Enterprise Investment and Seed Enterprise Investment Schemes: Introduction to National Statistics

Background

1. Introduced in 1994, the Enterprise Investment Scheme (EIS) is one of the three tax-based venture capital schemes (Enterprise Investment Scheme, Venture Capital Trusts and Seed Enterprise Investment Scheme). It is designed to help smaller, higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new full-risk ordinary shares in those companies. The Seed Enterprise Investment Scheme (SEIS) was introduced in 2012 to complement EIS and is intended to recognise the particular difficulties which very early stage companies face in attracting investment, by offering tax relief at a higher rate than that offered by EIS.

2. To qualify for EIS during 2013-14, the latest year of published statistics, a company had to meet the following requirements:

   - The company must be unquoted;
   - It must not be controlled by another company, and any subsidiaries must not be controlled by any other person;
   - It must have gross assets not exceeding £15 million before the share issue and £16 million after (previously £7m and £8m), and must have fewer than 250 full-time employees (previously 50) at the time of the share issue;
   - All the money raised must be employed by the issuing company or by a 90% qualifying subsidiary for the purposes of a qualifying business activity within 2 years of the share issue. Activities which qualify are the carrying on of a qualifying trade or preparing to carry on a trade which is then begun within two years of the share issue; or carrying on of research and development intended to lead to a qualifying trade;
   - The issuing company must have a permanent establishment in the UK;
   - A company may carry on some excluded activities, but these must not be a 'substantial' part of the company’s trade; and
   - Relief may be withdrawn from investors if the company ceases to meet any requirement before the end of the qualifying period for the shares.

3. To qualify for SEIS in 2013-14, a company had to meet the same requirements as under EIS except:

   - It must have no more than £200,000 in gross assets and must have fewer than 25 full time employees;
   - It must not have had any investment from a Venture Capital Trust (VCT), or issued any shares in respect of which it has submitted an EIS compliance statement;
   - It cannot raise more than £150,000 in total under the scheme. The £150,000 must also take account of any other State aid received by the company in the three years preceding the relevant share issue which is de minimis aid according

to EU regulations. If the relevant issue of shares takes the total over £150,000, then the excess will not qualify for relief;

- Any trade being carried on by the company at the date of issue of the relevant shares, must be less than 2 years old at that date;
- The company must not have carried on any other trade before it started to carry on the new trade; and
- The company can follow a share issue under SEIS with further issues of shares under EIS, or investment from a Venture Capital Trust (VCT). However, it must have spent at least 70 per cent of the monies raised by the SEIS issue before it can do so.

Relief to Shareholders

4. The latest published statistics are for 2013-14, when EIS tax relief comprised:

- **Income tax relief:** Individuals can claim relief at 30% on investments of up to £1,000,000 per tax year (previously £500,000), provided they are not connected with the company and the shares must be held for a qualifying period of at least three years and up to five years;

- **Capital gains tax exemption:** A gain arising from the disposal of shares for which EIS income tax relief was obtained and not withdrawn is exempt from capital gains tax;

- **Loss relief:** If shares for which EIS income tax relief was obtained are disposed of at a loss, the loss, less any income tax relief given, can be set against income instead of against capital gains; and

- **Capital gains tax deferral:** The payment of tax on a capital gain can be deferred where the gain is invested in EIS qualifying shares. The gain can be from the disposal of any asset, but must be invested one year before or three years after it arose. The gain can be any amount and it does not matter whether the investor is connected with the company or not. Unconnected investors may claim both income tax and capital gains deferral relief. There is no minimum period for which the shares must be held; the deferred capital gain is brought back into charge whenever the shares are disposed of, or are deemed to have been disposed of.

5. The relief available to shareholders under SEIS in 2013-14 comprised:

- **Income tax relief:** As for EIS, except the relief is at 50% on investments of up to £100,000 per year;

- **Capital gains tax disposal relief:** If shares for which SEIS income tax relief has been received are disposed of after they have been held for at least 3 years, any gain is free from capital gains tax (as with capital gains tax exemption in EIS); and

- **Capital gains tax reinvestment relief:** Where an asset is disposed of giving rise to a chargeable gain in 2013-14, and all or part of the amount of the gain is reinvested in shares qualifying under SEIS, the amount reinvested is exempt from capital gains tax.

Key Policy Changes

6. There have been policy changes to EIS since its inception that could be reflected in the statistics. Some of the key changes are:

