

OXFORD CAPITAL

ENTERPRISE INVESTMENT SCHEMES

AN INTRODUCTION



IMPORTANT NOTICE

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ABOUT OXFORD CAPITAL



We are one of the most experienced tax-efficient investment managers in the UK. The Enterprise Investment Scheme has been an important focus for us since we launched our first tax-efficient fund in 1999.

We have two investment strategies. Firstly, through our Growth EIS we invest in early stage technology focused businesses in the UK.

Our second strategy invests in the UK's thriving creative industries. Investors can access this strategy through the Oxford Capital Media EIS.

CONTACT US

Please speak to your adviser to find out more, or contact us on **01865 860760**.

The background features a dark blue gradient with numerous thin, curved lines in shades of light blue and white. These lines originate from a dense cluster at the bottom center and fan out towards the top and sides, ending in small white circular dots. The overall effect is reminiscent of a stylized firework or a network of data connections.

WHAT IS EIS?

WHAT IS THE ENTERPRISE INVESTMENT SCHEME?

The Enterprise Investment Scheme (EIS) is a UK government-backed initiative, designed to offer tax incentives to individuals who are prepared to accept the significant risks of investing in small, privately-owned businesses.

Whether they are operating in traditional markets or developing revolutionary products or services, small businesses are vital to the UK economy. Supporting their growth has been a key objective of successive governments.

The scheme helps to fill the so-called 'equity gap', providing a source of funding to businesses that are too small to attract the attention of bigger investors and cannot borrow enough money to fund their expansion plans.

In this guide we will provide a brief introduction to the EIS, and explain how EIS investment can be used as part of a financial plan.

WHAT IS EIS?
CONTINUED...

TOTAL EIS FUNDRAISING

£22,000

SINCE ITS LAUNCH IN 1994, THE EIS HAS BEEN A CENTRAL PART OF POLICY FOR STIMULATING ENTERPRISE AND INNOVATION.

MORE THAN 31,365 INDIVIDUAL COMPANIES HAVE RECEIVED INVESTMENT THROUGH THE SCHEME AND OVER £22 BILLION OF FUNDS HAVE BEEN RAISED.*

000,000

BUSINESSES

99%

REVENUES

52%

EMPLOYMENT

60%

SMALL & MEDIUM-SIZED ENTERPRISES

SMEs are a crucial part of the UK economy. They account for 99.9% of British businesses, 60% of total private sector employment and 52% of business revenues generated in the UK.** Many of these SMEs can raise funding through the Enterprise Investment Scheme.

* Source: EISA 2020 ** Source: Department for Business, Innovation & Skills 2018



TAX RELIEFS

First and foremost, EIS investing makes it possible for people to own shares in interesting UK companies. But investing in EIS-qualifying companies also brings UK taxpayers a range of tax advantages. The reliefs provide an initial incentive to invest, the potential for tax-free gains, and a cushion against the potential downside risks associated within investing in small companies.

These tax reliefs give investors an incentive to take on the risks associated with investing in small companies. Further information about risks can be found on page 22.

Income tax relief



Provided you have a sufficient income tax liability, you can claim back 30% of the amount invested into EIS-qualifying companies against income tax due, either in the year of investment or in the previous tax year. There is an upper limit of £2m invested per tax year.

Capital Gains Tax deferral



You can defer capital gains from the sale of other assets, in part or in full, by investing an amount up to the value of the gain into EIS-qualifying companies. Gains that occurred up to three years before, or one year after, the date of the EIS investment can be deferred. The gain is re-crystallised when the EIS is subsequently sold and CGT becomes payable at the rates prevailing at that time, unless rolled over into another EIS investment.

Tax-free gains



Any profits from the sale of your EIS shares will be exempt from CGT, as long as you have owned them for at least three years.

Inheritance tax relief



EIS shares will usually qualify for Business Relief. If they do, they fall outside your taxable estate if held for more than two years and still held at the time of your death.

Loss relief



If an EIS-qualifying company is not sold at a profit, you may be able to claim loss relief. Any loss, calculated after deducting the income tax relief you have received, may be offset against income in the year of the loss or the previous tax year, at your election. Alternatively, the loss may be offset against capital gains in the year of disposal, with any excess carried forward against future capital gains.

