Policy Explainer
The Enterprise Investment Scheme (EIS)

Political appeal
Earlier this month, Joanna Jensen, Chairwoman of the Enterprise Investment Scheme Association (EISA), appealed to Rachel Reeves, the Chancellor of the Exchequer, to protect tax breaks for investors that back young companies.

The EISA is the trade body for the Enterprise Investment Scheme (EIS), which was set up in 1994 to provide generous income and capital gains tax reliefs to investors to encourage them to risk capital in early-stage businesses.

The EIS is a significant source of capital for venture capital-backed companies, while also providing an attractive financial incentive to the investors who support them.

Zoopla, the property website, Graphcore, a computer chip company and Gousto, the food delivery business are just some of the companies that have benefited from EIS.

Reeves and Keir Starmer, the new Prime Minister, based their election campaign on the need to generate economic growth. The Treasury has already said it was "committed to supporting start-ups to raise the capital they need".

Nothing ventured...

The EIS is just one of four venture capital schemes, aimed at helping start-ups to access finance. Each of them has a different focus and rules for qualification.

1. **EIS**
   Companies may qualify if at the time of investment it has: no more than £15 million in gross assets; less than 250 employees; been no more than seven years since its first commercial sale. There may be higher limits if a company carries out research, development or innovation and meets certain conditions.

2. **The Seed Enterprise Investment Scheme (SEIS)**
   A company may qualify if it is less than two years old, and at the time of investment has no more than £350,000 in gross assets, less than 25 employees and has not previously carried out a different trade. A business will not qualify if it has already had investment through EIS or a Venture Capital Trust.

3 Social Investment Tax Relief (SITR)

Tax reliefs under the SITR scheme will not be available for new investments made on or after 6 April 2023.

4 Venture Capital Trusts

These are companies that have been approved by HMRC and invest in, or lend money to, unlisted companies. A VCT may invest in a business if it has: no more than £15 million in gross assets; less than 250 employees; and has not been more than seven years since its first commercial sale. There may be higher limits if a company carries out research, development or innovation.

Sunset clause

Jensen is concerned the schemes are under threat because of approval needed from the European Union to extend their use beyond April 5, 2025, due to a sunset clause implemented when EIS came into use.

The Finance Act, passed earlier this year under the previous Conservative government, allows EIS to be available until April 5, 2035.

However, Jensen said civil servants in the Treasury are adamant that this can only come into force when the EU gives approval.

She told The Times:

"We are in danger of losing EIS because of this sunset clause and we need the new government to ensure that it is renewed, regardless of what the EU says. This is something that over the years since EIS and SEIS were created has helped £32 billion to be raised for 56,000 businesses."

The Treasury said discussions with the EU are at an "advanced stage" and that the processes to extend the EIS are also well advanced.