Enterprise Investment Scheme: Introduction to National Statistics

Background

1. Introduced in 1994, the Enterprise Investment Scheme (EIS) is one of the three tax-based venture capital schemes. 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.

2. To qualify for EIS during the latest year of published statistics, 2010-11, 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 £7 million before the share issue and £8 million after, and must have fewer than 50 employees 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 trade must be carried on wholly or mainly in the UK, and must be conducted on a commercial basis with a view to the realisation of profits. Most trades qualify, but some do not – termed 'excluded activities'[1].
   - A company can carry on some excluded activities, but these must not be 'substantial' part of the company's trade.
   - Relief is withdrawn from investors if the company fails to meet any requirement throughout the three years following the share issue.

Relief to Shareholders

3. Latest published statistics are for 2010-11, when tax relief comprised:

   - **Income tax relief:** Individuals can claim relief at 20% on investments of up to £500,000 per tax year, provided they are not connected with the company and the shares must be held for at least three years.

[1] In 2010-11, the excluded trades were dealing in land, commodities, or financial instruments; dealing in goods, other than an ordinary trade of retail or wholesale distribution; banking, insurance, money-lending, debt-factoring, hire-purchase financing or any other financial activities; leasing or letting assets (except certain ship-chartering activities); receiving royalties or licence fees (except if arising from the exploitation of an intangible asset the company has created); legal or accountancy services; property development; farming or market gardening; forestry or timber production; hotels or comparable establishments; nursing homes or residential care homes; and providing services to another person whose trade substantially consists of excluded activities and that person also controls the company providing the services.

- **Capital gains tax exemption:** A gain arising from the disposal of shares for which EIS income tax relief was obtained and retained 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.

- **Capital gains tax deferral:** The payment of tax on a capital gain can be deferred where the gain is invested in shares of an EIS qualifying company. 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.

Key Policy Changes

4. There have been some policy changes to the scheme 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 do not obtain income tax relief. Previously, deferral relief was only available such shares. In addition, a company gross assets limit of £15 million before investment and £16 million after 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 can 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 & 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 can 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 can 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 Corporate Venturing Scheme).

- **2008-09:** Maximum amount of investment on which income tax relief can 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, EIS qualifying holdings are 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 is increased to £5 million, and that sum must take account of EIS 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 was increased to £1m, and the £500 minimum investment requirement was removed. Most trades attracting feed-in tariffs or overseas equivalents, were excluded.

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

Description of the Statistical Tables

6. Tables 8.1 to 8.4 take information on the total levels of fundraising and the companies from the form EIS1 that companies are required to submit within 3 years of issuing shares.[2] Table 8.5 uses information on the number of investors and the amounts invested reported on investors' Self Assessment tax returns, specifically, in 2008-09, where an amount had been entered in Tax Return: Additional Information: Page Ai 2 (Other tax reliefs box 2), and equivalent boxes in the earlier years, meaning it presents only investments that claimed income tax relief.[3]

7. **Table 8.1** shows the number of companies raising funds and the number of subscriptions and amounts raised through EIS for 1993-94 to 20010-11[P].

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

8. **Table 8.2** shows the number of companies and amount of funds raised, by industry through EIS for 2008-09 to 2010-11^{P}.

9. **Table 8.3** shows the number of companies and amount of funds raised, by size of funds through EIS for 2009-10 to 2010-11^{P}.

10. **Table 8.4** shows amount of funds raised, by region through EIS for 2009-10 to 2010-11^{P}.

11. **Table 8.5** shows for income tax relief; in percentages, the distribution of investors and amount of investment claimed for years 2009-10 to 2011-12.

Users of these statistics

12. These statistics are of interest to anyone seeking the latest data about the uptake of Venture Capital Schemes, their funds raised, and the nature of the companies claiming them.

13. They may also be of interest to organisations such as NESTA, universities and other similar institutions, when comparing the relative effects of similar incentives operating in other countries.

User Engagement

14. Bespoke statistical analysis of Venture Capital data is possible, but there may be a charge, depending on the level of complexity of the analyses and the resources required to produce them. If you would like to discuss your requirements, or comment on the current publications, or obtain further information about the Venture Capital statistics, please use the contact information in the tables, or the HMRC website:

    http://www.hmrc.gov.uk/statistics/

15. We are committed to improving the official statistics we publish. We want to encourage and promote user engagement, so we can improve our statistical outputs. We would welcome any views you have, and we undertake to review user comments on a quarterly basis. We will use this information to influence the development of our official statistics. We will summarise and publish user comments at regular intervals. To comment, please visit:

    http://www.hmrc.gov.uk/statistics/feedback.htm

Enquiries

16. Statistical enquiries should be addressed to: Elizabeth Ojomo, VCT Statistics, KAI Direct Business Taxes, HM Revenue & Customs, Room 2/43,100

Parliament Street, London, SW1A 2BQ.Tel: 020 7147 3102, mailto:elizabeth.ojomo@hmrc.gsi.gov.uk

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

17. For all detailed enquiries relating to investing in Enterprise Investment Scheme, please contact Small Company Enterprise Centre (SCEC), 1st Floor, Fitzroy House, Castle Meadow Road, Nottingham, NG2 1BD. Telephone 0845 600 2622.