



EIS – Enterprise Investment Scheme (UK)

The Enterprise Investment Scheme (EIS) and The Seed Enterprise Investment Scheme are government initiatives offering attractive tax breaks for citizens living in the UK.

To qualify for them, you need to invest in the shares of a small, unlisted company (250 employees or less, and maximum gross assets of £15 million, before the investment). Unlisted means that the company is not quoted on a major stock market, although it can be quoted on a market for smaller companies like AIM or ISDX

The Enterprise Investment Scheme was launched in 1994 and it offers tax breaks to investors who buy shares in small, private companies:

- Investors get income tax relief of 30 per cent. Meaning that if you invest £10,000 in a company that is eligible for EIS, you can deduct £3,000 off your income tax bill in the year that you invest.
- You'll pay no capital gains tax on any profits you make from an EIS investment. So if you invest £10,000 and five years later sell your shares for £20,000, you'll get the full benefit of the £10,000 profit.
- If you make a loss on your investment, you can offset that loss against income tax. If you lose your entire £10,000 investment. Because of income tax relief, your actual loss is only £7,000 (£10,000-£3,000). So you can, if you choose, reduce your taxable income for the year in which you disposed of the shares by £7,000, resulting in a saving of £2,800 (40 per cent of £7,000) for a higher-rate taxpayer. You can also choose to offset your loss against other capital gains.
- There's no inheritance tax to pay on shares bought through EIS.

To be eligible for these reliefs, you generally have to hold the shares for at least three years before selling them. There's a few more catches. You still have to pay tax on any dividends – but most small private companies won't pay dividends anyway. There are certain restrictions as to what kind of business you can invest in (it can't be a bank, a farm or a nursing home, for example). And you can't be connected to the company or have a stake of more than 30 per cent of it. You can invest a maximum of £1 million each year through EIS.

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SEIS FOR INVESTORS

The Seed Enterprise Investment Scheme (SEIS) has been created to support early stage startups in raising their first £150k of equity funding. This scheme offers a number of advantages to UK investors who put their money in SEIS approved companies. A company has to meet certain criteria to qualify – the SEIS is designed to help at the stage when companies need help but it is still difficult for them to find investment.

- Investors get income tax relief of 50 per cent. Meaning that if you invest £10,000 in a company that is eligible for SEIS, you can deduct £5,000 off your income tax bill in the year that you invest.
- You'll pay no capital gains tax on any profits you make from an SEIS investment. So if you invest £10,000 and five years later sell your shares for £20,000, you'll get the full benefit of the £10,000 profit.
- If you make a loss on your investment, you can offset that loss against income tax. If you lose your entire £10,000 investment. Because of income tax relief, your actual loss is only £5,000 (£10,000-£5,000). So you can, if you choose, reduce your taxable income for the year in which you disposed of the shares by £5,000, resulting in a saving of £2,000 (40 per cent of £5,000) for a higher-rate taxpayer. You can also choose to offset your loss against other capital gains. This is an aggregate income tax relief of up to 72.5%
- There's no inheritance tax to pay on shares bought through SEIS.

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