EIS & CAPITAL GAINS TAX

NGC

On the 11th November, 2020. The OTS published their review on CGT as requested by Rishi Sunak. This review was to look towards reforming the CGT to start repaying the £280bn cost created by spending during the Covid-19 pandemic. Under the proposals, the maximum capital gains tax (CGT) rate of 28% could be raised closer to income tax rates, where the top rates are 40% and 45% in England and Wales. A move that could cost billions of pounds for UK taxpayers.

The Enterprise Investment Scheme (EIS) is a rewarding tax relief scheme introduced by the government to encourage wealthy individuals to invest in high risk start-up and scale-up companies. EIS investments provide a variety of tax reliefs, including Income Tax and Inheritance Tax Reliefs but the one that has been grabbing the headlines is the reliefs involving Capital Gains Tax (CGT).

There are two key reliefs applicable to Capital Gains tax:

- Capital Gains Tax Reinvestment Relief
- Capital Gains Tax Exemption

The following case study illustrates the impact of CGT reliefs in regard to EIS.

MEET KATHERINE

Katherine is an additional rate UK taxpayer, who recently sold a Buy-to-let property three months ago for a capital gain of £100,000. She has discussed her options with her financial adviser, is now planning to invest the full £100,000 into an EIS fund to defer the CGT of £28,000 (100k x 28%).

By investing the £100,000 into an EIS fund during the current or preceding financial year, she can now defer her CGT of £28,000 until the shares are disposed of. She will also get Income Tax relief of 30% of her investment and loss relief of any investment. Looking at her CGT position solely.

The Cost of Investment into an EIS Fund:

	CGT @28% (£)
Investment into the EIS company	100,000
Less: CGT deferral	(28,000)
Net immediate cost of Investment	72,000

Katherine will be entitled to the EIS capital gains tax exemption as long as she holds her EIS qualifying shares until three years after the investment was deployed. After this date, any ensuing gains made on the disposal of the EIS fund shares will be exempt from capital gains tax.

	£
Realised value of shares after 3 year	150,000
Less: original investment in the fund	(100,000)
Tax free gain	50,000

At this point, Katherine has two choices:

1 Dispose of her shares at which point the CGT deferral will stop and she will be required to pay the original deferred amount (£28k). She will still retain the £50k gain free. This would mean Katherine would have a £22k gain.

	CGT @28% (£)
Original investment in the fund	(100,000)
Realised value of shares after 3 year	150,000
CGT deferral	(28,000)
Net position	22,000

2 Retain the £50k gain made and re-invest the £100k gain into another EIS qualifying investment, further deferring her £28k CGT liability. Katherine would be able to carry on re-investing her original £100k for as long as the EIS Scheme continues to allow. She will also get her Income tax and loss relief again.

Additional information

- Katherine can also reduce the size of the EIS investment required to defer the gain, by utilising her annual CGT exemption for the year when the gain is payable.
- CGT can potentially be deferred indefinitely.
- If Katherine dies whilst holding the investment, the Capital Gain expires and those who inherit the EIS investment fromKatherine will not be liable for the CGT when the shares are disposed of.

NOVA COFOUNDERY SEIS & EIS FUND

The Fund is an opportunity to invest alongside Nova in their portfolio of early-stage companies. The Fund seeks to offer Investors a diversified exposure of a minimum of 10 Investee Companies each of which is engaged in solving industry problems with the use of a digital solution. It is envisaged that each subscription will be deployed across each Investee Company on a diversified basis, at the discretion of Nova and the Investment Manager.

Structure	Alternative Investment Fund
Minimum subscription	£10,000
Target return	1.72x
Fees & charges	No initial fee to the investor