Investment tax reliefs

This fact sheet provides a short overview of approved HMRC schemes that reward investment in business and other enterprises, with various tax reliefs. The schemes covered are: Enterprise Investment Scheme, Seed Enterprise Investment Scheme, and Social Investment Tax Relief.

The notes that follow outline the tax incentives provided for each scheme.

Enterprise Investment Scheme (EIS)

Income Tax relief
Available to individuals who subscribe to a qualifying EIS share issue. Income Tax relief is allowed up to 30% of the cost of the EIS shares acquired. This amount can be set-off against that person's Income Tax liability in the year in which the investment was made.

EIS relief is capped at £300,000, which means that the maximum investment that would qualify for Income Tax relief, is £1m in qualifying shares. But see below regarding the doubling of these limits if the investment is in knowledge-intensive companies.

Relief is conditional. To qualify, the following conditions must be met:

- The shares must be held for three years, from the date shares were acquired, or the date trade commenced if this was a later date.
- Individuals who are considered to be connected to the company cannot claim Income Tax relief.
- If the EIS relief exceeds a person's liability for a tax year, the relief is restricted to the amount that would reduce liability to nil.

There is a 'carry back' facility which allows all or part of the cost of shares acquired in one tax year, to be treated as though those shares had been acquired in the preceding tax year. Relief is then given against the Income Tax liability of that preceding year rather than against the tax year in which those shares were acquired. This is subject to the overriding limit for relief for each year.

Capital Gains Tax (CGT)
If shares issued under an EIS scheme have resulted in a successful claim for Income Tax relief, and the relief has not been subsequently withdrawn, any disposal of the shares after the three year holding period has elapsed, will be free of any CGT liability.

Loss Relief
If EIS shares are disposed of at a loss it is possible to set-off the amount of the loss against income rather than other capital gains – the set-off is reduced by any Income Tax relief already given.

Seed Enterprise Investment Scheme (SEIS)

Income Tax relief
Available to individuals who subscribe to a qualifying SEIS share issue.

Income Tax relief is allowed up to 50% of the cost of the SEIS shares acquired. This amount can be set-off against that person's Income Tax liability in the year in which the investment was made.

This relief is capped at £50,000, which means that the maximum investment that would qualify for Income Tax relief is £100,000 in qualifying shares.

Relief is conditional. To qualify, the following conditions must be met:

- The shares must be held for three years, from the date shares were acquired, or the date trade commenced if this was a later date.
- A claim for relief can be made up to five years after the 31 January following the tax year in which the investment was made.
- If the SEIS relief exceeds a person's liability for a tax year, the relief is restricted to the amount that would reduce liability to nil.

There is a 'carry back' facility which allows all or part of the cost of shares acquired in one tax year, to be treated as though those shares had been acquired in the preceding tax year. Relief is then given against the Income Tax liability of that preceding year rather than against the tax year in which those shares were acquired. This is subject to the overriding limit for relief for each year.

Capital Gains Tax (CGT)
If shares issued under an SEIS scheme have resulted in a successful claim for Income Tax relief, and the relief has not been subsequently withdrawn, any disposal of the shares after the three year holding period has elapsed, will be free of any CGT liability.

EIS and VCT – encouraging investments in knowledge-intensive companies

There are further tax incentives for individuals investing in knowledge-intensive companies under the EIS and Venture Capital Trust (VCT) rules. These additional reliefs include:

- The annual limit for individuals investing in knowledge-intensive companies under the EIS is £2 million, if at least £1 million is invested in knowledge-intensive companies.
- The annual EIS and VCT limits on the amount of tax-advantaged investments a knowledge-intensive company may receive is £10 million.
- Greater flexibility will be provided with respect to the rules for determining whether a knowledge-intensive company meets the permitted maximum age requirement.

Can a business owner claim these reliefs?

If you are connected with the company raising funding under the EIS, SEIS or SITR rules, you will not be eligible for Income Tax reliefs, but may still qualify for certain CGT benefits.

Under guidance published by HMRC, you are connected if you:

- Own more than 30% of the share capital or voting rights,
- You are entitled to more than 30% of the assets of the company in the event of a winding up, and
- You are a partner, director or an employee of the company.

In most cases this restriction will mean Income Tax reliefs would not be available.
Take advice if you want to consider this option.

Which scheme should you use?

The choices, for companies looking for inward investment, and investors looking for tax effective ways to invest in businesses, are varied and all should be made by taking a hard look at the commercial risks involved as well as any tax reliefs that can be claimed.

Summary action list

- Don't let your desire for the tax benefits over-rule your assessment of the commercial risks of an investment.
- Take advice.
- In most cases, the investment wrappers described above require that your funds are locked in for three years. These are not short-term investments.