

Interest-free enterprise

Enterprise Investment Schemes (EISs) provide tax breaks to encourage private individuals to invest in entrepreneurial companies which are a key driver of the UK economy.

EIS schemes were initially introduced in the Finance Act 1994 as the successor to Business Expansion Schemes. The tax reliefs have been amended at various times and currently comprise of:

- ✓ **20% income tax relief for investments of up to £400,000 each year**
- ✓ **Capital Gains Tax free on disposal for investments of up to £400,000 each year**
- ✓ **Unlimited Capital Gains Tax deferral of existing gains (subscriptions must be made one year before and up to three years after the crystallisation of the gain)**
- ✓ **Loss relief against income or capital gains for losses made on disposing of qualifying EIS shares after three years**
- ✓ **Business Property Relief from Inheritance tax once shares have been held for 2 years**

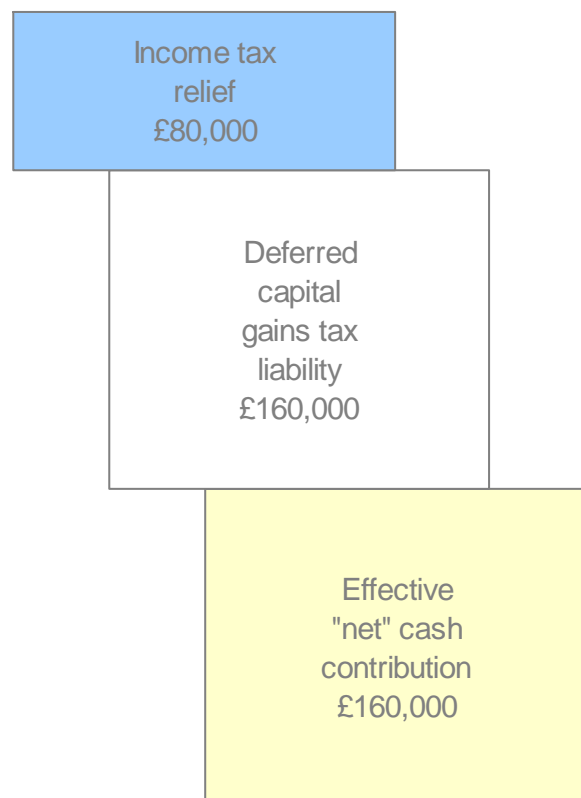
Where individuals have made taxable gains, on, say, a buy to let property, combined tax relief and capital gains tax deferral may reduce the effective "net" contribution to only 40p in each pound.

In effect, instead of paying tax on the capital gain, the taxpayer receives an interest free loan from the Government which is repaid when the EIS shares are sold (unless "rolled over" into another deferral scheme).

Investments are made directly into unquoted companies which satisfy predetermined criteria on size and the type of trade undertaken. It is possible for investors to subscribe to several qualifying companies in any year, subject to individual scheme minima. Qualifying shares must then be held for a minimum of three years.

Arranged exit schemes are not allowed, however, most schemes will declare that they will seek a means for shareholders to realise their investment at a future point after the qualifying period has expired. This is usually through liquidation, flotation or a trade sale.

These schemes are very attractive to investors who face capital gains tax liabilities (or indeed may have recently paid a capital gain where a rebate may be possible) and who are willing to take a



speculative view of the investment. It should be noted that unquoted companies can be both difficult to value, and to sell, and investors must take a long term view.

Popular EISs include public house and nursery schemes where a large proportion of the assets of the underlying trade are in tangible "bricks and mortar".

At PFP we are at the forefront of tax efficient capital planning, working in conjunction with individuals and their professional advisers. For further information please contact your usual PFP consultant on 01423 523311, or email mail@pfpq.co.uk

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