TAX RELIEFS
CONTINUED...

HOW EIS TAX RELIEFS CAN PROTECT AND REWARD INVESTORS

If an EIS-qualifying company is sold for a profit, the gains should be tax-free. By contrast, if the company fails but EIS reliefs remain intact, a higher rate tax payer will only lose 42% of the amount they invested.

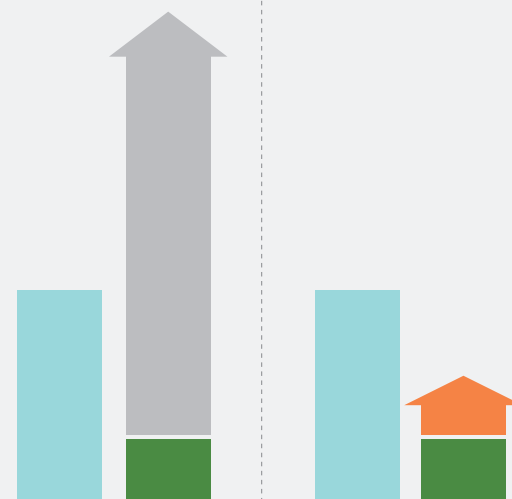
This loss is further reduced to 38.5% for a 45% tax payer.

IF A COMPANY DOUBLES IN VALUE, EIS RELIEFS ENHANCE THE GAIN.

Proceeds are tax-free and boosted by the original Income Tax relief*.

IF A COMPANY FAILS, EIS RELIEFS CUSHION THE LOSS.

Loss is restricted to 42% of amount invested for a 40% income tax payer.



- Amount invested
- EIS Income Tax Relief
- EIS Loss Relief
- Sale proceeds (CGT free)

*Examples assume that companies retain their EIS-qualifying status, and that the investor pays income tax at 40%. Loss could be restricted to 38.5% if investor pays income tax at 45%



HMRC PROVIDES SPACE ON YOUR TAX RETURN FORM FOR REPORTING EIS INVESTMENTS YOU HAVE MADE DURING THE YEAR.

CLAIMING TAX RELIEFS

EIS relief can be claimed on your tax return or by writing to HMRC.

Each time you buy EIS-qualifying shares, you will receive an 'EIS3'* certificate which is issued by HMRC. This includes details of the share purchase, together with a simple form which allows you to claim reliefs.

You can use the form when you submit your self-assessment tax return, or submit it to HMRC separately if you are reclaiming tax that you have already paid. Alternatively, if you pay tax through PAYE, you can request to have your tax code adjusted so you benefit from the reliefs throughout the year.

