critchleys
CHARTERED ACCOUNTANTS
& BUSINESS ADVISERS

Critchleys Chartered Accountants
Greyfriars Court, Paradise Square, Oxford, OX1 1BE

Tel: 01865 261100 Fax: 01865 261201
www.critchleys.co.uk Email: info@critchleys.co.uk

Enterprise Investment Scheme

The Enterprise Investment Scheme (or "EIS") is a number of tax breaks to encourage investors to put money into small companies. This document will try to summarise these tax benefits, but inevitably it won't go into full detail.

The basic idea

To help small companies that trade in the UK to grow, investors who put cash into them by way of share capital can get tax back on their investment.

What companies qualify?

There are lots of conditions, and we can't go into all of them, but they include the following:

- The company must be trading, not investing. (There are a number of excluded trades, often based on property or financial services — the idea isn't to give tax breaks to them.)
- Its trade must be mainly in the UK.
- It must be unquoted, and it mustn't have gross assets of more than £7m (after the new shares, this can go up to no more than £8m).
- There mustn't be more than 50 employees.
- It mustn't raise more than £2m via this scheme in any 12-month period.

Tax breaks for the investor

There are two tax breaks:

1. Investors can roll over capital gains, and thus put off paying CGT until they sell on their new shares ("CGT deferral relief").
2. They can get income tax relief at 20% on their investment. If they keep the shares for three years, the income tax relief is theirs to keep forever, and in addition that shares can be sold on completely free of CGT any time after that ("Income Tax relief").

To get **CGT deferral relief**, there are fewer restrictions. There is no limit on the total amount an investor can pay out, and he can roll over gains up to three years after they were made. But there mustn't be any way that the investor can get his cash back through some indirect return of capital.

Critchleys Chartered Accountants
Greyfriars Court, Paradise Square, Oxford, OX1 1BE

Tel: 01865 261100 Fax: 01865 261201
www.critchleys.co.uk Email: info@critchleys.co.uk

To get **Income Tax relief**, the restrictions are tighter. First of all, the investor can't have relief on more than £400,000 in any tax year. Secondly he can't work for the company before he invests (he can become a director afterwards). Thirdly, the investor, along with certain people connected with him, can't own more than 30% of the company. And again there must be no way the investor can get his cash back via some return of capital.

Although this is not a deliberate part of the EIS set-up, the nature of EIS investments is such that, after two years of ownership, your investment should qualify for 100% exemption from Inheritance Tax as well — a benefit often overlooked.

How do we know if an investment will qualify?

Companies looking for investors, as well as the investors themselves, will want to be sure that investments in the company will qualify for EIS, before the investments are made. Fortunately, HMRC offer a service whereby they can express an opinion whether investments will qualify or not, in advance of their being made.

What can Critchleys do to help?

We can:

1. Make sure companies satisfy the conditions to qualify for EIS, and assist them in the process of raising money via EIS.

2. Advise investors to make sure they get the benefit of the relief.

Deal with the paperwork regarding HMRC assurance, claims etc.

Critchleys is one of the leading firms of advisers to the technology sector. Our commitment to this is demonstrated by our membership of The Oxford Trust and involvement in technology-focused investment networks such as OION, OEI and UNICO. We have also worked with spin-outs from Imperial College, London, Birmingham University, Oxford University, Oxford Instruments and Rutherford Appleton Laboratories.

If you think you might be affected by this please contact, Gerry Jackson on 01865 261100 or email gjackson@critchleys.co.uk