The Opportunities Available to Investors and Fund Raisers

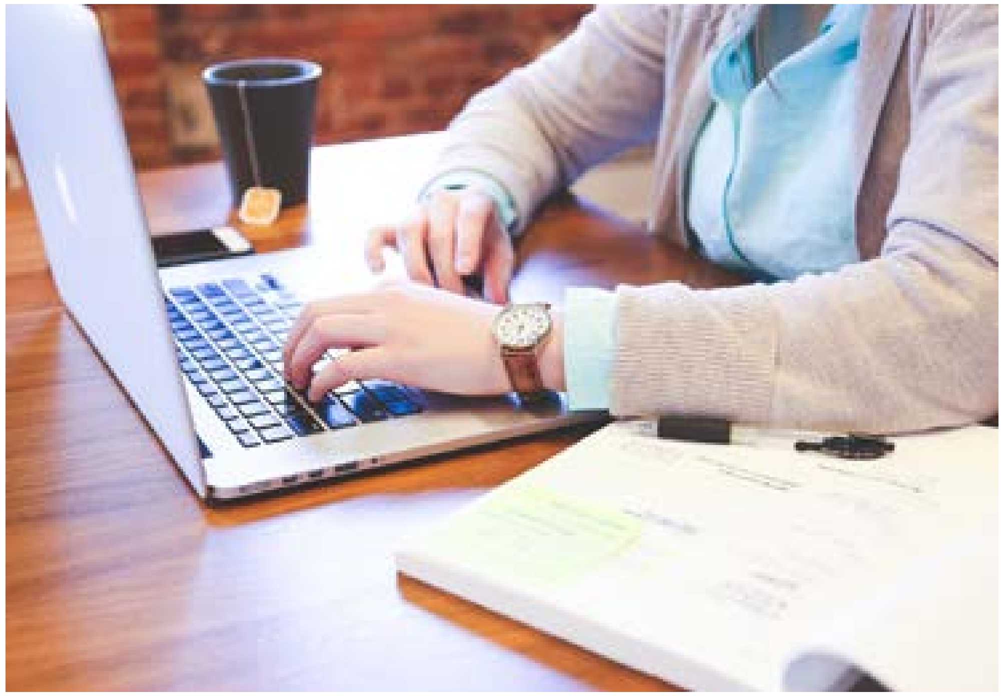
SEIS & EIS Schemes

If you are looking to raise funding for your business, you should consider the use of the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS).

- EIS fund raising is designed to help your company raise money to grow your business. It does this by offering tax reliefs to individual investors who buy new shares in your company.

- Up to £5 million each year, and a maximum of £12 million in your company's lifetime, can be raised through the use of EIS. This includes amounts received from other venture capital schemes. Please note that Knowledge Intensive Companies (KIC's) broadly have double these limited).

Comprehensive advice regarding the scheme rules from Dixcart UK will ensure that your investors claim and retain EIS tax reliefs relating to their shares and we can also manage the whole process, from pre-approval to the issue of the EIS certificate.



The Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS), are very similar schemes which offer substantial tax incentives to investors in qualifying companies.

The tax incentives for SEIS and EIS investments are intended to encourage investment in high-risk, small, unquoted companies that may find it difficult to raise finance without the tax incentives being offered. Dixcart UK is a tech sector specialist and also offer expertise on the different rules that are available for knowledge-intensive companies that carry out a significant amount of research, development or innovation.

Details are complex, but we can offer advice for you to progress through the process as smoothly as possible.

RAISING FINANCE THROUGH SEIS & EIS

SEIS focuses investment in the very early stage, for new businesses that may face particular difficulties in raising finance as they are seen as being very high-risk. EIS is also intended for small companies but they can be a little larger and a little older than those for which SEIS is intended. The schemes are very similar and are designed to facilitate seamless growth through financing being raised first through SEIS and then further, follow on financing, being raised through EIS.

