

Grow your business with the Enterprise Investment Scheme



About the EIS Association

The EIS Association (EISA) is the official trade body for the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) industry. EISA is a highly effective not-for-profit organisation that exists to aid the provision of capital to UK small and medium-sized enterprises (SMEs) through these two schemes.

EISA works closely with HM Treasury, HM Revenue and Customs, government ministers, MPs and the FCA to enhance EISs and SEISs and promote the benefits of using them to investors, companies and their respective advisers.

EISA collaborates with other trade bodies that support investment into SMEs, including the British Venture Capital Association (BVCA), the Association of Investment Companies (AIC), the Institute of Chartered Accountants in England and Wales (ICAEW) and the UK Business Angels Association (UKBAA). The EISA Director General sits on the BVCA Venture Capital Working Group, which aims to present a unified voice from all sections of the SME and venture finance industries to the UK government and the EU.

EISA's membership is drawn from all areas of the EIS/SEIS industry and includes EIS/SEIS fund managers, lawyers, accountants, tax advisers, corporate financiers, IFAs and wealth managers throughout the UK. Details of our members and membership categories can be found on our website, www.eisa.org.uk, under the 'Membership' section.

Please contact Mary Rodgers at mary.rodgers@eisa.org.uk if you are interested in learning more about EISA and becoming a member.

The benefits for individuals of investing through EIS and SEIS

EIS



30% initial income tax relief
Actual net cash outlay of 70p in the £



CGT freedom
No Capital Gains Tax to pay



CGT deferral relief
Potential unlimited and indefinite deferral of an existing CGT bill



Loss relief
Maximum exposure of 38.5p in the £ for a 45% income tax payer



Inheritance tax relief
Potential saving of 40p in the £

SEIS



50% initial income tax relief
Actual net cash outlay of 50p in the £



CGT freedom
No Capital Gains Tax to pay



CGT deferral relief
Potential exemption of 50% of an existing CGT bill



Loss relief
Maximum exposure of 27.5p in the £ for a 45% income tax payer



Inheritance tax relief
Potential saving of 40p in the £

About this guide

Small and medium-sized firms make up more than 99% of all UK businesses and are responsible for almost two thirds of private sector employment. They are truly the beating heart of our economy and integral to its health.

A healthy economy is one where businesses have access to capital so they can grow and fulfil their potential. For large companies this is not generally a problem, but for smaller companies it can be. If a bank rejects a small company for a business loan, all too often the business owner feels they have no options left. But they do. There are many financing options available to smaller companies outside of traditional bank lending – it is just that business owners are not always aware of them or may, incorrectly, think they are not right for their company.

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) are two such options, and this guide has been produced by the EIS Association (EISA) as a quick introduction to the schemes. It explains what they are, how they work and some of the rules associated with them. It is also designed to get business owners thinking about whether EIS or SEIS could be right for them and contains information about taking the next steps towards seeking funding.

We hope you find it is useful. And remember, the EIS Association is here to help businesses obtain the funding they need, so if you would like any further information about EIS or SEIS please get in touch.



Mark Brownridge

Director General

The Enterprise Investment Scheme Association (EISA)

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How can EIS and SEIS help my business?

If you own a business or plan to start one then you may at some point want to seek external finance to fund its expansion. The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) have been designed by the UK government to make it easier for small and medium-sized enterprises (SMEs) to raise finance to grow.

How do EIS and SEIS make it easier for a company to obtain funding?



Investment in a business through EIS and SEIS is provided by UK tax-paying individuals. In return, they receive shares in the company in which they are investing. They are incentivised to provide finance through tax relief they receive on their investments, which is 30% for EIS and 50% for SEIS. This means that an EIS investment of £100,000 costs the investor only £70,000 and a SEIS investment of £100,000 only £50,000. Investors must have actually paid an equivalent amount of income tax in the current or previous year to receive it back in full via EIS or SEIS tax relief.



Investors receive other tax benefits that further enhance the appeal of investing via EIS and SEIS (see the illustration on page two).

For an investor, these tax reliefs mean the cost of investment and the risks involved are often considerably reduced and return potential is enhanced. If you are seeking funding for your business, being eligible for the EIS or SEIS schemes can be a big help in attracting investment.

Before a company can raise finance through EIS or SEIS, it should ensure it meets the eligibility criteria set down by the government for the schemes (see pages six and seven for more details). It is often prudent for companies seeking funding to go through a process known as Advance Assurance, in which HM Revenue & Customs (HMRC) advises on whether a company is eligible for EIS or SEIS. Securing this assurance will make it easier to obtain external funding, as it reassures prospective investors that they will receive the appropriate tax relief.

