MAXWELLIA

Enterprise Investment Scheme (EIS) Overview

A detailed guidance note on EIS is provided by HM Revenue and Customs here.

WHAT TAX RELIEF IS AVAILABLE TO INVESTORS?	
Relief against income tax	
What's on offer?	• Investors can reclaim 30% of the cost of their investments against their income tax liability for the tax year in which the investments were made. If necessary to maximize income tax relief, the investment can be treated as though it was made in the immediately preceding tax year. • If the shares are later disposed of at a loss, that loss (minus any income tax relief already claimed) can be deducted against income-taxable income in the year of disposal or the previous year (rather than having to be set against capital gains as would normally be the case).
How much can be invested under the scheme?	• Up to £1 million each year.
Are there any restrictions?	• The investor must hold the shares for at least 3 years, otherwise the relief is withdrawn.

Relief against capital gains tax	
Are there any reliefs available when I make the investment?	• If an investor is funding an investment by selling other assets, he/she may be able to defer any gains made in making the sale.
What happens on disposal of the shares?	• If the shares have met the conditions for income tax relief above (and it has not been withdrawn) then any gain on disposal of the shares is exempt from capital gains tax.
DO THE SHARES CONSTITUTE AN ELIGIBLE INVESTMENT?	
Requirements of the shares being purchased	• Must be fully paid in cash at the time of issue.

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	• Must be full-risk ordinary shares with no rights to redemption and no preference in the event of a winding up. • May have limited preferential rights to a fixed, non-discretionary, non-cumulative dividend. • Must be no arrangements to protect the investor from the normal risks of investment and no arrangements for the shares to be sold in the future. • Must be no loan made in connection with the purchase of the shares.
Use of funds raised	• Must all be spent on a qualifying activity within 2 years of the shares being issued (or within 2 years of the trade commencing if that is later). • Qualifying activity means either carrying on a qualifying trade, preparing to carry on a qualifying trade or carrying out R&D which will lead to or benefit a qualifying trade. • Company must have traded for at least 4 months before relief can be claimed.
IS THE COMPANY ELIGIBLE?	
Qualifying trade	• HMRC requires that the trade must be conducted on a commercial basis with a view to making a profit. • Certain activities are excluded (eg banking, property development, providing accountancy services).
Maximum amount which can be raised under the scheme	• £5million per year from any of HMRC's venture capital schemes in aggregate.
Conditions which the company must meet at the point of investment	• Must be unquoted (although admission on AIM is not regarded as quoted for EIS purposes) • Fewer than 250 full-time employees. • Max gross assets of £15million before investment takes place and £16million after investment takes place. • Must not be in financial difficulty.
Conditions which the company must meet continuously from the date of investment	• Must not be controlled by another company.

	• Must be in control of, and own greater than 50% of the shares of any subsidiaries. • Must have a permanent establishment in the UK.
ARE YOU AN ELIGIBLE INVESTOR?	
What constitutes an eligible investor?	• Must not be connected to the company by financial interest (defined as 30% or more of the share capital or voting rights) at any time from 2 years prior to investment to 3 years after investment. • Must not be employed by the company (does not apply to directors as long as their remuneration begins after investment). • Associates of employees of the company and persons connected to the company by financial interest are not eligible. Associates are defined as business partners, trustees of any settlement where you are a settlor or beneficiary, and relatives. Relatives are spouses or civil partners, parents and grandparents, children and grandchildren. Brothers and sisters are not counted as associates for the purpose of the EIS.