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COMPARISON OF EIS, SEIS AND VCT

This document summarises the main requirements of the Enterprise Investment Scheme (‘EIS’), the Seed Enterprise Investment Scheme (‘SEIS’) and Venture Capital Trusts (‘VCT’) and the tax benefits for the individual investor of each scheme.

The conditions for each relief are not set out in detail and further advice should be sought before implementation.

Background

EIS, SEIS and VCT were introduced to provide incentives to individuals to invest in small unquoted companies, which are generally perceived to be higher-risk investments.

The reliefs

In order to compare the schemes the table below analyses the following:

- Income tax relief on the amount invested and when it may be withdrawn;
- The capital gains tax position on the disposal of shares;
- Deferral relief and reinvestment relief;
- Business property relief for inheritance tax purposes.

	EIS	SEIS	VCT
Income tax relief	Income tax relief is available at 30% of the amount invested in new shares. The maximum annual investment limit is £1 million. If the investor invests more than £1,000,000 in shares in knowledge intensive companies, the limit is £2,000,000. In any other case (ie where the investor invests any amount in knowledge intensive companies up to 1,000,000), the limit is £1,000,000 plus the amount invested in knowledge intensive companies. By election, where an investment is made in one year, it can be treated as though it was an investment made in the immediately preceding tax year, subject to the overall limit for that 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 in new shares (maximum annual investment of £100,000). By election, where an investment is made under SEIS in one year, it can be treated as though it was an investment made in the immediately preceding tax year, subject to the overall limit for that 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 in new shares (maximum annual investment of £200,000). It is not possible to carry back a VCT subscription to the previous tax year. Dividends in respect of shares qualifying for income tax relief are themselves exempt from income tax.

Income tax relief withdrawn	Income tax relief can be clawed back if the company fails to meet certain qualifying conditions throughout the three years from the later of the investment or the date the company starts to trade. It may also be clawed back if the investor becomes "connected" with the company, if the investor receives value from the company, or if the shares are sold, within the same three year period. The claw back is the lower of: • Original income tax reducer; and • 30% x sale proceeds received.	Income tax relief can be clawed back if the company fails to meet certain qualifying conditions throughout the three years from the later of the investment or the date the company starts to trade. It may also be clawed back if the investor becomes "connected" with the company, if the investor receives value from the company, or if the shares are sold, within the same three year period. The claw back is the lower of: • Original income tax reducer; and • 50% x sale proceeds received.	Income tax relief can be clawed back if the VCT shares are sold or the VCT loses its approved status within five years of issue. The claw back is the lower of: • Original income tax reducer; and • 30% x sale proceeds received.
Capital gains tax (CGT) exemption	The disposal of EIS shares after three years is exempt from CGT providing income tax relief was given on the subscription and has not been clawed back.	The disposal of SEIS shares after three years is exempt from CGT providing income tax relief was given on the subscription and has not been clawed back.	The disposal of VCT shares is exempt from CGT providing full income tax relief was given on the subscription.
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 are not allowable.
Deferral relief / reinvestment relief	CGT arising on the disposal of any asset can be deferred by subscribing for qualifying EIS shares, in the period from one year before to three years after the disposal of the original asset. The deferred gain will usually come back into charge on the disposal of the EIS shares.	There is no deferral relief under SEIS. However, where an investor 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 gain reinvested will be exempt from capital gains tax.	VCT deferral relief is not available for investments made after 5 April 2004.

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Business property relief	Shares in EIS companies held for at least two years will normally qualify for 100% business property relief for inheritance tax purposes.	Shares in SEIS companies held for at least two years will normally qualify for 100% business property relief for inheritance tax purposes.	Shares in VCTs do not qualify for business property relief for inheritance tax purposes.

Key EIS conditions

To qualify under EIS, the company invested in and the investor need to meet certain conditions.

Conditions to be met by the company:

- 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 its group) must 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 a 51% subsidiary of another company;
- The number of full-time employees of the company must not exceed 250, or 500 for "knowledge-intensive" companies"
- The company must not be in financial difficulty.

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

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

Conditions to be met by the investor:

- The investor must subscribe for new ordinary shares and these need to be fully paid up in cash when issued;
- The investor must not be "connected" with the company. In brief, this 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).

SEIS

To qualify under SEIS, the company invested in and the investor need to meet certain conditions.

Conditions to be met by the company:

- The company's gross assets must not exceed £200,000 before the investment;
- The company must be unquoted and have a UK permanent establishment;
- The company 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 two years old;
- The company must not be a 51% subsidiary of another company;
- The company must not be a member of a partnership;
- The company must have fewer than 25 full-time employees;
- The company must not be in financial difficulty;
- The company must not previously have had any investment from a VCT, or any investment that qualifies for EIS.

The maximum total amount that can be invested in a company and qualify under SEIS is £150,000.

The money must be raised for a qualifying trade that is or is going to be carried on by the company.

Conditions to be met by the investor:

- The investor must subscribe for new 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;
- The investor cannot own more than 30% of the company.

VCT

A VCT is a quoted company which must meet the following key conditions:

- It must not be a "close company" (i.e. it must not be controlled by 5 or fewer shareholders, or by any number of directorshareholders);
- At least 70% of its investments must be in unquoted trading companies which carry on qualifying trade (with the same "excluded" activities as for EIS);
- No more than 15% of its total investments can be invested in any one company;
- Its income must be derived wholly or mainly from shares or securities and it must distribute at least 85% of this income.

Detailed rules apply to EIS, SEIS and VCT, and the information set out here is intended to provide a summary of the main conditions and to a comparison between each of the schemes. Further, more detailed, advice will always be required before investing under either of these schemes.