For UK retail investors only.

Tax benefits of EIS investments

An explanation of the five key tax benefits of EIS, and a more detailed look at how capital gains deferral works.

octopus investments

A brighter way

EIS

The Enterprise Investment Scheme (EIS) is a government initiative that provides a valuable source of funding to early stage companies, while offering investment opportunities and a range of tax benefits to UK tax-paying investors.

30%	Up to 100%	Up to 45%
income tax relief on the amount invested[1]	capital gains tax relief if shares grow in value	loss relief if a company fails

For investors with the relevant personal circumstances there are also additional tax reliefs which they can benefit from.

Capital gains deferral

Applies to gains made 12 months after or 3 years before investment.

Inheritance tax relief

Provided shares are held for more than 2 years and at death.

Capital gains on death

If an investor reinvests a gain (for example the profits from the sale of a property or share portfolio) into EIS shares and dies while holding them, the gain does not come back in to charge.

Investing in EIS companies is high risk

- The value of an EIS investment can fall as well as rise. Investors might not get back the full amount they invest.
- When making an EIS investment, the tax treatment you receive will depend on your personal circumstances and might change in the future. Tax reliefs offered through the scheme depend on the companies you invest in maintaining their EIS-qualifying status.
- Investors need to hold shares for three years to keep any tax reliefs claimed. Investors should be prepared to hold their shares for significantly longer to allow time for potential growth and exit.
- Investments in smaller companies can fall or rise in value much more sharply than shares in larger, more established companies. They can also be harder to sell.

[1]The maximum investment amount on which income tax relief can be claimed is £1 million per tax year.

A closer look at capital gains deferral

Capital gains deferral window

A gain must be reinvested into EIS-qualifying shares in the period illustrated below.

How does the gain return to charge?

The gain is deferred for the period the EIS investment is held. A number of events can result in the gain returning to charge, the most common of which is sale or disposal of the EIS investment.

Deferring a gain across a portfolio of EIS companies

Most EIS investments are made into a portfolio of multiple EIS companies. You can make a claim to defer an amount of a gain into each of these companies. As these are early stage companies, their timeline to exit for investors is uncertain. Companies will be sold separately, and you should expect this to happen over a long period of time, likely many tax years.

This means that the amount of the gain deferred into each company will return to charge at different points in time in the future. And that the timing of this will be out of an investor's control.

We've used an example to show how this might look:

Benjamin sells his share portfolio	**Proceeds**	£200,000
Original cost of Benjamin's share portfolio	**Cost**	(£100,000)
Total gain on disposal	**Gain**	£100,000
Benjamin hasn't used his capital gains annual exempt amount elsewhere during the year, and wants to offset it against this gain.		
Annual exempt amount (£12,300 for 2021/2022)		(£12,300)
Chargeable gain on Benjamin's share portfolio		£87,700
Capital gains tax Benjamin expects to pay this year (at 20%)		£17,540

Benjamin

Given Benjamin's appetite for high risk investments his financial adviser suggests he invest £87,700 across five EIS companies six months after selling his share portfolio. As a result, he doesn't have any capital gains tax to pay this year, and retains £12,300 from the sale in cash.

He can also claim £26,310 of income tax relief in the year – 30% of the amount he has invested.

His EIS portfolio is exited over time, as follows, resulting in him needing to pay £7,700 of capital gains tax in respect of the gain he deferred over the next eight years.

See diagram overleaf which shows how Benjamin's gains could return to charge.

How the deferred gains return to charge

Benjamin invests the taxable gain of £87,700 equally across 5 EIS companies.

	Year company is sold	Annual Exempt Amount (AEA)[1]	CGT on balance at marginal rate (20%)
£17,540 deferred in EIS company 1	Year 4	£12,300	£1,048
£17,540 deferred in EIS company 2	Year 4	£0	£3,508
£17,540 deferred in EIS company 3	Year 5	£12,300	£1,048
£17,540 deferred in EIS company 4	Year 7	£12,300	£1,048
£17,540 deferred in EIS company 5	Year 8	£12,300	£1,048

£17,540
CGT originally due

£7,700
CGT paid across 8 years as gain returns to charge

Capital gains tax on disposal assumed at 20%. However rates and allowances may be different at times of disposal. Gains can be deferred again by making a new EIS investment.

In this example we've only shown the benefit of income tax relief and capital gains deferral for simplicity. Benjamin would also need to consider the impact of charges (including initial fee and ongoing fees, such as annual management charges, dealing fees and performance fees) relevant to any EIS investment he chooses.

[1]Assumes Benjamin hasn't used his capital gains annual exempt amount elsewhere during the years referenced.

We can't give you financial or tax advice, so we recommend you speak to a financial adviser. However, we can answer any questions you have about EIS and its associated tax reliefs. So, if you have any questions after reading this, please call our Investor Support team on **0800 316 2295** or visit **octopusinvestments.com**.

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