Guidance

Tax relief for investors using venture capital schemes

Find out about tax reliefs available to individuals who invest in certain companies, social enterprises, or Venture Capital Trusts.

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HM Revenue & Customs (https://www.gov.uk/government/organisations/hm-revenue-customs)

Contents

Overview

Venture capital schemes offer tax relief to individuals to encourage them to invest in companies and social enterprises that are not listed on any recognised stock exchange (https://www.gov.uk/guidance/recognised-stock-exchanges). The schemes are:

- Enterprise Investment Scheme (EIS) (https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme)
- Seed Enterprise Investment Scheme (SEIS) (https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme)
- Social Investment Tax Relief (SITR) (https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-social-investment-tax-relief)

You can invest directly in a qualifying company or enterprise using a venture capital scheme if you meet the conditions for investors. The company or enterprise will also need to meet the conditions for the scheme.

You can also invest in shares in a Venture Capital Trust (VCT). A VCT is a company (like an investment trust) that's been approved by HMRC and invests in, or lends money to, unlisted companies.

You can invest in a VCT if you're over 18 years old. The VCT will use your money to invest in qualifying companies.

The company or social enterprise you intend to invest in might have an advance assurance (https://www.gov.uk/guidance/venture-capital-schemes-apply-for-advance-assurance) letter from HMRC that shows the company and the share issue meets the conditions for the relevant scheme.

Tax reliefs you can claim

Depending on the scheme, you may be able to claim:

- Income Tax relief against your investment in qualifying companies, enterprises or VCTs
- Income Tax relief against a loan or 'debt instrument' to a social enterprise
- Capital Gains Tax relief on any gains you make on your investment
- Capital Gains Tax relief when you reinvest a previous gain in a scheme

Income Tax relief

You can get relief by investing in newly issued shares - or by loaning money to a social enterprise (through a debt instrument) for SITR.

You can invest in different companies through different schemes, as long as you keep within the limits for each scheme in that tax year.

How the schemes compare for Income Tax relief

Scheme	Maximum annual investment you can claim relief on	Percentage of investment on which you can claim	Tax relief on income from dividends
EIS	£1 million	30%	No
SEIS	£100,000	50%	No
SITR	£1 million	30%	No
VCT	£200,000	30%	Yes

When you can claim Income Tax relief

For EIS, SEIS and SITR, you can either claim relief in:

- the tax year you make the investment
- the tax year before you make the investment - if you choose to treat some or all of the investment as being made in a previous year

You can only claim relief against the amount of Income Tax you need to pay in the UK.

You cannot carry forward unused Income Tax relief to future tax years.

If you invest in a VCT, you can only claim tax relief in the tax year you invest. You do not need to pay Income Tax on any dividends from a VCT (both for newly-issued shares and those previously owned).

Capital Gains Tax relief

You can get Capital Gains Tax (https://www.gov.uk/capital-gains-tax) relief if you invest through a venture capital scheme.

How the schemes compare for Capital Gains Tax relief

Scheme	Personal Capital Gains Tax relief available on your initial investment	Type of Capital Gains Tax relief on initial investment	Gains exempt from Capital Gains Tax when you sell shares	Relief available for capital losses against income
EIS	Yes on 100% of investment	Deferral	Yes if you received Income Tax relief	Yes
SEIS	Yes on 50% of investment, capped at £50,000	Exempt from tax	Yes if you received Income Tax relief	Yes
SITR	Yes on 100% of investment	Deferral	Yes if you received Income Tax relief	Yes - but not on loans
VCT	N/A	N/A	Yes	No

Defer when you pay Capital Gains Tax (deferral relief)

You will not have to pay Capital Gains Tax immediately if you use your gain from the sale of any asset to make any amount of investment in a company that qualifies for EIS. For SITR, this is limited to investments up to £1 million.

You must make the investment between one calendar year before and 3 calendar years after you sell the asset.