- **1997-98:** From 17 March 1998, farming, market gardening, property management, hotels, guesthouses, care and nursing homes became 'excluded activities'.
- **1998-99:** From 6 April 1998, capital gains tax deferral relief was extended to include shares that did not qualify for income tax relief. Previously, deferral relief was only available in respect of such shares. In addition, a company gross assets limit of £15 million before investment and £16 million after investment was introduced. Prior to this, there was no limit on company size, but a company could raise only up to £1 million per tax year through EIS (though certain qualifying shipping activities could raise up to £5 million). Also, the maximum amount of investment on which income tax relief could be obtained was increased from £100,000 to £150,000.
- **1998-99:** Capital gains tax exemption introduced from 1 January 1999.
- **2000-01:** Change in the definition of research and development. The period for which shares must be held to retain income tax relief was reduced from five years to three.
- **2001-02:** The requirement that all money be employed in qualifying activities within 12 months was changed to 80 per cent (with the remaining 20 per cent to be employed within the next 12 months).
- **2004-05:** Maximum amount of investment on which income tax relief could be obtained increased from £150,000 to £200,000.
- **2006-07:** Gross assets limit reduced to £7 million before investment and £8 million after investment. Maximum amount of investment on which income tax relief could be obtained increased from £200,000 to £400,000.
- **2007-08:** From 19 July 2007, companies must have raised no more than £2 million under any or all of the tax-based venture capital schemes (Venture Capital Trusts, Enterprise Investment Scheme and, available at the time, Corporate Venturing Scheme).
- **2008-09:** Maximum amount of investment on which income tax relief could be obtained increased from £400,000 to £500,000.
- **2009-10:** The time within which monies raised by the share issue must be employed was extended from 80% within 12 months and the remainder within a further 12 months, to 100% within 2 years.
- **2011-12:** The requirement that the trade be carried on wholly or mainly in the UK was removed, and replaced with a requirement that the issuing company have a permanent establishment in the UK. Companies which it would be reasonable to regard as "enterprises in difficulty" as defined by the European Commission, were excluded. The EIS rate of relief was increased to 30%.
- **2012-13:** From 6 April 2012, SEIS was introduced and EIS was extended to companies with fewer than 250 full time equivalent employees and gross assets of no more than £15 million before investment and £16 million after investment. The annual investment limit for companies under EIS increased to £5 million, and that

sum must take account of VCT and SEIS investment and any other investment received via any measure covered by the European Commission's Guidelines on State aid to promote Risk Capital Investment in Small and Medium-sized Enterprises. For shares issued on or after 6 April 2012, a company using the funds to acquire shares in another company will not be regarded as using them for a qualifying purpose. The annual investment limit for an individual under EIS was increased to £1m, and the £500 minimum investment requirement was removed. Most trades attracting feed-in tariffs or overseas equivalents, were excluded.

- **2013-14:** From 6 April 2013, capital gains tax reinvestment relief was altered so that 50% of the amount reinvested is exempt from capital gains tax.
- **2014-15:** From 6 April 2014 both SEIS and the 50% CGT reinvestment relief were made permanent. Companies benefitting from investment via EIS, SEIS or the VCT scheme who are also benefitting from DECC Renewable Obligations Certificates (ROCs) or Renewable Heat Incentive (RHI) subsidies were excluded from all venture capital schemes (EIS, VCT and SEIS).

7. Further details on EIS and SEIS and policy changes can be found at: http://www.hmrc.gov.uk/manuals/vcmmanual/index.htm

Description of the Statistical Tables

8. EIS Tables 8.1 to 8.4 and SEIS Tables 8.11 to 8.14 present information on the total levels of fundraising and the number of companies. This is derived from the EIS1/SEIS1 forms that companies are required to submit before tax relief may be claimed by investors.[1] Note that companies have a period of several years after shares are issued to submit an EIS compliance statement.

9. Tables 8.5 and 8.15 use information on the number of investors and the amounts invested reported on investors' Self Assessment tax returns. They present only investments in respect of which income tax relief has been claimed.[2] The EIS and SEIS investors can claim Income Tax relief up to five years after the first 31 January following the tax year in which the investment was made. Therefore, in the next year's publication a small number of late claims can result in minor revisions to previously published figures, particularly the figures (2013-14 in this instance).

Table 8.1 shows the number of companies raising funds and the number of subscriptions and amounts raised through EIS for 1993-94 to 2013-14.
Table 8.2 shows the number of companies and amount of funds raised, by industry through EIS for 2011-12 to 2013-14.
Table 8.3 shows the number of companies and amount of funds raised, by size of funds through EIS for 2011-12 to 2013-14.
Table 8.4 shows amount of funds raised, by region through EIS for 2011-12 to 2013-14
Table 8.5 shows the distribution of investors and amount of investment claimed income tax relief under EIS scheme for years 2011-12 to 2013-14.

[1] http://www.hmrc.gov.uk/forms/eis1.pdf
[2] http://www.hmrc.gov.uk/sa/forms/content.htm

Table 8.11 shows the number of companies raising funds and the number of subscriptions and amounts raised through SEIS in 2012-13 and 2013-14.
Table 8.12 shows the number of companies and amount of funds raised, by industry through SEIS in 2012-13 and 2013-14.
Table 8.13 shows the number of companies and amount of funds raised, by size of funds through SEIS in 2012-13 and 2013-14.
Table 8.14 shows amount of funds raised, by region through SEIS in 2012-13 and 2013-14.
Table 8.15 shows the distribution of investors and amount of investment claimed income tax relief under SEIS in 2012-13 and 2013-14.

10. Statistical enquiries should be addressed to:

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    For more general enquiries please refer to the HMRC website:
    www.hmrc.gov.uk

11. For all detailed enquiries relating to investing in Venture Capital Trusts, please contact:

    Local Compliance
    Small Company Enterprise Centre Admin Team
    SO777
    PO Box 3900
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