The company must first meet the conditions required by the SEIS / EIS legislation to become a qualifying company and it must then issues shares which need to meet stringent requirements to be qualifying shares. Advance assurance can be sought from HMRC, before the share issue, to gain comfort that the conditions will be met. The investor subscribes for the shares either directly, or in some cases through an approved investment fund, and then the investor applies to HMRC for the tax reliefs available.

From the investor's point of view, the process for claiming the tax relief is quite straightforward, as it simply involves following a few steps which are detailed on the scheme certificates. The more difficult aspect rests with the company and its ability to meet all of the prescribed conditions.

THE RELIEFS AVAILABLE TO INVESTORS

Before an investor can make a decision to invest and/or before the company can consider if raising funds though EIS would be appropriate, an understanding of the tax reliefs available to the investor is needed.

INCOME TAX RELIEF:

Relief is given as a tax reduction against the overall liability for the tax year of the investment (or the preceding year). For EIS, the tax reduction is 30% of the amount invested, whilst under SEIS it is 50%. Both schemes have different maximum annual investment limits imposed on the investor.

CAPITAL GAINS TAX EXEMPTION:

Disposals of qualifying shares that have been held for at least three years may be free from CGT, provided that income tax relief has not been withdrawn.

CAPITAL GAINS TAX LOSS RELIEF:

Any losses arising on a disposal of EIS shares may either be offset against capital gains in the same tax year as the investment (or carried forward against future gains).

SHARE LOSS RELIEF:

Losses on the disposal of qualifying shares may be offset against general income in the year of disposal or the preceding year.

CAPITAL GAINS TAX DEFERRAL OR REINVESTMENT RELIEF:

Under EIS, CGT deferral relief allows investors disposing of any asset to defer gains against subscriptions in EIS shares. The gain is deferred until the EIS shares are disposed of or a chargeable event takes place in relation to those shares. Under SEIS, CGT reinvestment relief is offered on the disposal of any assets where the gains realised are reinvested under SEIS. 50% of the gain reinvested attracts exemption from CGT.

WORKED EXAMPLES TO COMPARE EIS AND SEIS TAX RELIEF

Three scenarios are demonstrated below to illustrate possible outcomes for an investor investing in a qualifying company under the EIS and SEIS. In the first scenario, the company fails and is wound up; in the second, the company breaks even with no change in the value of its shares; and in the third scenario, the company is successful and the shares double in value.

It is assumed that the investor invests £10,000, the investor's marginal rate of income tax is 45%, capital gains tax is charged at 20%, the annual investment limits have not been breached, and income tax relief is not withdrawn or reduced.

EIS SCHEME

Upon investment, the available income tax relief is £3,000 (30% x £10,000)

Scenario 1: The company fails and is wound up.

Potential savings of £3,850.
Value of shares = zero. The capital loss is £7,000.

Using CGT loss relief: the loss can be offset against other gains generating CGT relief of £1,400 (£7,000 x 20%). Net outflow = initial investment – initial relief – CGT relief = £5,600. Using share loss relief: the loss can generate further income tax relief of £3,150 (£7,000 x 45%). Net outflow = initial investment – initial relief – share loss relief = £3,850.

EIS SCHEME

Scenario 2: The company breaks even.

Potential savings of £3,000.
Value of shares = £10,000. No capital loss.

The investor has not made a capital loss and keeps the initial £3,000 income tax relief. Net inflow on sale of shares = proceeds – initial investment + initial relief = £3,000.

Scenario 3: The company succeeds and the shares double in value.

Potential savings of £13,000.
Value of shares = £20,000.

The capital gain of £10,000 is exempt from CGT. Net inflow on sale of shares = proceeds – initial investment + initial relief = £13,000.

