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INVESTMENT

More Planning Ahead of Tax Year End – time to think about investing in EIS and VCTs?

Whilst many will have seized this opportunity already, there is still time for investors to make Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) investments before the end of the tax year.

Many investors prefer to wait until the tax year is almost concluded for practicality; being more certain of their tax position and this can be an advantageous ploy. Following reductions in the Lifetime Allowance (LTA) and the maximum annual contribution for pensions, growing numbers of people are looking for alternative solutions to investment and tax planning.

These vehicles are not for everyone but they should certainly be considered as options for effective tax planning and some of the benefits include:

EIS:

- **30% Initial Income Tax Relief** on up to £1m investment; a tax reduction of up to £300,000
- **Capital Gains Tax Deferral Relief**
- **100% Inheritance Tax Relief,** provided the investment is held for at least two years prior to death
- **Tax Free Capital Growth**
- **Tax Relief from Investment Losses**

VCT:

- **30% Initial Income Tax Relief** for investments up to £200,000 per tax year
- **Tax Free Capital Growth**
- **Tax Free Dividends**
- **Portfolio Diversification**

These vehicles are often considered a high risk strategy, however, they are designed to encourage the allocation of capital to areas that the Government wishes to develop in a tax efficient manner. The reliefs available can play a key role in tax planning for individuals.

For instance, EIS's provide a carry back facility which permits the investment or part of the investment in one tax year to be treated as though it was used to obtain shares in a previous tax year. Investments made before 5 April 2017 can be applied to the 2015/16 tax year.

EIS shares must be held for three years (five for a VCT) otherwise income tax relief will be repaid.

Given the attractive tax rules for Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT), now is a good time to look at these products from a tax planning perspective.

Clients are advised that the value of all investments can go up as well as down. Tax led investments can be higher-risk, longer-term investments that may be difficult to sell within a reasonable timeframe and at 'fair value' and so will not be suitable for everyone; They should only be considered once other planning opportunities have been fully explored. The tax reliefs available to EIS and VCT investors are dependent on the companies in which you invest maintaining their qualifying status. Tax treatment depends on your individual circumstances and may be subject to change in future.