Fact sheet: Alternative tax efficient investments

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Enterprise Investment Scheme (EIS)

This scheme has been designed to help smaller unquoted companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.

Investors in an EIS should be entitled to:

- 30 per cent Income Tax relief on investments up to £1m per tax year (£2m if at least £1m in knowledge-intensive companies) to be offset against Income Tax liabilities for the year of assessment and/or the preceding year in which the shares are issued. This is subject to holding the shares for a minimum of three years and the investee company continuing to qualify;
- Capital Gains Tax deferral;
- tax exempt capital gains upon disposal, subject to claiming and continuing to qualifying for income tax relief;
- potential for 100 per cent Inheritance Tax relief after two years (provided funds remain invested at the time of death in qualifying assets); and
- loss relief on any holding that falls in value by more than the amount of income tax relief received.

Seed Enterprise Investment Schemes (SEIS)

These were introduced by the government in 2012 to encourage investment in early stage companies with less than 25 employees and assets up to £200,000. The theory is that this offers such companies access to a source of funding which they may not otherwise have had access to.

Provided the underlying investments are held for at least three years, investors in SEIS should be entitled to:

- 50 per cent Income Tax relief (on investments up to £100,000 per tax year) to be offset against Income Tax liabilities for the year of assessment and/or the preceding year in which the shared are issued. This is subject to holding the shares for a minimum of three years and the investee company continuing to qualify;
- Capital Gains Tax reinvestment relief (on 50 per cent of any realised gains reinvested, subject to a maximum £50,000) against gains in the current or preceding year in which the shares are issued;
- loss relief on any holding that falls in value by more than the amount of income tax relief received;
- 100 per cent Inheritance Tax relief after two years (provided funds remain invested at the time of death in qualifying assets); and
- tax-free growth (provided income tax relief has been given and not withdrawn).

The £100,000 investment limit which applies for Income Tax relief also applies for reinvestment relief. The 'carry-back' facility applies for capital gains reinvestment relief as it does for Income Tax relief. You can make a total of £200,000 investment in one year by applying £100,000 against the current year and then carrying the remaining £100,000 to the previous year.

Dividend income from these schemes is taxable based on your marginal rate of Income Tax, so for tax efficiency these schemes usually invest in shares that do not pay dividend income.

Venture Capital Trust

These schemes are designed to encourage investment in unquoted companies. Individuals invest by holding shares in a VCT. The VCT invests in a spread of unquoted companies, enabling investors to spread their risk, just as they do by holding shares/units in any other collective investment scheme.

An approved VCT has a number of tax advantages.

- Individual investors can claim Income Tax relief at 30 per cent on subscriptions of up to £200,000 per tax year subject to holding the shares for a minimum of five years.
- Individual investors are exempt from Income Tax on dividends in respect of ordinary shares acquired within the 'permitted maximum' of £200,000.
- Individual investors are exempt from CGT on the disposal of VCT shares as long as Income Tax relief is claimed on the subscription.

Alternative Investment Market (AIM)

This involves investing in companies listed on the Alternative Investment Market to obtain relief from Inheritance Tax. AIM is the London Stock Exchange's international market for smaller companies.

The investment is designed to be held for the long-term and has to be held for at least two years (and at the date of death) in order to benefit from Inheritance Tax relief.

These are established and often well known companies, however many still qualify for 'Business Relief' against Inheritance Tax, formally known as 'Business Property Relief'. This can help protect your wealth from Inheritance Tax (at 40 per cent) while allowing you to retain control and access to your money.

Investments made in an EIS, SEIS or VCT are high risk and should only be made to the extent that you are prepared to accept significant losses and limited access to your funds.

Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning planner, call us on **01603 706 820** or email **info@lffp.co.uk**.

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