SEIS SCHEME

Upon investment, the available income tax relief is £5,000 (50% x £10,000)

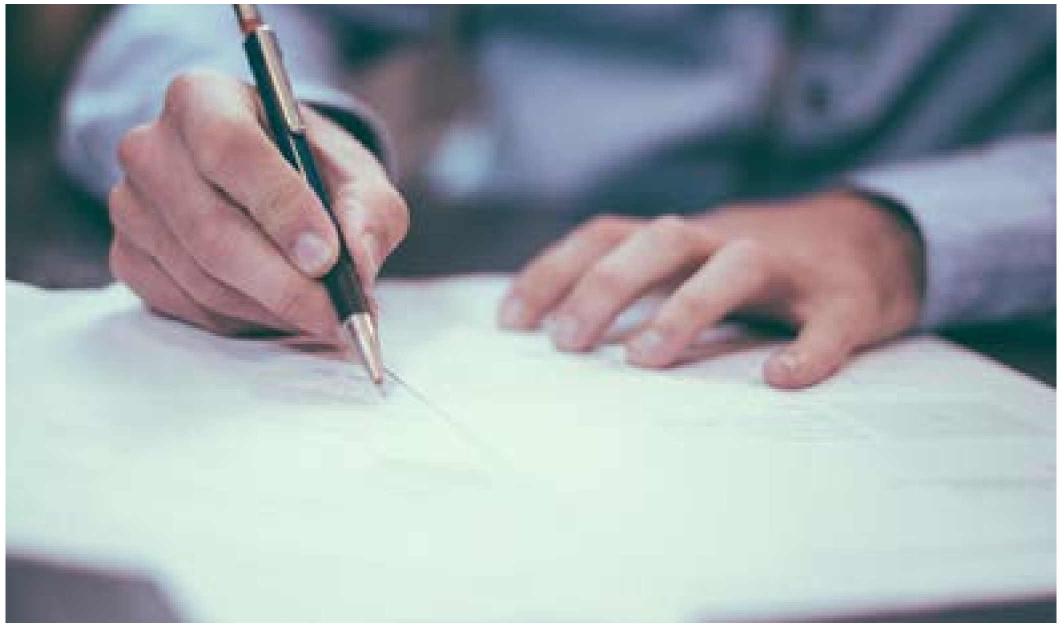
Scenario 1: The company fails and is wound up.

Potential savings of £2,750.

Value of shares = zero. The capital loss is £5,000.

Using CGT loss relief: the loss can be offset against other gains generating CGT relief of £1,000 (£5,000 x 20%).

Net outflow = initial investment – initial relief – CGT relief = £4,000. Using share loss relief: the loss can generate a further income tax relief of £2,250 (£5,000 x 45%). Net outflow = initial investment – initial relief – share loss relief = £2,750.



SEIS SCHEME

Scenario 2: The company breaks even.

Potential savings of £5,000.

Value of shares = £10,000. No capital loss.

The investor has not made a capital loss and keeps the initial £5,000 income tax relief. Net inflow on sale of shares = proceeds – initial investment + initial relief = £5,000.

Scenario 3: The company succeeds and the shares double in value.

Potential savings of £15,000.

Value of shares = £20,000.

The capital gain of £10,000 is exempt from CGT. Net inflow on sale of shares = proceeds – initial investment + initial relief = £15,000

Next Steps

DIXCART UK

If you would like more information on either of the EIS or SEIS schemes and how they may be beneficial to you as an investor or a company seeking to raise funds, please get in touch. Our specialist team will take all the hassle away from you and you can be confident that your claim will be handled quickly and efficiently to maximise the relief available.

Please contact Paul Webb on 0333 122 0000 or email hello@dixcartuk.com to arrange a free no obligation consultation.

1

COMPLIMENTARY MEETING

Find out more about the opportunities presented by the SEIS or EIS schemes. Our professional advisers are offering a complimentary phone call or meeting to help you determine if these schemes are appropriate for you.

2

YOUR CLAIM

One team, one goal. We make it happen.

We will review the company to ensure it meets the criteria as detailed by SEIS/EIS legislation to become a qualifying company and assist in the application process to HMRC.

3

WE TAKE AWAY THE HASSLE

We deal with everything from start to finish, including comprehensive advice regarding the scheme, HMRC approval, claiming and retaining EIS tax relief, and the issue of the EIS certificate.