The Enterprise Investment Scheme (EIS) was designed by the Government to provide investors with an incentive to invest in shares in small, growing, unquoted companies. Unquoted in tax terms covers AIM and Plus-quoted shares.

The tax benefits of EIS are only available when new shares are bought. If the existing shares of an EIS-eligible company are bought on the secondary market then none of the tax perks are available via EIS.

There are five current EIS tax reliefs:

- Income tax relief – Provided an EIS qualifying investment is held for no less than three years an individual can reduce their income tax liability by an amount equal to 30% of the amount invested. The minimum subscription is £500 per company and the maximum per investor is £1,000,000 per annum. Where an individual subscribes for qualifying shares before 6 October in a tax year, a claim may be made to carry back one half of the amount subscribed to the previous tax year, subject to a maximum of £50,000.

- CGT Deferral Relief – Tax on gains realised on a different asset can be deferred indefinitely, where disposal of that asset was less than 36 months before the EIS investment or less than 12 months after it. Deferral relief is unlimited, in other words, this relief is not limited to investments of £1,000,000 per annum.

- CGT Freedom – No Capital Gains Tax payable on disposal of shares after three years provided the EIS initial income tax relief was given and not withdrawn on those shares.

- Loss Relief – If EIS shares are disposed of at any time at a loss (after taking into account income tax relief), such loss can be offset against the investor's capital gains or income in the year of disposal or the previous year. For gains offset against income tax, the net effect is to limit the investment exposure to 48p in the £1 for a 40% tax payer if the investor realises a total loss. Alternatively, the losses can be offset against Capital Gains Tax at the prevailing rate - 18% from tax year 2008/09.

- Inheritance Tax Exemption – **EIS Investments are generally exempt from Inheritance Tax after two years of holding such investment.**

The summary above is intended only as a general guide to the current position under UK law and H M Revenue & Customs practice and may not apply to certain classes of person (such as dealers in securities). Any person who intends to seek to obtain EIS Relief in respect of his investment, or who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction outside the UK, should consult a professional adviser.

Working Examples

1. Income tax relief

   Qualifying individuals can credit an amount equal to tax at the lower rate on the amount subscribed for eligible shares against their total liability to income tax for the tax year in which the shares are issued. For the 2011/12 tax years the relief is obtained at the lower rate of 30 per cent. The relief is available against a UK income tax liability irrespective of whether or not the investor is resident in the UK. The amount of relief given cannot exceed an individual's tax liability.

Example	**£**
Gross investment in shares	10,000
Less: income tax relief at 20%	3,000
Net cost of investment	7,000

   A qualifying individual can claim to carry back part of their subscription to the previous tax year where eligible shares are issued between 6 April and 5 October. The maximum amount which may be carried back is the lesser of £50,000 and 50 per cent of the amount subscribed by the individual.

2. Capital gains tax relief

   To the extent EIS income tax relief is available and not liable to be withdrawn, any capital gain accruing to the original investor on the disposal of his shares shall be exempt from capital gains tax, provided that the shares have been held for at least three years.

Example	**£**
Realised value of shares after 3 years	25,000
Less: original gross investment	10,000
Tax Free Gain	15,000

3. Loss relief

If the original investor disposes of his shares at a loss, the net loss (after EIS income tax relief) may be set against other taxable income or chargeable gains, at the election of the investor.

Example	**£**
Realised value of shares	0
Gross investment in shares	10,000
Less: income tax relief at 30%	3,000
Loss before tax relief	7,000
Tax relief at 40% *	2,800
Net loss	4,200

*Assumed the net loss was offset against other income taxable at 40% as opposed to chargeable gains, which are taxable at 18%.

4. Capital gains tax deferral

The liability to capital gains tax arising on the disposal of any asset may be deferred by investing the gain in eligible shares. The investment must be made within the period beginning one year before and ending three years after the event, which gives rise to the gain being deferred.

Although there is a limit of £1,000,000 for income tax relief and capital gains tax relief there is no limit on the amount of gains that can be deferred.

Example	**£**
Gross investment	600,000
Less income tax relief (30% of £600,000)	180,000
Cost of investment	420,000
Capital gains tax liability deferred*	240,000
Net initial cost of investment	180,000

*Assumed at 40%, the gain is deferred until there is a chargeable event, such as a disposal of shares or, if earlier, breach of the EIS rules.

The statements above are intended only as a general guide to the current position under UK law and H M Revenue & Customs practice and may not apply to certain classes of person (such as dealers in securities). Any person who intends to seek to obtain EIS Relief in respect of his investment, or who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction outside the UK, should consult his professional advisers.

<u>IMPORTANT</u>

From November 2011 EIS tax relief was increased from 20% to 30%. Whilst the company believes the information within this updated document is correct, investors should first cross-check with their own accountants or the IRS the full EIS investment benefits at the new rate and whether the examples given are correct.