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COMPARISON OF EIS, SEIS AND VCT

This document summarises the tax benefits for individual investors under the Enterprise Investment Scheme (EIS) the Seed Enterprise Investment Scheme (SEIS), and investors in Venture Capital Trusts (VCTs), along with some of the key requirements of these schemes.

The table below sets out the following for each of the schemes:

- Details of the income tax reliefs available;
- Specific capital gains tax (CGT) relief that can be available where gains are reinvested under the scheme;
- The CGT position of an investor when disposing of shares acquired under the scheme;
- The inheritance tax (IHT) position of the shares acquired.

Some of the key rules relating to each of the schemes are provided at the end of the document. This information is intended to provide a summary of the main conditions only, and more detailed advice will always be required before investing under any of these schemes.

	EIS	SEIS	VCT
Income tax relief	Income tax relief is available at 30% of the amount invested, up to the maximum annual investment limit of £1 million (or £2 million for investments in “knowledge-intensive” companies). By election, where a qualifying investment is made in one tax year, it can be treated for income tax purposes as though it was made in the immediately preceding tax year. Dividends received on EIS shares are subject to income tax in the usual way.	Income tax relief is available at 50% of the amount invested, up to the maximum annual investment limit, which is currently £200,000, having increased from £100,000 from 6 April 2023. By election, where a qualifying investment is made in one tax year, it can be treated as though it was made in the immediately preceding tax year. Dividends received on SEIS shares are subject to income tax in the usual way.	Income tax relief is available at 30% of the amount invested, up to the maximum annual investment limit of £200,000. It is not possible to carry back a VCT subscription to claim income tax relief in the previous tax year. Dividends received in respect of VCT shares, where the investment qualified for income tax relief, are themselves exempt from income tax.

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Withdrawal of income tax relief	Income tax relief can be clawed back if certain events occur within the 3 year period from the investment date or the date the company starts to trade, whichever is later. These events include: • The company ceasing to satisfy certain qualifying conditions; • The investor becoming "connected" with the company; • The investor receiving value from the company; or • The shares being sold. Where the shares are sold within 3 years, the claw back is limited to 30% of any proceeds received.	Income tax relief can be clawed back if certain events occur within the 3 year period from the investment date. These events include: • The company ceasing to satisfy certain qualifying conditions; • The investor becoming "connected" with the company; • The investor receiving value from the company; or • The shares being sold. Where the shares are sold within 3 years, the claw back is limited to 50% of any proceeds received.	Income tax relief given on the investment can be clawed back if the VCT shares are sold or the VCT loses its approved status within 5 years of the shares being issued. Where the shares are sold within 5 years, the claw back is limited to 30% of any proceeds received.
Capital gains tax relief on reinvestment	A capital gain arising on the disposal of any asset can be deferred if the amount of the gain is invested in qualifying EIS shares, in the period from one year before to three years after the original disposal. The deferred gain will usually come back into charge on the disposal of the EIS shares.	Where an individual disposes of an asset which would give rise to a capital gain, and reinvests all or part of the gain in shares which qualify for SEIS income tax relief, 50% of the amount of the gain reinvested will be exempt from CGT. The reinvested gain can be brought back into charge where any SEIS income tax relief is withdrawn.	Not applicable.
Capital gains tax exemption	Gains made on the disposal of EIS shares more than 3 years after the investment date or the trade commencement date, whichever is later, are exempt from CGT provided that income tax relief was given on the subscription and it has not subsequently been clawed back.	Gains made on the disposal of SEIS shares more than 3 years after the investment date, are exempt from CGT provided that income tax relief was given on the subscription and it has not subsequently been clawed back.	Gains made on the disposal of VCT shares are exempt from CGT if income tax relief was given on the initial subscription.

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	EIS	SEIS	VCT
Relief for capital losses on disposals	Providing certain conditions are met, losses arising on the disposal of EIS shares – after the deduction of any income tax relief given and not clawed back – can be used against either income or capital gains..	Providing certain conditions are met, losses arising on the disposal of SEIS shares – after the deduction of any income tax relief given and not clawed back – can be used against either income or capital gains.	Losses arising on any disposals are not allowable against either income or gains.
Business property relief (BPR)	Shares in EIS companies held for at least two years will normally qualify for 100% business property relief for IHT purposes.	Shares in SEIS companies held for at least two years will normally qualify for 100% business property relief for IHT purposes.	Shares in VCTs do not qualify for business property relief for IHT purposes.

Key EIS conditions

For an investment to qualify under EIS, the company and the investor need to meet certain conditions.

Some of the key conditions to be met by the company are as follows:

- The company's gross assets must not exceed £15 million immediately before the shares are issued and £16 million immediately afterwards;
- The company must be unquoted and have a UK permanent establishment;
- The company (or a member of its group) must exist to carry on a qualifying trade (with certain activities - including various financial activities, property development, legal and accounting services, and hotels - being "excluded");
- The company must not be under the control of another company;
- The number of full-time employees of the company must not exceed 250 (or 500 for "knowledge-intensive" companies); and
- In addition, the company must intend to grow and develop its trade in the long term, and there must be a significant risk to the investor that there will be a loss of capital in excess of the amount of net investment return.

The maximum annual amount that can be invested in a company through schemes such as EIS is £5m (£10m for knowledge-intensive companies), and the maximum total amount that a company can raise through these schemes is £12m (£20m for "knowledge-intensive companies").

A company must normally raise its first EIS investment within seven years of its first commercial sale. EIS funds must be raised for the purpose of business growth and development, and they must generally be used for the purpose of a qualifying trade within two years.

Some of the key conditions to be met by the investor are:

- The investor must subscribe for new non-redeemable ordinary shares and these need to be fully paid up in cash when issued; and
- The investor must not be "connected" with the company, which in brief means that they must not own more than 30% of the company or be an employee or director of the company (although there are certain exceptions in the case of directors).

Key SEIS conditions

For an investment to qualify under SEIS, the company and the investor need to meet certain conditions which are in many respects similar to those that apply under SEIS.

Some of the key conditions to be met by the company are:

- The company's gross assets must not exceed £350,000 before the investment (increased from £200,000 from 6 April 2023);
- The company must be unquoted and have a UK permanent establishment;

- The company (or a member of its group) must exist to carry on a qualifying trade (with the same "excluded" activities as for EIS), and any trade carried on at the date of issue must be less than three years old (two years for shares issued before 6 April 2023);
- The company must not be under the control of another company;
- The number of full-time employees of the company must not exceed 25;
- The company must not previously have had any investment from a VCT, or any investment that qualifies for EIS; and

In addition, the company must intend to grow and develop its trade in the long term, and there must be a significant risk to the investor that there will be a loss of capital in excess of the amount of net investment return.

The maximum total amount that can be raised by a company under SEIS is £250,000. The money must be raised for a qualifying trade that is, or is going to be, carried on by the company.

Some of the key conditions to be met by the investor are:

- The investor must subscribe for new non-redeemable ordinary shares and these need to be fully paid up in cash when issued;
- The investor can be a director of the company, but otherwise cannot be an employee; and
- The investor must not own more than 30% of the company.

VCTs

A VCT is a quoted investment company which must meet various conditions. These include the fact that at least 70% of its investments must be in "qualifying investments", which are broadly in the types of company that might qualify for EIS investment. No more than 15% of the VCT's investments can be in any one company, and a least 85% of its income must be distributed each year.

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