How could EIS and SEIS help my business to grow?

The financing your business receives can be used for most purposes aimed at expanding a business, from employing staff and opening premises to researching and developing products, as well as sales and marketing. EIS and SEIS had provided funding worth almost £15bn to nearly 30,000 UK businesses to the end of the 2015 tax year, covering sectors including High Street retail, catering, transport and logistics, engineering, pharmaceuticals, technology, media and many more. University spin-outs, start-ups, newer companies and more mature, established businesses all benefited.

In addition to the funding itself, many companies receive other benefits from EIS and SEIS investment. A common – and often very valuable – benefit is that the investors themselves, whether an individual or group of individuals (often known as ‘business angels’) or a professional investment manager running an EIS or SEIS fund, often provide guidance and direct, hands-on help to the companies in which they invest. Business angels are often businesspeople and professionals themselves and can draw on their own experience and networks of contacts to assist in growing a business (see case study opposite for one company’s story), while professional investment managers provide expertise and support to their investee companies as part of their overall service proposition to businesses seeking funding.



EIS and SEIS have provided funding worth £15bn to nearly

30,000 UK businesses

in a diverse range of sectors and trades. New companies and more mature, established businesses have all benefited.

Case study

MOO.LA

What is it?

Moo.la is a low-cost, simple and easy-to-use-and-understand investment service for individuals, employers and financial intermediaries.

What role have SEIS and EIS played in Moo.la's story?

From its start-up in September 2015, Moo.la has been funded with SEIS financing. A second round of external funding has recently been completed with EIS investors. In total, just over half of Moo.la's funding has come from SEIS and EIS investment.

Gemma Godfrey, founder and CEO, explains:

"In 2015 it was just me and an idea. After years of working in investment and financial services, I'd become frustrated with unnecessary complexity, which puts people off and means they often don't know how much they are paying or what they are paying for. It's a situation that suits only one group – financial companies themselves. So I had this concept for an investment service that is different – easy to use and understand, with low and transparent costs and in which people can save small amounts but still access high-quality, sophisticated investments. It quickly became clear that employers needed a service like this for their staff, too, and that financial intermediaries, such as financial advisers and wealth managers, could use it to manage their businesses more efficiently and convert loss-making clients into profitable ones.

"Securing external investment was essential to getting the business off the ground. SEIS and EIS were the natural choice for many of my investors, because the tax reliefs and incentives provided reduce the risks and cost of investment.

"SEIS and EIS are a win-win for everyone. Because investors can offset some of their risks through tax relief,

How SEIS and EIS helped my business grow



Funding

More than half of Moo.la's funding has come from SEIS and EIS



Growing team

Moo.la has grown from one person to nine in a year and is set to employ up to 42 people in its new technology centre in Northern Ireland

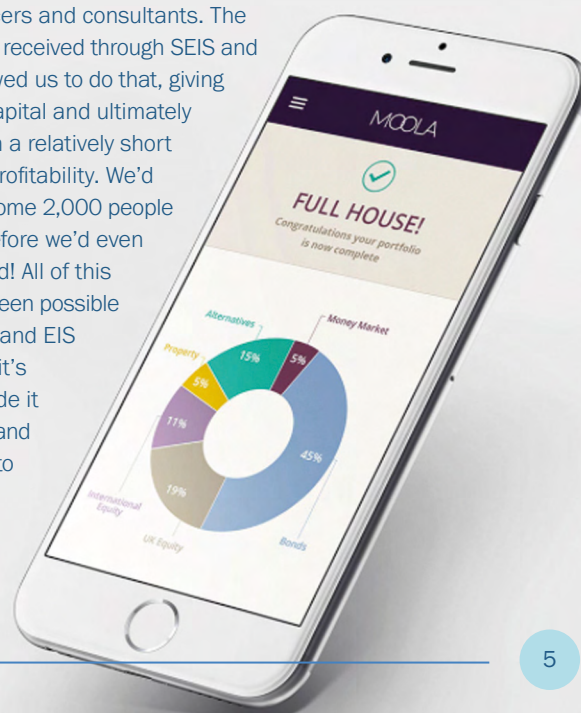


Fast funding

Moo.la has been through two funding rounds for SEIS and EIS financing in a year

businesses like mine can more easily get the funding they need to grow, become profitable and successful and reward their investors. The government wins, too – through the employment, tax revenues and other economic benefits derived from a thriving private sector.

