**The Enterprise Investment Scheme (EIS)**

Through the Enterprise Investment Scheme (EIS), eligible investors can claim up to 30% income tax relief on investments up to £1 million per tax year. This extends to a further £1 million for investment in knowledge-intensive companies.

The Enterprise Investment Scheme (EIS) is a longstanding UK government scheme, designed to help smaller higher-risk trading companies raise finance, by offering a range of tax relief to investors who purchase new shares in those companies. Where a business is listed as 'EIS' on Crowdcube, this tax relief will be available to qualifying investors.

**The benefits of EIS tax relief**

**Income tax relief**

Up to 30% income tax relief on investments up to £1 million. An additional £1 million is eligible if invested in knowledge-intensive companies

**CGT disposal relief**

Any gain is Capital Gains Tax (CGT) free if the investment is held for at least three years.

**Loss relief**

If the shares are disposed of at a loss, you can elect that the loss be set against any income tax of that year or of the previous year.

**CGT reinvestment relief**

All Capital Gains Tax can be deferred if the gain is re-invested in EIS-qualifying shares.

**What EIS tax reliefs are available?**

**1. Income Tax Relief**

There is no minimum investment through EIS in any one company in any one tax year. Tax relief of 30% can be claimed on investments (up to £1,000,000 in one tax year) giving a maximum tax reduction in any one year of £300,000, provided you have sufficient Income Tax liability to cover it.

An additional £1,000,000 is eligible for the same 30% tax relief if it is invested in “knowledge-intensive” companies. HMRC has a strict definition of “knowledge-intensive”, with conditions that include a minimum spend on innovation and a minimum proportion of the workforce actively working on research. You can find the full conditions here.

EIS allowances are allocated individually. For example, a married couple could separately invest up to £2 million each tax year and be eligible for Income Tax relief.

The main limitation is that all shares must be held for at least three years from the date of issue or the tax relief will be withdrawn.

**2. Capital Gains Tax disposal relief**

Any capital gain is CGT free if the shares are held for at least three years and the income tax relief on the shares was claimed. Shares can be held for much longer and potentially allow you to accrue a CGT exemption over a long period of time, which can be a great attraction.

**3. Loss relief**

If shares are disposed of at a loss, the investor can elect that the amount of the loss - less Income Tax relief - can be set against income of that year or the previous year. This avoids a situation where the loss is set against capital gains, allowing far more flexibility.

**4. Capital Gains Tax reinvestment relief**

Payment of CGT can be deferred if the gain is reinvested into shares of an EIS-qualifying company. The investment must be made one year before or three years after the gain arose, whether or not the investor has a connection to the company (see “Who can claim EIS relief” for more on what “connected” means). Unconnected investors are eligible for relief from both Income tax and CGT deferral relief.

**Examples of EIS relief in action**

Here’s a few examples of how EIS tax relief works. To make the maths easy, let’s assume you invest £10,000 in each case and you’re in the 45% tax bracket.

Case 1:

The company does well and doubles its value and you hold the shares for three years

Investment = £10,000

Income Tax relief = £3,000 (as a reduction in your income tax bill)

Share sales = £20,000

Your gain = £13,000 (£10,000 profit from the sale plus £3,000 income tax relief)

Case 2:

The company value stays the same

Investment = £10,000

Income Tax relief = £3,000 (as a reduction in your income tax bill)

Capital Gains Tax = £Zero

Your gain = £3,000 (from the income tax relief)

Case 3:

The company closes and your shares are worth nothing

Investment = £10,000

Income Tax relief = £3,000 (as a reduction in your income tax bill)

At risk capital = £7,000

Loss relief on at risk capital @ 45% = £3,150

Your actual loss = £3,850 (£10,000 – [£3,000 + £3,150])

For full information about EIS Tax relief visit: