

# SIMKINS

## Autumn Budget 2017 – Enterprise Investment Scheme (EIS) investment limits doubled for knowledge intensive-companies

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It was announced in the Autumn Budget on 22 November 2017 that the annual allowance for people investing in knowledge-intensive companies through the EIS will double.

The annual limit for individuals investing in knowledge-intensive companies under the EIS will be increased to £2 million on the condition that anything above £1 million is invested in knowledge-intensive companies. In respect of the amount of tax-advantaged investments a knowledge-intensive company may receive, the annual EIS will be increased to £10 million.

According to the HMRC internal manual on Venture Capital Schemes<sup>1</sup>, a knowledge-intensive company must meet the following conditions at the time of the investment in the company:

1. **Operating Costs Condition:** The company must have its relevant operating costs on research and development or innovation of either:
  - (a) at least 15% in one of the three relevant years preceding the date of the investment; or
  - (b) at least 10% in each of the three relevant years preceding the date of the investment;  
**and**
2. the company must also meet one of the following conditions:
  - (a) **Invention Condition:** The company is engaged in carrying out work to create intellectual property and it is reasonable to assume that, within 10 years of the investment, most of the company or group's business or activities consist of either: (i) the exploitation of that intellectual property; or (ii) the business which uses the intellectual property; (iii) or both; or
  - (b) **Skilled Employees Condition:** The company must have at the time of the investment and for the three years afterwards at least 20% of its full time equivalent employees meeting the following criteria:
    - (i) being directly engaged in the research and development or innovation activities of the company or group;
    - (ii) holding a relevant higher education qualification of a Master's degree or above;  
and
    - (iii) having a job role that requires them to hold a Masters qualification or above.

For EIS, the proposal is for the above changes to apply to shares issued on or after 6 April 2018.

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<sup>1</sup> Published on 9 March 2016 and updated on 27 September 2017 (<https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm8162>)