

Inheritance Tax – Latest

Advanced Tax Strategies - 100% of your investment outside your estate after 3 years

ENTERPRISE INVESTMENT SCHEMES

A direct investment in an unquoted company which satisfies certain criteria to do with size and type of trade carried on. In return for keeping the shares for three years, investors receive tax benefits.

Changes were made to the EIS from 6 April 1998 when the EIS and the reinvestment relief scheme were combined. Subsequent changes have improved the relief available

Tax Benefits: The new EIS offers investors four tax benefits:

- **20% Income tax relief** on new ordinary shares up to 400,000 per tax year. Shares must be held for three years. Relief is against the tax liability in the year the shares are issued but part can be carried to the previous year for shares issued before October 6
- **Exemption from capital gains tax** for any gains made on EIS qualifying shares held for three years or more
- **Loss relief** against income or capital gains for losses made on disposing of qualifying EIS shares after three years
- **Unlimited capital gains tax deferral.** CGT on gains can be deferred if the EIS share subscription is made within one year before or three years after the date of disposal which gave rise to the gain. Only 400,000 of investment per tax year qualifies for income tax relief and exemption from CGT on disposal

NOTE:

- **Dividends** are not tax free
- **Exit** is via trade sale, flotation or liquidation
- Qualifying companies must have gross assets of no more than 7m immediately before investment.
- **Since 6 April 2004**, VCTs no longer provide CGT deferral. Hence, EIS is, for most investors, the only means of deferring capital gains tax liabilities

How It Works:

The combination of income tax relief and CGT deferral works as follows:

EIS share investment	10,000
Less income tax relief at 20%	(2,000)
Less CGT deferral at 40%	<u>(4,000)</u>
Net cost	4,000

In effect the taxman gives an interest-free loan of the CGT which is payable when the EIS shares are sold.

ENTERPRISE INVESTMENT SCHEMES PORTFOLIOS

A discretionary portfolio service run by a fund manager and investing in shares qualifying for EIS reliefs.

Aimed at investors with large capital gains to shelter. Investor receives tax relief at point of investment by the fund manager in stocks.

ENTERPRISE INVESTMENT SCHEME (APPROVED)

A fund run by a fund manager and investing in shares qualifying for EIS reliefs.

Aimed at investors wishing to build up an EIS portfolio but not wishing to stockpick themselves. An offering that offers tax relief in the year of investment by the investor; the fund then has six months in which to invest 90% of the sums raised in qualifying companies.