You'll need to pay the tax when:

- you dispose of the investment
- the investment is cancelled, redeemed or repaid
- the company stops meeting the scheme conditions
- you become non-resident

For EIS, you can get deferral relief even if Income Tax relief is not available because you're connected with the company.

Relief when you reinvest a gain in SEIS shares (reinvestment relief)

When you sell any asset and use all or part of the gain to invest in shares that qualify for SEIS, you will not have to pay Capital Gains Tax. You must also get Income Tax relief on the same investment.

You can get Capital Gains Tax relief on 50% of the investment, up to £100,000. The maximum amount you can get is £50,000.

You do not have to sell an asset before you invest. However if you do, the asset must be sold in the same tax year that you claim Income Tax relief on the investment.

If you invested the gain from an asset sold between 6 April 2012 and 5 April 2013, you can get Capital Gains Tax relief on the whole investment, up to £100,000.

Capital Gains Tax exemption when you sell your investment

If you invest in shares in a company through either EIS, SEIS and SITR, you will not have to pay any Capital Gains Tax when you sell your shares if both the following apply:

- you've received Income Tax relief on that investment which has not been reduced or withdrawn at a later date
- you've held the shares for the minimum amount of time for the scheme - which will be at least 3 years

If you invest in a VCT, you will not have to pay any Capital Gains Tax on any profits when you sell your shares. This applies for both newly issued or previously owned (second owner) shares.

Loss relief

If you sell your EIS shares at a loss, you can choose to set the loss amount, less any Income Tax relief already given, against your income.

You can do this for the tax year that you sold the shares or the tax year before.

When you will not get tax relief on your investments

You cannot claim Income Tax relief if you and your associates are connected with the company. This applies where you or your associates:

- are employed by the company or any subsidiary - except as a director in some cases
- hold a total of more than 30% of the company's:
  - shares
  - rights to assets if the company is wound-up
  - voting rights
  - loan capital for SITR

Your associates are:

- parents, grandparents and great-grandparents
- children, grandchildren and great-grandchildren
- spouses and civil partners
- business partners
- trustees of settlements where you are the settlor or beneficiary

For investments using SITR, you cannot be a partner or trustee of the social enterprise.

These conditions apply for:

- SEIS - from the dates the company was set up
- SITR - for the 12 month period before the investment
- EIS - for 2 years before the investment and for the minimum qualifying period for the investment (at least 3 years)

Tax relief for directors connected to the company

For SEIS, you can get tax relief if you're a director of the company.

For SITR, you cannot claim tax relief if you're a paid director of the social enterprise. Unpaid directors can claim tax relief.

For EIS, you cannot claim tax relief if, at the time the shares are issued, you're a paid director of the company, unless your payment is a 'permitted payment'. A permitted payment is any:

- reimbursement of work related expenses
- reasonable interest on loans to the company
- dividend which does not exceed a normal return on the amount invested
- payment for supplying goods at their market value
- payment of reasonable commercial rent
- reasonable payment for services provided within their trade or profession, other than secretarial, managerial or similar services to the company - these must be included in their accounts for tax purposes

You may be able to claim tax relief if, at the time the shares are issued, you:

- are an unpaid director of the company (and are not entitled to any payment)
- have not previously been involved in the same trade that the company is seeking investment for

If you become a paid director, you can keep any Income Tax relief you previously received. You can also claim tax relief under EIS after becoming a paid director if either you were:

- issued shares before you became a paid director, and any new shares are issued within either 3 years of the original share issue or the date the company started trading
- issued with SEIS shares while you were a paid director of the company, and the new EIS share issue is within 3 years of the SEIS share issue

Shares that qualify for tax relief

For all schemes, your shares must be newly issued and paid for in full (in cash) to be eligible for Income Tax relief.

You'll only get relief if the company has a way to accept payment before shares are issued.

You must purchase full risk ordinary shares which are not redeemable and carry no special rights to a company's assets if it closes down.

For SEIS and EIS, shares you issue can have limited preferential rights to dividends. However, the rights to receive dividends cannot be allowed to accumulate or allow the dividend to be varied.

