

Information for Investors

EIS is appropriate for Investors who wish to include in their portfolio some high risk companies. EISA recommends taking professional advice since the rules governing the EIS are complex and interrelated with other legislation. It is also a very specialised area so it is worthwhile checking the credentials of the firm or adviser to make sure that they are sufficiently expert in the subject of EIS to be able to provide worthwhile advice, for your circumstances.

Private funding is responsible for c. £7bn since inception in 1994 in myriad EIS companies across the country. These range from small 'friends and family' rounds, business angel investments where individuals are contributing skill as well as funding, through to formal public offers and EIS funds. The market is fragmented and often it is difficult to find suitable investments or information about the company or fund managers.

It is a useful exercise to consider some or all of the following prior to assessing your investment:

1. Size of intended investment
2. Single investment or spread of investments
3. Sectors that may be of interest
4. Passive or active i.e. business angel wishing to deploy skills
5. Seek professional advice

It may be that you are interested in a particular sector, or want to become involved. It is a popular myth that an Investor may not be a paid director of an EIS company – simply not true, although there are rules that apply. You may, however, prefer to have a spread of investments in which case reviewing the fund managers would be the place to start.

HMRC are responsible for the clearance procedures and administration of the EIS. For further information, see their advisory information on their website at <http://www.hmrc.gov.uk/eis>. A PDF of HMRC's guidance of the EIS can be found here <http://www.hmrc.gov.uk/eis/print.htm>.

The first step in the process for a company wishing to attract funds is to submit an Advance Assurance claim to HMRC, which should be done on Form EIS AA PDF. This is designed to provide both investors and the company with comfort that EIS relief will be available, although this is not guaranteed since the company needs to achieve the formal clearance, as well as comply throughout the three year EIS period.

Investors are recommended to check the details of the Advance Assurance granted by HMRC since this is done on the basis of '**information provided**'. EISA recommends that this be

done by suitably qualified advisers familiar with EIS legislation. If inadequate or insufficient information is disclosed this may prejudice the tax breaks relating to investments, either on investment or subsequently. The quality of the clearance should therefore be scrutinised carefully to ensure that the company has supplied adequate information. You should be able to select the appropriate type of adviser from the EISA membership list to assist with this process but there is likely to be a professional charge for this.

The process for obtaining your EIS relief is as follows:

- Once the company has completed four months of trading, or immediately if it already has more than four months trading, the company (or its agent) must apply for formal clearance on form EIS 1, setting out the details of the shares issued to investors.
- If HMRC are satisfied with this compliance statement, they will issue to the company a form EIS 2.
- The company may then issue a form EIS 3 to each investor, who needs to submit it to his/her individual tax inspector, either as part of their tax return or independently.
- Typically the tax relief is given in the form of a code adjustment, thus returning the income tax relief to the investor through PAYE. Alternatively, this rebate can be offset against self-assessment payments or claimed directly.

If you prefer to have a managed portfolio with a spread of investments, it is probably best to consider an EIS Fund, where the EIS compliance, company due diligence, investment selection, management and reporting are done for you, albeit with fees for so doing. EISA's membership includes many fund managers so you can search each and consider their track records and different approaches. EISA also carries a list of open offers, which will take you to the relevant websites of the manager/promoter.

Please note: Whilst EISA endeavours to ensure that its professional members are suitably qualified to advise on the EIS, the Association neither endorses any particular member, product or company/firm wishing to raise money under the EIS nor does it accept any liability for advice given by its members.

Additional information may be available from the following entities which provide independent commentary and details of EIS Offers and Funds.

- Allenbridge Group Plc. Contact Kate Davidson on 020 7318 6321 or www.tax-shelter-report.co.uk. email: kate.davidson@allenbridge.co.uk
- Angel News Ltd. Contact Modwenna Rees-Mogg on 0176 452 248 or www.angelnews.co.uk. email: modwenna@angelnews.co.uk
- Tax Efficient Review – Contact Martin Churchill on 020 8458 9003 or www.taxefficientreview.com. email: martin@taxefficientreview.com

EIS Funds and Portfolios

There are technically three types of EIS 'fund' – none of which actually have 'legal status' in that they are a series of individual investments into individual companies, which is logical in order to obtain the tax relief but an administrative headache!

- EIS Portfolios – these tend to be managed as part of overall wealth management programmes and are bespoke to the individual investor, usually with quite a high minimum investment e.g. £50,000-£100,000
- Approved Investment Funds – something of a misnomer, the “approved” status is simply an HMRC clearance that allows the investor to claim income tax relief at the date of investment into the **fund**. Approved funds have a number of criteria in order to fulfil this status, including a minimum of 4 investments, pro-rata to the individual investment and must be invested within twelve months of investment. In practice, there are now very few of these since they are quite restrictive in terms of operation and also administratively slow to obtain the tax certificates, as all the investee companies have to have complied before the individual's certificates can be obtained.
- Unapproved Funds – these are by far the most widespread and represent the majority of the industry. The distinction is that the tax relief is granted with effect from the date of investment in the underlying **investee companies**. The recent rule change allowing carry back of income tax to the previous tax year, together with the greater flexibility and earlier release of EIS 3 certificates has rendered unapproved funds the more popular vehicle.

It is worthwhile checking the status of a fund/portfolio in which you might like to invest, especially if the timing of tax reliefs is important to your circumstances. Again, independent financial advice should be taken.

For further information, please contact:

- Your independent financial adviser for advice pertinent to your personal circumstances;
- HMRC – Small Company Enterprise Centre, (SCEC), Ferrers House, Castle Meadow Road, Nottingham, NG2 1BB – 0115 974 1250.

Please note that individual tax enquiries should be addressed directly with your own Inspector of Taxes and not the SCEC departments, nor is EISA able to help with individual queries.

- EIS Association, Member Services, Erico House, 93/99 Upper Richmond Road, London SW15 2TG – 020 8785 5560. members@eisa.org.uk. For general enquiries regarding the EIS.