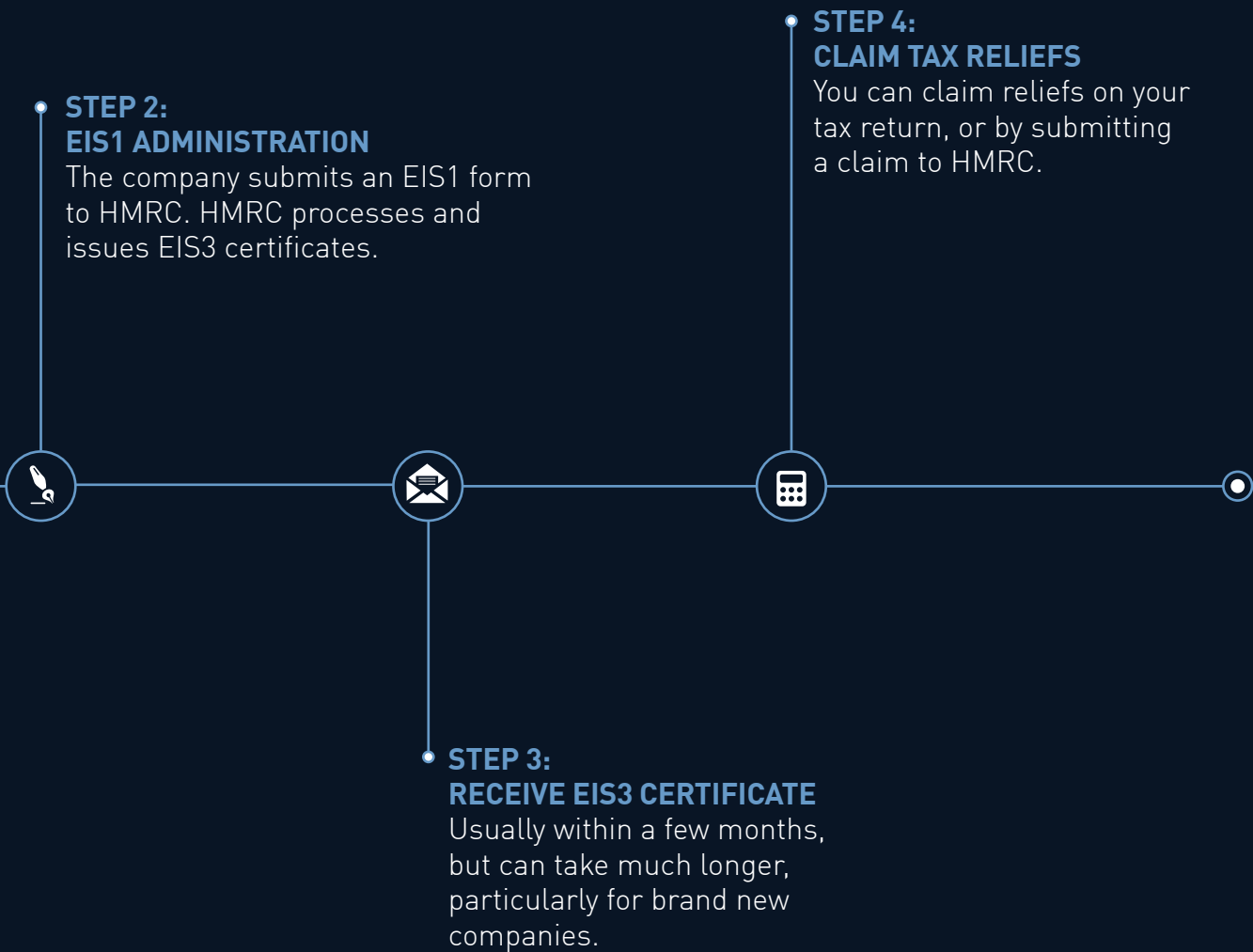
Depending on what sort of EIS opportunity you invest in, either the company or your investment manager will handle the administrative process of obtaining EIS3s on your behalf. You will usually receive the certificate within a few months. If you are investing in a very early stage company the EIS3 may take significantly longer, because companies must have been trading for at least four months before they can apply for the form to be issued.

*The exception is if you invest in an 'Approved' EIS Fund, in which case you will receive a single certificate (called an EIS5), regardless of how many companies the Fund invests in. You must use the EIS5 to claim reliefs in relation to the year in which you subscribed to the Fund.

THE EIS3 PROCESS



STEP 1:
SHARE PURCHASE
You or your investment
manager purchase
EIS-qualifying shares.





EIS COMPANIES

WHAT KIND OF COMPANIES CAN BE INVESTED IN THROUGH THE EIS?

Companies from many different industries can receive investment through the EIS.

An EIS fund manager will often specialise in investing in particular sectors, offering varying degrees of risk and reward. Some offer investment in a single market. Others will aim to invest in a broader range of sectors, focusing on finding companies with potential for rapid growth, through innovative products, services and business models.

POPULAR EIS INVESTMENT THEMES

- Communications
- Technology
- Media and Entertainment
- Healthcare
- Consumer lifestyle and well-being

EIS QUALIFYING RULES

There are strict HMRC rules governing which companies and investments qualify for the EIS. The main EIS qualification rules are summarised in the adjacent table.

