

## EIS mandates

# The sunset clause

April 2023

In November 2022 Rathbones hosted the EISA's Ready Steady Grow! Liverpool event. The official trade body for the Enterprise Investment Scheme, EISA aims to help small and medium-sized UK companies obtain the funding they need to prosper. Since its inception in 1994, the EIS and SEIS have enabled over £27 billion of investment in over 52,000 businesses.

November's event highlighted the depth of the EIS ecosystem, from entrepreneurs to fund managers, tax advisers and investors, all established over a near-30 year EIS history. Discussion covered a range of topics, not least the 'sunset clause', and the event followed the 'mini-Budget' when the government stated a recognition of the value EIS brings to job creation, innovation and economic growth. As a result, the government committed to the EIS beyond the 2025 sunset clause.

### **But what is the 'sunset clause' and why is it important?**

As a recap, the EIS provides a range of tax reliefs for qualifying investors - the most tangible is the income tax relief, where 30% of the amount invested can be reclaimed from an Investor's income tax bill. This has the effect of reducing the total outlay to 70% of the amount invested. This relief is at risk for the first three years after the investment is made; a disposal of the investment within this window causes the relief to be reclaimed. It is income tax relief that's at the heart of the sunset clause. Under EU rules it's treated

as state aid and in the EU's last approval in 2015 a time limitation was set to 6 April 2025. The positive is that following Brexit the Treasury has the power to amend the date and extend it further.

### **And capital gains deferral?**

Capital gains tax deferral - a sponge for capital gains - is not treated as state aid and does not fall under the sunset clause. With capital gains speculation rising and annual exemptions set to reduce considerably in the coming years this relief may take a higher ranking in discussions with clients.

### **When will we know more?**

There is certainly a movement calling for clarity. The influential All Party Parliamentary Group for Entrepreneurship's launched the [Funding to Flourish: The Case for Tax Relief on Early Stage Investment](#) report requesting further clarity on the future of EIS beyond the 2025 sunset clause. The Association of Investment Companies (AIC) believes it was the Windsor Framework's significant political and economic implications agreeing the UK subsidy regime that could benefit tax-advantaged investments in Britain. In the AIC's words, "An important question ... has now been settled in a way that puts the UK in control." Subsequent to both the passing of the Windsor Agreement through Parliament and Chancellor Jeremy Hunt's Spring Statement, we expect the extension of the sunset clause to be formalised through legislation soon.

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