

The Enterprise Investment Scheme both de-risks the investment profile and enhances the returns available to investors.

- Up to £500,000 per individual may benefit from 20% initial tax relief. For each £10,000 of investment, the actual cost is £8,000. Recent changes in legislation allow the whole of this allowance to be carried back to the previous tax year for offset against income tax i.e. a theoretical £1m could be invested of which £500,000 could be carried back to last tax year. With increasing rates of tax and restrictions on pensions contributions from the 2010/11 tax year and beyond, this opportunity may be increasingly attractive for tax planning.
- Provided the shares are held for 3 years, there is no capital gains tax (CGT) due on the proceeds. However, the shares can be held for much longer thus sheltering significant gains from CGT.
- Inheritance tax has been dubbed the 'optional tax' and many individuals today are exposed to potential IHT bills, largely because of relatively high property prices. However, high earners are potentially more exposed. After two years from investment, EIS companies generally fall outside the estate for IHT purposes, potentially allowing considerable assets to be preserved intact for dependants.
- Loss relief applies meaning that if a share were to be worthless, the loss could be offset against income tax. Using the same example, the £8,000 net cost could be offset against that year's tax bill, or the previous tax year's (assuming a 40% taxpayer) allowing £3,200 to be claimed back so the actual loss would be £4,800. In other words, 48p in the pound is the maximum exposure i.e. less than half the original outlay is at risk. For a 50% tax payer, the same relief mitigates downside exposure to 40 pence in the £1.

Losses can also be offset against capital gains tax at the prevailing rate, currently 18% in either the current tax year or subsequent tax years. In this case, the maximum exposure would be in the order of 66%.

- Capital Gains Tax deferral relief is also available on top of the above and is not capped at £500,000. This allows up to three-year-old capital gains tax to be rolled over into EIS companies and potentially reduced by other tax allowances over a period of time.