BLACKFINCH

Deferring Capital Gains

Clients who have realised a taxable gain – for example, by selling investments or a second home – can defer the Capital Gains Tax (CGT) due on the proceeds by investing the gain into an Enterprise Investment Scheme (EIS). With careful planning, a CGT bill can be deferred until there is no CGT left to pay.

Scenario

Victoria has a buy-to-let property she no longer wants. She sells the property for £250k. The profit Victoria made after utilising her annual CGT allowance was £50k and, as a higher rate taxpayer, she had to pay £14k in capital gains tax within 60 days of selling the property. Victoria wasn't happy about this and asked her financial adviser if there was any way to get this tax back! She was therefore delighted when her adviser let her know that yes, there was.

Victoria's adviser explained how investing the profit from the sale of the property could help her defer her CGT bill and reclaim the £14k in CGT already paid. The adviser also explained that Victoria would be able to claim up to 30% income tax relief on the value of her investment, meaning she would receive a refund from HMRC of £15k paid in income tax in the last tax year and the current tax year.

Victoria was also pleased to hear that all profits made on the EIS investment would be completely tax free, and that the investment would be free from Inheritance Tax after it had been held for two years, and provided it was still held at the time of her death.

The adviser went on to explain that the EIS allowed Victoria to defer her CGT bill, effectively transferring the CGT liability from the buy-to-let property to the EIS. As a result, when the EIS-qualifying companies in her EIS portfolio were sold or matured, the CGT bill would become payable again. However, the adviser explained that her EIS portfolio would feature at least 10 different companies, which, in all likelihood, would be sold or reach maturity in different tax years. Therefore, Victoria could use future annual CGT allowances against the deferred gains when CGT again became due.

Even in a scenario where several EIS portfolio companies were sold in the same year over and above her annual CGT allowance, Victoria could reinvest some of the proceeds of the sales into another EIS, redefer the remaining gain repeating this process as necessary until there was no CGT bill left. Also, if Victoria died while still holding the EIS, then any CGT liability would be eliminated upon her death.

Without an EIS investment	**With** an EIS investment
Profit on sale of BTL property: £50k	Investing £50k profit into EIS defers CGT bill
CGT due: £14k	£14k CGT paid can be reclaimed from HMRC
	Sale of EIS-qualifying portfolio companies can be offset against annual CGT allowance potentially saving the £14k in CGT
	Income tax relief of up to 30%: £15k
	Tax-free EIS profits
	IHT exemption after 2 years (provided shares still held at time of death)

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.**