Don’t invest unless you’re prepared to lose all your money invested. This is a high risk investment. You could lose all the money you invest and are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 3

Using EIS Carry Back to Reduce Previous Income Tax Bills

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 when his adviser suggests it.

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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Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).