

## 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 are as they stood at 6 April 2018 following the enactment of Finance Act 2018 in March 2018 and The European Commission approval of the Autumn Budget 2017 changes to the EIS legislation in July 2018. This is a simplified summary and doesn't go into all the detail. For more information and before you contact us, we suggest you read HMRC's published guidance [here](#).

#### EIS for Investors

Under current rules you can invest up to £1m\* per tax 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. You may also offset any losses on disposal of the shares, either against capital gains or (in some cases) against income, net of any income tax relief retained.

You and your associates must not be connected with the company by employment (although some directors may qualify), or have more than a 30% stake in the company. If you already have non EIS shares in the company, you may not be able to claim EIS tax relief for new shares. The relief is also subject to some anti-avoidance rules.

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 3 year qualifying period for the shares, or HMRC will recover some or all of the tax relief.

\*This amount is £2m from 6 April 2018 provided that any amount over £1m is invested in 'knowledge-intensive' companies.

#### EIS for Companies

**To be eligible for EIS investment, a company must meet all of the conditions including:**

- It must have fewer than 250 employees at the time of investment (or fewer than 500 for a 'knowledge intensive' company).
- It must have no more than £15m in gross assets at the time of the investment.
- It must not be quoted on a recognised stock exchange.
- It 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 12 month period (unless it is a 'knowledge-intensive company' which, from 6 April 2018, can raise £10m in a 12 month period) 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 lifetime funding cannot 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. All EIS investments made on or after 15 March 2018 must meet the 'Risk to capital' condition.

Most trades qualify, but some don't. See HMRC's website for a full list of excluded activities.