"The process of getting the funding was painless – we've been through two rounds of funding in just over a year, without any delays. Moo.la now employs nine people, plus freelancers and consultants. The money we've received through SEIS and EIS has allowed us to do that, giving us working capital and ultimately putting us on a relatively short pathway to profitability. We'd already got some 2,000 people signed up before we'd even fully launched! All of this would have been possible without SEIS and EIS funding, but it's certainly made it much easier and faster for us to get to where we are now."



Will my business be able to benefit from EIS or SEIS funding?

If you think your business could benefit from EIS or SEIS investment funding, the next thing to find out is whether it is eligible and suitable.

Eligibility

Most business activities, in principle, are eligible under EIS and SEIS rules, but there are some that are not. These are known as 'excluded activities'. Such activities include property development, many types of financial services, asset leasing, dealing in securities and financial assets, farming, market gardening and forestry, legal and accountancy services, steel and coal production, shipbuilding, power generation and the hotel trade.

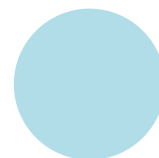
The full list of 'excluded activities' can be found here: www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction/enterprise-investment-scheme#how-a-company-qualifies

There are also a number of criteria by which companies not undertaking 'excluded activities' are judged for EIS and SEIS funding eligibility. To get an idea about whether your company is eligible, use the checklist below.

Eligibility checklist

	Yes	No		Yes	No
Is the funding to be used for the 'growth and development' of the company?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Is my company more than seven years old (more than 10 years if it is a 'knowledge-intensive' company**)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Is my company listed on the stock market? *If no, it is eligible on this criterion (but must meet all others, too). The Alternative Investment Market (AIM) and ISDX exchange are not considered by HMRC to be recognised exchanges and so companies listed on these can raise funds through EIS/SEIS.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Does my company control another? If yes, the subsidiary/subsidiaries must also be EIS/SEIS qualifying.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Does my company have fewer than 250 full-time employees (fewer than 500 for 'knowledge-intensive' companies)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Has my company received more than £12m in risk financing (£20m for 'knowledge-intensive' companies)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Does my company have gross assets of more than £15m?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Is my company a subsidiary of another company? *If yes, in most cases it will be ineligible. There are specific circumstances under which it would be eligible. See HMRC guidance for details: www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction/enterprise-investment-scheme	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Is my company carrying out an EIS qualifying trade or is it at least the 90% owner of a subsidiary carrying out an EIS qualifying trade?	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Is the money to fund the acquisition of a company?	<input type="checkbox"/>	<input checked="" type="checkbox"/>			

This is designed as a quick checklist and should not be fully relied upon for determining EIS/SEIS eligibility. For more detailed information visit the relevant page of the [HMRC website](http://www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction/enterprise-investment-scheme). You may also wish to seek guidance from a lawyer, accountant or other suitable adviser.



Suitability

If you think your business is eligible, the next step is to consider whether it is suitable for EIS or SEIS funding. Just because a business qualifies for funding, it does not mean it is suited for it.






To be potentially suitable for EIS or SEIS funding your business must be 'investable'. In other words, it must have the growth potential to convince external investors that they will get their money back and a good return besides. In simple terms, have you got a good idea, product or service and a strategy in place for making it succeed? And have you thought about what success could look like for you and your investors?

Identifying 'investability'

You should think about your planned growth trajectory, factoring in revenues, profits, expansion targets, the amount of money you need to move in line with that trajectory and what you need to spend it on. These are among the most important considerations when determining whether EIS or SEIS could be right for your business.

If you are a High Street coffee shop and want money to extend your premises, a small business loan from a bank may be your best option. If you are a local or regional chain of boutique coffee shops with a novel USP that you believe has national scale-up potential – and you can clearly demonstrate why in a detailed business plan – then EIS or SEIS could be more suitable.

When thinking about whether your existing business or a planned start-up is suitable for EIS or SEIS investment you might ask yourself:

				
Am I able to create a detailed business plan with realistic projections about how the business could grow with the help of external funding?	Does the business have a proven product or service that could appeal to a wider, perhaps national or international, market?	Does the business have a USP, fill a niche or satisfy a previously unmet or unrealised market demand?	Does the business have high growth potential?	Who are my main competitors and how can/will my company stay ahead of them?

