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Survey of Adviser Opinions, December 2017

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SURVEY OF ADVISER OPINIONS DECEMBER 2017

Advisers predict growth in numbers using EIS on back of Budget changes

Financial advisers say they believe there will be an increase in the use of Enterprise Investment Schemes in the wake of last year's Budget changes – even though the government's amendments may increase investment risk.

Prior to the Budget many were fearful for the future of the EIS regime, which has been responsible for delivering more than £16bn – much of it to early-start businesses – since its inception in 1994. Signals from HM Treasury (HMT) and HM Revenue and Customs (HMRC) suggested that the scheme was in some jeopardy.

Though new rules are being introduced to prevent generous tax reliefs being applied to capital preservation schemes, the Chancellor sprang a surprise when he doubled the amount individuals could invest in EIS from £1m to £2m.

A survey of IFAs by the industry's trade body, the EIS Association, which included independent follow-up interviews, suggests that:

- 50% of advisers currently advising on EIS believe that investor interest in EIS will now rise.
- 33% of advisers currently advising on EIS expect their personal sales of EIS to increase in future as a result of the Budget changes.
- 14% of advisers that do not currently offer EIS to their clients will now consider doing so in the future.

The most popular drivers for EIS sales in the future are likely to be:

- General tax planning 53%
- Retirement tax planning 13%
- Portfolio growth 11%

Mark Brownridge, Director General of EISA, said: "The rise in interest in EIS as a consequence of the budget is good news for many of the UK's brightest companies. The industry has accepted the need to focus purely on supporting growth companies and this, coupled with the increase in allowances, will lead to billions of pounds of capital being injected into promising early-stage businesses in the decade ahead."

The survey also asked advisers that recommend EIS already what they looked for in recommending an EIS investment. The top three answers were:

- Fund management team experience/track record 93%
- Diversification 78%
- Relative stage of the underlying companies 50%

The biggest barrier to investment among all advisers is perception of risk, according to the research. Brownridge said: “I think there is a healthy awareness among investors and advisers about the risks around investing in earlier-stage businesses and this should be welcomed. It shows the tax tail is not wagging the investment dog.

“The very best EIS investment groups have an outstanding track record in picking winners and supporting their investee companies to success, but we all recognise that there is a reason the government provides these benefits – by mitigating some of the risk it encourages investors to direct their capital towards Britain’s entrepreneurs, helping fuel economic growth. It’s a partnership that can benefit everyone.”

Andrew Aldridge, Partner and head of marketing at EIS specialists Deepbridge Capital added: “EISA’s survey emphasises the growing importance of EIS as a pillar of financial planning. The Budget provided clarity on what the Government wants the EIS to achieve – providing risk capital to innovative companies with an ambition of creating jobs and generating commercial revenues for UK plc. Advisers should be seeking to work with providers which embrace this ‘spirit of EIS’ and perhaps question whether providers which are having to drastically change their business model to adhere to the new world are the partners they wish to be working with. EIS is a world-leading enabler for risk capital and investors and advisers should embrace the opportunities available, when appropriate.”

Dan Rodwell, Managing Director of GrowthInvest, said: ‘Over the last two years we have seen increasing interest in EIS from financial advisers – those who are experienced in EIS and those wishing to integrate EIS products into their client offering for the first time. We welcome the clarification from HMRC and are encouraged to see such a positive message coming out of this piece of research. We hope that the next 12 months will see the start of a new era of EIS investing’

For more information contact:

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Notes to editors:

The EIS Association (EISA) is the official trade body for the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) industry. It is a not-for-profit organisation that exists to aid the provision of capital to UK small and medium-sized enterprises (SMEs) through these two schemes. EISA works closely with HM Treasury, HM Revenue and Customs, government ministers, MPs and the Financial Conduct Authority to enhance EIS and SEIS and promote their benefits to investors, companies and advisers.

An extensive online survey was carried out by an independent consultancy prior to Christmas and in-depth interviews conducted with a further 10 respondents.

As a result of the Autumn 2017 Budget, from April 6 2018 an individual investor will be able to enjoy up to £600,000 in initial income tax relief. Previously, the maximum amount of relief was £300,000. There is only one condition for the doubling of the annual individual investment limit: any amount above the first £1m must be invested in knowledge-intensive companies. Similarly, the annual total investment limit for knowledge-intensive companies is also set to double — from £5m to £10m.

HMT has calculated that these changes could result in an extra £7bn being channelled through EIS and VCTs over the next decade.

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