

Using EIS Carry Back to Reduce Previous Income Tax Bills



Income Tax Bill
£30,000



Investment into an EIS
£150,000



Income Tax Relief
£43,650

Scenario

A key aim for many high-earning clients is to reduce their income tax bill. A tax-efficient investment such as an Enterprise Investment Scheme (EIS) enables an individual to reduce their income tax for both the current and/or previous tax year.

Take a look at Alan's situation. He's a self-employed business coach who on average, pays £30,000 income tax every year. Alan has a lump sum of £150,000 that he would be comfortable investing in a tax-efficient product to mitigate his income tax bill. As a sophisticated investor, Alan is prepared to assume a higher level of risk on his investment. As a result, he's comfortable with the idea of using an EIS, as suggested by his adviser.

Solution

Alan and his adviser plan for him to invest £150,000 into an EIS. This will allow Alan to claim income tax relief on 30% of the initial investment. Moreover, an EIS also allows investors to 'carry back' this relief to the previous tax year which, in this instance, would mean Alan could claim 100% income tax relief on last year's bill and also significantly reduce his current bill.

Steps

Alan's adviser selects an EIS portfolio from an established provider. The portfolio charges a portfolio establishment fee of 3%, and invests in around 10 companies. The establishment fee for his £150,000 EIS investment will be £4,500, which is not eligible for income tax relief. This leaves Alan with £145,500 eligible for the 30% income tax relief, totalling £43,650 in income tax relief. Once Alan receives the EIS3 certificates from the EIS provider, he can contact his local HMRC office and claim income tax relief or use the form to complete his self assessment.

By using the 'carry back' available, Alan can get full income tax relief from the £30,000 paid in the previous tax year. He can then use the remaining available income tax relief (£13,650) to reduce his current year's income tax bill from £30,000 to just £16,350.

	Previous tax year	Current Tax Year
Income Tax	£30,000	£30,000
EIS Investment	£0	£150,000
Fees (3% of investment)	£0	£4,500
Investment after fees	£0	£145,500
Income Tax Relief	£30,000	£13,650
Adjusted Income Tax	£0	£16,350

Solutions for Investors and Support for Advisers

Blackfinch is a tax-efficient investment specialist working in partnership with advisers to meet clients' requirements.

To find out more please speak to one of our team on **01452 717070** or email **enquiries@blackfinch.com**.

IMPORTANT INFORMATION

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The example is for illustration purposes only. Income tax relief is subject to HMRC approval of each underlying investee company.