TYPE OF SHARES	New shares which are either unquoted or quoted on the Alternative Investment Market (AIM) or PLUS markets.
TAX-EFFICIENT FUNDING	The total amount of EIS and VCT funding a company can receive in its lifetime is capped at £12m (or £20m for companies which meet the Government's definition of 'knowledge intensive'). A company may receive up to £5m in any 12 month period from EIS or Venture Capital Trust investments (£10m for 'knowledge intensive').
SIZE OF COMPANY	The company's gross assets must not exceed £15m before investment, or £16m immediately after.
NUMBER OF EMPLOYEES	The company must have fewer than 250 full-time employees (or their equivalents) at the time the shares are issued.500 employees for 'Knowledge intensive'.
EXCLUDED ACTIVITIES	Companies involved in certain activities are excluded. These include: dealing in shares, securities, futures, commodities or other financial instruments; dealing in land; energy production; the operation of hotels or nursing homes; farming and forestry enterprises.
CONTROL	There are certain restrictions concerning ownership and control of the EIS company, including that it must not be controlled by another company.

A close-up photograph of a hand holding a black pen with silver accents, poised to write on a document. The background is softly blurred, showing another hand and more of the document. A semi-transparent blue horizontal band is superimposed across the middle of the image, featuring the title 'HOW TO INVEST' in large, white, sans-serif capital letters.

HOW TO INVEST



DIVERSIFYING YOUR INVESTMENT ACROSS A PORTFOLIO HELPS TO MITIGATE YOUR INVESTMENT RISK, WHEN COMPARED TO ONE-OFF INVESTMENTS.

There are a number of ways to invest in EIS companies. The right choice will depend on your financial circumstances and appetite for risk.

SINGLE COMPANY INVESTMENT

Investing in the shares of a single EIS company is the highest risk approach. The success of your investment will be linked to the success of just one company, and there will be no prospect of a return until the company is sold or floated on a stock exchange. However, if the company flourishes the returns could be significant.

EIS PORTFOLIO

Many investment managers, including Oxford Capital, offer a service where your capital will be used to build a diversified portfolio of EIS companies. This is usually structured as a discretionary management service, so you will have no say in which companies your money is invested into. However, you will benefit from the investment manager's experience. And often the investment manager will be directly involved in shaping the growth of the portfolio companies.

Diversifying your investment across a portfolio helps to mitigate your investment risk, when compared to one-off investments. That said, the risks and target returns of EIS portfolios can vary considerably between providers, depending on the type of companies they invest in. If you are investing in a portfolio, you will normally be able to claim EIS tax reliefs after each individual investment is made.

APPROVED EIS FUNDS

Differing slightly from a portfolio service, in an approved fund your subscription is 'pooled' with other investors' and then invested across a number of EIS companies.

Investors must claim their reliefs in relation to the year in which they subscribe to the Fund, rather than in relation to the year in which the shares are purchased (see the footnote on page 13). It is not possible to carry back Income Tax relief to the year before the investor subscribed to the Fund.

SEED EIS

Introduced in April 2012, the Seed EIS offers even more generous tax advantages, but only for high-risk investment into very small, early stage businesses.

CHOOSING YOUR EIS INVESTMENT PROVIDER

The EIS market is constantly changing, and at any one time you will find dozens of different investment opportunities from a host of different providers. If you have a professional adviser, they will be able to help you decide which EIS investment manager's service, if any, is best suited to your needs. This list sets out some of the things to look for:

Does the investment manager have a track record of successfully managing EIS-qualifying investments?

Does the provider have a strong reputation for customer service?

What fees are charged by the investment manager? Do they seem competitive in comparison to other similar investments?

Does the investment manager routinely seek provisional EIS clearance from HMRC? This is often referred to as 'advance assurance'.

How long does the provider expect the investment duration to be? Remember, you will not be able to access your capital until the provider can sell your shares.

How soon will your money be used to purchase shares? This is important, because the EIS-qualifying period only starts once the qualifying shares have been bought (or once the company starts trading, if later).

Does the risk profile of the provider's investments match your own appetite for risk and your ability to withstand losses?

Do you understand the types of company the investment provider invests in?



RISKS



RISKS OF EIS INVESTING

All EIS investment managers should provide you with a detailed description of the risks associated with their investments, including the risks associated with the particular companies in which they invest.