For SITR the shares must not have the right to a dividend of a fixed amount or more than a reasonable commercial rate.

You cannot use a loan to buy the shares if it was only approved (or the terms were only approved) for the purchase of the shares.

For EIS, SEIS and SITR, there cannot be an arrangement when the shares are issued:

- to protect your investment
- to sell the shares at end of, or during the relevant period
- to structure the company's activities to let you benefit in a way that's not intended by the scheme
- for a reciprocal agreement where the company's owner invests back in your company to also gain tax relief

For EIS, you will not be able to claim Income Tax relief if you received new shares since 18 November 2015 and you already held either:

- other shares in the company that were not issued to you when the company was formed
- shares where you've received a compliance certificate (form EIS3)

Loans that qualify for tax relief

You can get tax relief using the SITR scheme if you loan money to a social enterprise.

The loan or debt must not be secured on any assets and, if interest is charged, this must be at a reasonable commercial rate. There must not be an arrangement for any part of the loan to be repaid within 3 years of the investment.

If you make a single payment, the investment begins when the company issues you with a confirmation of the debt (known as a debt instrument, like a debenture). If the company does not issue a debt instrument the investment begins when the investment agreement takes effect.

If the investment involves several payments then each investment begins when you pay each amount to the social enterprise.

When you can sell your investment and get tax relief

SEIS, EIS and SITR

You need to keep your whole investment in a company that qualifies for EIS, SEIS and SITR for at least 3 years to claim the full tax reliefs available. You will lose tax relief if during this time:

- you sell some or all of the shares
- the company fails to meet the conditions for the scheme
- you develop a connection with the company
- you receive money or other assets from the company or unusually high interest on a loan from them

You'll also lose tax relief if the company pays back money invested in shares to investors who have not received tax relief. For EIS this applies for 12 months before the share issue. For SEIS and SITR this applies from the date the company or enterprise was started.

You need to tell HMRC (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/self-assessment) within 60 days of any of these occurring.

VCT

You must keep your whole investment in a VCT for 5 years. If any of the shares stop qualifying in this time, you'll lose the Income Tax relief on those shares.

You'll keep the Income Tax relief if you gain a connection with the VCT or a company it's invested in.

When to claim your relief

If you invest with EIS, SEIS or SITR, you can claim relief up to 5 years after the 31 January following the tax year in which you made the investment.

For VCTs, you can claim relief up to 4 years after the 31 January following the tax year in which you made the investment.

How to claim relief

SEIS, EIS and SITR

The company will send you a compliance certificate that shows they've met the conditions of the scheme and how long you will need to hold the shares for.

You must have received this certificate before you can claim tax relief.

If you want to claim in the current tax year you can request:

- a change to your PAYE tax code
- an adjustment to any Self Assessment on account that's due

If you want to claim for the previous tax year, make your claim on your Self Assessment tax return (https://www.gov.uk/self-assessment-tax-returns/overview). For more information see the helpsheets for:

- EIS Income Tax relief (https://www.gov.uk/government/publications/enterprise-investment-scheme-income-tax-relief-hs341-self-assessment-helpsheet)
- SEIS Income Tax relief (https://www.gov.uk/government/publications/seed-enterprise-investment-scheme-income-tax-and-capital-gains-tax-reliefs-hs393-self-assessment-helpsheet)
- Capital Gains Tax relief (https://www.gov.uk/government/publications/enterprise-investment-scheme-and-capital-gains-tax-hs297-self-assessment-helpsheet)

If the shares were issued in a different tax year, or you are claiming for capital gains deferral relief, you need to complete the claim part of the certificate.

VCT

You should claim Income Tax relief in your Self Assessment tax return for the tax year in which the shares were issued.

You do not have to wait until you send in your tax return to get the benefit of the relief. You can do this by asking HMRC to make an adjustment to your tax code or requesting a tax refund.

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1. 13 April 2018 This guide has been updated to include more information about investing in venture capital schemes.
2. 1 January 2016 First published.

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