If EIS or SEIS does not appear to be an appropriate funding choice for your businesses, it does not mean that funding cannot be found. Remember, there are many other sources of funding available to SMEs, some more suited to certain businesses than others. At one end of the spectrum there is investment or a loan from friends and family; next may be a small business loan from a High Street bank. At the other end there is private equity and debt and equity capital markets. EIS and SEIS are an equity investment and part of the spectrum.

Case study



What is it?

Flubit is an online marketplace, launched in 2011, for UK products. On average, users receive a 10% discount compared to Amazon.co.uk.

Flubit has just launched its B2B offering, SKUcloud.co.uk, through which websites and apps will be able to generate revenues through the sale of any of 55 million relevant/targeted third-party products.

What role has EIS played in Flubit's story?

From three high net worth individuals who invested in Flubit using EIS, the number of external investors has grown to 50. Some 29 of these have invested via EIS, providing around a third of the company's total funding. Many of Flubit's investors learned about the business from the three original investors, demonstrating how EIS can play an important role in creating networks of angel investors who collaborate to help businesses grow.

Bertie Stephens, co-founder and CEO, explains:

"EIS funding has been great for us. By the time we received EIS investment we had already been running for a couple of years, but EIS money helped us to build on that by scaling up quickly and effectively. We went from around 25 people to about 50 practically overnight. We needed to do this in order to achieve the growth targets we'd set ourselves, and EIS money was a significant part of the funding that made that possible.

"EIS is an excellent option for investors because of the tax reliefs they receive, but it's also been an excellent deal for us.

"The equity split is fair with EIS. Investors get a return on what they put in – they don't ask for more or seek complicated remuneration arrangements. Had we gone down the venture capital route in the early stages, yes, we would still have got the funding, but the deal would likely have been structured in such a way as to disproportionately reward the VC company for our success – and in the early days it's important to have some financial flexibility, which a VC deal may not provide."

How EIS helped my business grow

Funding

33% of Flubit's £13m of external funding has come from EIS investors



More than half of Flubit's 50 external investors have invested via EIS

Growing team

In five years Flubit has grown from five people to more than 50 with the help of EIS funding



Funding range

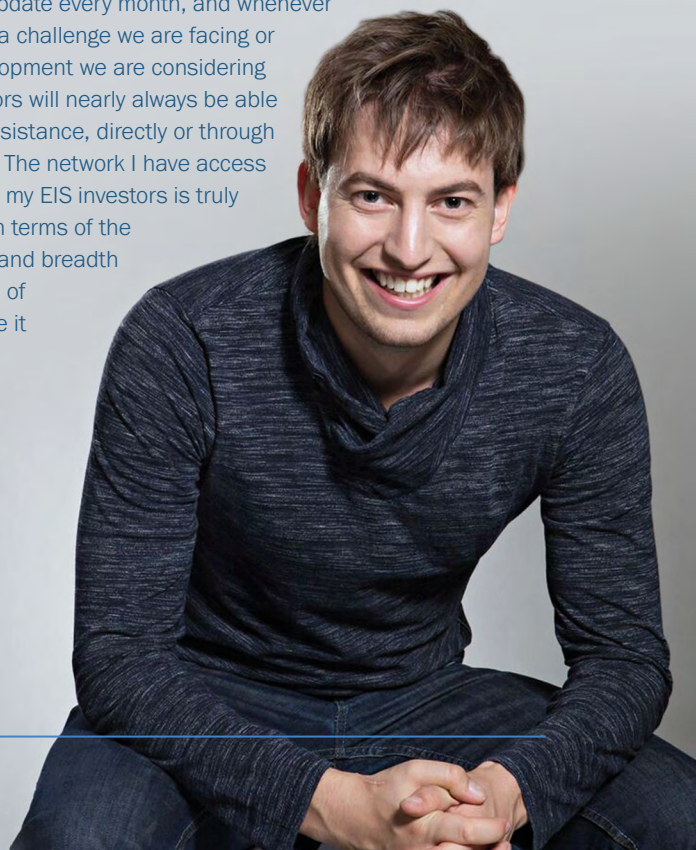
£5,000 to £500,000 – the range of sums invested in Flubit by EIS investors

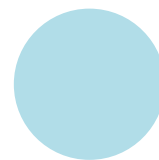


Investor support and mentoring

"I also don't think we would have got the same level of attention and help from a VC company as we get from our EIS investors. Many of the high net worth individuals who've invested in us are extremely experienced professionals – lawyers, accountants, corporate finance people and senior board executives; some have even started and sold their own tech companies. It doesn't matter how many tax breaks they get through EIS – none of them want to lose money, so they go out of their way to help make Flubit a success. Their advice, contacts and practical, hands-on help have been invaluable in getting us to where we are today – the largest product platform in the UK. I send out an investor update every month, and whenever

I mention a challenge we are facing or new development we are considering my investors will nearly always be able to offer assistance, directly or through a contact. The network I have access to through my EIS investors is truly amazing in terms of the expertise and breadth and depth of experience it contains."





