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Enterprise Investment Schemes (EIS)

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COMMON THINKING AMONGST MOST PROFESSIONALS IS THAT YOU SHOULD NEVER LET THE TAX TAIL WAG THE INVESTMENT DOG. IN OTHER WORDS, AN INVESTMENT SHOULD BE RESEARCHED AND RECOMMENDED BASED UPON ITS POTENTIAL TO DELIVER THE EXPECTED LEVEL OF RETURN RATHER THAN SIMPLY TO SAVE TAX. AFTER ALL, WHAT GOOD IS IT SAVING YOUR TAX IF YOU ARE EXPOSED TO LOSING THE TAX SAVING, PLUS POTENTIALLY MORE, IN A POORLY PERFORMING INVESTMENT?

This conundrum is encountered regularly because Her Majesty's Revenue and Customs (HMRC) tends to offer generous tax reliefs for those who are prepared to invest in 'higher risk' areas. A good example of this is Enterprise Investment Schemes (EIS), a Government initiative designed to encourage individuals to invest in smaller companies in the UK. The encouragement comes through generous tax reliefs to investors who are prepared to commit money to an EIS, such as:

- Income Tax Relief of 20%, subject to a maximum of £500,000 per tax year. The investment must be retained for at least three years otherwise the tax relief will be reclaimed.
- 100% Capital Gains Tax (CGT) deferral, whereby any capital gains that have been made and are taxable can be invested in the EIS and the CGT is deferred for the term of the investment.
- 100% Exemption from Inheritance Tax if held for two years or more and by the investor on the date of their death.

Once in a Lifetime Opportunity?

However, the rate of CGT recently changing to a flat rate of 18% has made investing in EIS in the near future even more compelling.

By using the CGT deferral, anyone who has realised a capital gain at 40% during the last three years, even if the CGT has been paid, can invest in an EIS now and defer the tax or reclaim it if it has been paid. When they eventually come to pay the tax again, it will be at the new rate of CGT – which is 18% today! This reduces the tax bill by over 50%!

So, if your clients have paid CGT at 40% within the last three years, you should think about talking to them about this unique opportunity.

However, in order for the investment in an EIS to tick all the boxes, our clients must be able to invest in areas we feel comfortable with. After all, it can be dangerous letting the tax tail wag the investment dog! We recently held training sessions on this subject and the question asked most often was – “is it too good to be true?” The EIS market has moved on over the years, to the extent that a number of EIS schemes now concentrate on maintaining capital, rather than making gains. The philosophy behind this is that the tax breaks are so generous, why be greedy?

If you would like to talk to us about EIS or if you have any clients who could benefit from this type of tax saving scheme, please contact your normal iimia contact or email enquiries@iimia.co.uk.



Wealth Management

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