While the risks associated with each EIS investment will be different, and should be explained to you in the marketing literature, some of the risks include:

- **Company failure.** Some companies are riskier than others, but it is always possible that your investments may fail or be sold at a substantial loss.
- **Management risk.** EIS companies are often dependent on a few key executives. Any changes to the leadership team can have a big impact on the success of the company.
- **Liquidity.** As you will be investing in unquoted companies, the shares may be difficult to sell. It is therefore important to view an EIS as a medium to long-term investment.
- **Loss of tax reliefs.** EIS reliefs can be withdrawn if your shares are sold within three years. Changes to tax legislation can also affect reliefs.
- **Past performance.** The past success of any EIS investment or its manager is not an indication of the likely future performance of the investment you may be considering.

The background of the page is a composite image. The upper portion shows three business professionals in a meeting; two men and one woman, all in business attire, are standing and talking in front of a large window. The lower portion shows a close-up of a desk with a tablet displaying a colorful bar chart, a pen, and other documents. A semi-transparent blue horizontal band is positioned across the middle of the image, serving as a backdrop for the title text.

PLANNING WITH EIS

In its simplest form, investing in EIS-qualifying businesses provides access to potential tax-free capital growth, with further tax benefits to cushion the downside risk.

But there are various other ways that EIS can be used as part of your financial planning. Some basic examples include:

RETIREMENT FUNDING

Recent legislative changes have reduced the overall amount which you can pay into a pension during your lifetime.

Some investors who have hit this lifetime limit are now using EIS to diversify their approach to saving for retirement. If EIS investments are sold and return capital to you, you can review your personal financial strategy before deciding how to re-invest your proceeds.

ESTATE PLANNING

Currently, most EIS investments will remain outside your estate once they have been held for two years, mitigating the effects of inheritance tax.

INCOME OPTIMISATION

EIS investments can reduce or remove your income tax liability, freeing up cash which can either be put towards major expenses or invested to further increase the level of your overall portfolio.

CAPITAL GAINS MANAGEMENT


The gain arising on the sale of other assets can be deferred through investment in EIS, protecting proceeds from an immediate tax liability which would reduce the value of your portfolio. EIS also offers the potential to remove the liability in full over time.

PROFIT EXTRACTION

If you own a business, EIS provides a tax-efficient way of withdrawing money from your company.

BRINGING OVERSEAS INCOME AND GAINS INTO THE UK

If you are UK tax resident but not domiciled, you can use EIS to bring foreign income and gains into the UK without triggering an immediate tax liability.

A background image showing a close-up of a man in a suit and tie, smiling, with his hands holding a pen and a document. The image is overlaid with a semi-transparent blue band containing the title text.

FREQUENTLY ASKED QUESTIONS

CAN I INVEST IN MORE THAN ONE EIS IN THE SAME TAX YEAR?

Yes. Unlike other forms of tax-advantaged investment, there is no limit on the number of EIS investments that you can make in one tax year. However, for any given tax year, EIS tax reliefs are only available on EIS investments of up to £2m.

WHEN CAN I ACCESS MY INVESTMENT?

EIS investments are illiquid. They cannot typically be sold or partially withdrawn at your request, and they must be held for at least three years to benefit from tax advantages. Some may be held for considerably longer. You will not generally be able to access your funds until the companies you have invested in are sold or listed on a stock exchange. You should check the likely investment duration before subscribing.

CAN I MAKE A JOINT INVESTMENT?

No, investments in an EIS need to be held in the name of one person.

WHEN DO I GET MY TAX ADVANTAGES?

Tax advantages can be claimed when EIS-qualifying shares have been acquired, and you have received the EIS3 certificate relating to the shares. You can apply the relief to income tax due in the tax year the shares were purchased, or carry it back against income tax paid the previous tax year.

WHAT HAPPENS IF I DIE WHILE INVESTED?

Provided you have held your EIS shares for at least two years, your investment will generally qualify for relief from Inheritance Tax. Any income tax relief you claimed will not be clawed back, and any deferred capital gains will be permanently extinguished.

The investment manager will usually liaise with your executors to arrange the transfer of shares to a beneficiary. If the shares are subsequently sold, they will be subject to CGT, taking the value at the point of transfer as the acquisition cost for the purposes of calculating the gain.

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