

# Foresight

FOR A SMARTER FUTURE

THE FORESIGHT GUIDE:

## **ENTERPRISE INVESTMENT SCHEMES**

2020/21

# What is an Enterprise Investment Scheme (EIS)?

The Enterprise Investment Scheme (EIS) is a tax-efficient investment that was introduced by the UK Government in 1994 to incentivise investment into smaller UK companies. Investors are incentivised with relief on Income Tax, Capital Gains Tax and Inheritance Tax.

## 1. EIS Portfolio

- Although qualifying rules determine the companies that can be held, a range of risk is available in this investment
- Invest in a range of qualifying companies
- The companies held will typically be larger than those in an SEIS

There are  
**3**  
types of  
**EIS**

## 2. Single Investment Company EIS

- Invest directly into one business
- Typically used by investment professionals
- Used specifically to back companies in which the investor has a lot of confidence

## 3. Seed EIS

- Investing into smaller businesses than a standard EIS
- Additional reliefs are available as a result to compensate for the extra risk of a smaller business

# Headline Reliefs

Due to the benefits that smaller businesses bring to the UK economy, HM Treasury offers a range of tax advantages to incentivise you for investing in these businesses through an EIS. You must hold your investment for a minimum of 3 years to take full advantage of the tax reliefs which are listed below:



## Income Tax Relief

30% Income Tax relief on the amount invested.

Income Tax relief can be claimed against the tax year of the investment and/or the previous tax year.



## Tax-free Growth

Growth is exempt from Capital Gains Tax.



## Loss Relief

Loss relief may be available at your marginal rate of tax.



## Inheritance Tax Relief After Two Years

EIS shares qualify for Business Relief so the investment is exempt from Inheritance Tax so long as it is held for 2 years at the time of your death.



## Capital Gains Tax Deferral

Capital Gains can be deferred from 3 years prior and 1 year post investment.

# Additional Benefits

## Growth Potential

Help smaller companies to generate wealth and contribute to the UK's economic growth. Smaller UK businesses can offer more potential for substantial long-term growth if they are successful.

## Tax Relief

Qualify for tax relief and/or deferral on Income Tax, Capital Gains Tax and Inheritance Tax. EIS investors also benefit from the offer of loss relief.

Create a combination of tax reliefs with an EIS that, in a single investment, can mitigate a number of tax planning issues.

## Diversifying Your Portfolio

Smaller companies typically follow different investment cycles from other parts of the market, so an EIS can bring extra diversification to your investment portfolio.

## Investment Opportunities

EISs are considered a higher risk investment; however, portfolios will differ in their investment focus.

## Generous Contribution Limits

Complement your pension and ISA portfolio with a tax-efficient investment with a generous annual contribution. There is an allowance of up to £2m in any tax year, provided that investments after the first £1m are made into knowledge intensive businesses.

# The Rules

The investment must be into new shares.

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The investee company must have fewer than 250 employees.

.....

The investee company must use the money raised within 24 months.

.....

Companies must be unquoted or listed on the alternative investment market (AIM).

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The company must not be controlled by another company.

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Any investment of EIS funds must not exceed more than £10 million per 12 month period.

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Certain trades are excluded for example Mining and Financial Services companies.

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For any new investments there is an investment cap of £12 million (£20 million for 'knowledge intensive' businesses which may also have up to 499 employees).

.....

For any new investment managers are no longer able to finance Management Buy-Outs or Acquisitions.

.....

For all new investment a qualifying company must be no more than 12 years old, unless fundraise will fundamentally change business activity and must have made their first commercial sale within the last seven years.

.....

For all new investments knowledge intensive companies must have made the first commercial sale or reached turnover of £200,000 in the last 10 years.

# The Risks

Tax rules  
are subject to change.

.....

If you sell your shares early  
you will lose the tax relief.

.....

Your capital is at risk;  
you may not get back as much as you put in and in the worst  
case scenario you could lose all of your capital.

.....

Investing in small companies is inherently risky,  
these companies may not perform as hoped and in some  
circumstances may fail completely.

.....

EISs should be considered longer term investments  
and may be higher risk and more difficult to realise than  
securities listed on a stock exchange.



# Who could benefit from EIS investing?

## An individual who:

has a medium to long term investment horizon  
and accepts the increased risk profile

.....  
wants to reduce  
their Income Tax liability

.....  
has paid a CGT bill in the last three years,  
or who owns property, land, shares or other investments  
and wants to defer CGT - and subsequent inheritance tax -  
on disposal

.....  
holds cash  
and is looking for a better rate of return

.....  
is close to the annual allowance  
for pension contributions

.....  
has IHT issues,  
but is not attracted to trusts

.....  
has a combination of tax issues  
that they would like to address

.....  
is a non-domiciled individual  
wishing to remit overseas income and gains to the UK,  
tax-efficiently



# Foresight Highlights



Independent firm founded in **1984**  
**100% partner owned**

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More than **29,400**  
retail investors

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Private equity investment team managing over  
**£600 million**  
of retail & institutional funds in a portfolio of over  
**90 companies**

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**£6.5 billion\***  
of assets under management -  
energy infrastructure and private equity

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\*Following completion of the recent announcement of Foresight Group's acquisition of Pensions Infrastructure Platform (PiP), total AUM will increase to £6.5bn.

**GROWTH  
INVESTOR  
2017 | AWARDS** | **WINNER  
BEST VCT  
INVESTMENT  
MANAGER**

**INVESTMENT  
WEEK  
TAX EFFICIENCY  
AWARDS 2018/19  
WINNER  
Best Generalist - VCT**

**INVESTMENT  
WEEK  
TAX EFFICIENCY  
AWARDS 2016/17  
WINNER  
Best HT Portfolio Service**

## Other Guides from Foresight:

- [Foresight Guide to BR](#)
- [Foresight Guide to IHT](#)
- [Foresight Guide to VCTs](#)
- [Foresight Guide to Tax](#)
- [Foresight Guide to Claiming Tax Relief](#)

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### Important notice

Investments in EIS products will place investors' capital at risk and you may not get back the full amount invested. The investments listed are in unlisted companies which are likely to be harder to value and sell than quoted shares. Please note that the availability of EIS tax relief is dependent on each investor's circumstances. Tax reliefs are also subject to change, and rely on the company in question meeting EIS qualifying criteria. Foresight does not provide investment or tax advice, and therefore potential investors should seek specialist independent tax and financial advice before investing. Past performance should not be taken as a reliable indicator of future results and forecasted returns are not guaranteed. An EIS is a long-term investment and you may not be able to get your money back out before the end of the investment term.

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