if later.

After the qualifying period, you may:

- Benefit from Capital Gains tax disposal relief on any shares disposed of at a profit.
- Offset any losses on disposal of the shares, either against capital gains or against income.

You may not be connected with the company by employment, must not have more than a 30% stake, and are subject to some anti-abuse rules. If you already have non EIS shares in the company, you may not qualify for EIS tax relief for new shares.

You can also defer an existing Capital Gains Tax charge if you re-invest the gain in EIS-qualifying shares.

Before you can claim most of these reliefs, HMRC first has to certify that the company invested in, and the share issue, meet all the requirements. Some of the tests have to be met throughout the 3year qualifying period for the shares, or HMRC will recover some or all of the tax relief.

EIS for Companies

To be eligible for EIS investment, a company...

- Must have fewer than 250 employees.
- Must have no more than £15m in assets.
- Must not be quoted on a recognised stock exchange.
- Must not be controlled by another company.
- Generally its trade must not be more than seven years old at the time of the first EIS investment (ten years for a 'knowledge intensive' company).

The above rules apply to the group if the company is part of a larger group.

Shares issued under EIS must be ordinary non-redeemable shares, with no preferential rights to assets in a winding up and limitations on preferential rights to income. Additionally, a company must not raise more than £5m finance in any year or a total of £12m through any combination of EIS and Venture Capital Trust investment (and certain other publicly funded support). For a 'knowledge intensive' company, the total funding should not exceed £20m.

Money raised through EIS must be used within two years for a qualifying trading activity (including preparations for trade) or for research and development intended to benefit such a trade.

Most trades qualify, but some don't. **See [HMRC's website](#)** for a full list of excluded activities.