I want to seek funding. What do I do next?

Having read this guide, you may think your business might be eligible and suitable for EIS or SEIS funding. Congratulations – you may now be one step closer to obtaining the money your business needs to achieve its growth potential.

Your next step is to do some more research about EIS and SEIS. There is a wide range of information available, including on the website of the [EIS Association](#) and the government's own web pages for [EIS](#) and [SEIS](#). The latter can be quite technical in places but are well worth reading.

If further research reinforces your belief that EIS or SEIS could be right for your business then your next steps might include the following:



Drawing up a detailed business plan, with revenue and growth projections, that will help demonstrate the 'investability' of your business to prospective backers.



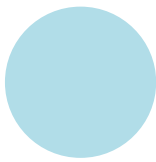
Speaking to a suitably qualified professional adviser, such as a lawyer or accountant, about your plans. The EIS Association's directory of firms involved in EIS and SEIS can be found on our website: www.eisa.org.uk/eis-members/



Apply for 'Advance Assurance' from HMRC, which will give potential investors confidence that they will receive EIS or SEIS tax relief from owning shares in your business. Before taking this step, you may want to speak to a professional adviser, such as an accountant, to help ensure you do this correctly. You would usually need to pay for this advice, but it is likely to save you time and money in the long run.

Contact the EIS Association

We are here to help businesses seeking EIS and SEIS funding. Please get in touch, initially by emailing us at info@eisa.org.uk, if you have any questions or would like further guidance from us about what is involved.



This guide's sponsors

A number of EIS Association members have sponsored the production of this guide. We have acknowledged their contributions here by way of thanks and to highlight the breadth and depth of expertise offered by our membership.



BDO

BDO is a leading firm of accountants and advisers. It is the UK member firm of BDO International, which operates in more than 150 countries. Our clients include ambitious, entrepreneurial and high-growth businesses and the owners and management teams that lead them, as well as high net worth private individuals.

BDO's Private Client team helps high net worth individuals and families, business owners, family offices and partnerships to structure their domestic and international tax affairs in an efficient and compliant manner. We have a specialist team that works on EIS, SEIS and venture capital trust (VCT) investment from a tax perspective, and our BDODrive team supports clients at all stages of the business lifecycle – from start-up through to mature business.

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Calculus Capital

Calculus Capital has been investing in small and medium-sized businesses for more than 20 years. We pride ourselves on working in partnership with our investee companies, taking a seat on the board and providing advice on a strategic level when required. Our ultimate aim is to realise the full potential of a business and its management.

Calculus typically invests between £2m and £5m in privately held companies that meet a number of key criteria. We look for businesses that operate in strong growth markets, are headquartered or have significant operations in the UK and demonstrate a clear strategy for realising shareholder value. We are highly experienced in supporting strong management teams through transformational periods of business growth.

Contact:

investmentteam@calculuscapital.com

020 7493 4940



Edwin Coe

Edwin Coe is a law firm with specialist experience in advising new or growing companies seeking to qualify for EIS and SEIS investment. As well as helping to structure businesses so that they satisfy EIS and SEIS criteria, we assist in preparing tailored articles, shareholder agreements, information memoranda and other key documents, as well as advising on legal issues around marketing.

Edwin Coe counts many fund managers among its clients. We advise them on their legal and fundraising documents when they set up EIS funds and help them to deal with the process of investing in growing companies. We also assist with trade sales and stock-market flotations. Our expertise has seen us earn first or second place in EISA's Best EIS Legal Adviser category for five years in a row.

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GrowthInvest

GrowthInvest is an independent platform that provides a growing network of sophisticated investors, financial intermediaries and wealth managers with access to an attractive range of tax-efficient investments. Registering on our platform allows businesses seeking EIS or SEIS investment to showcase their propositions before this uniquely knowledgeable and influential audience.

GrowthInvest builds longstanding relationships with business owners, working closely with them to ensure their companies are investment-ready and to help equip them with a full grasp of all the processes involved. As well as facilitating direct investment into companies listed on our platform, we offer ongoing guidance and support through our GrowthCircle mentoring programme, which aims to give new and growing companies the tools, backing and contacts they need to enjoy continued success.

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