The higher-risk investments that offer 30% cashback (are free of death duties too).

Enterprise Investment Schemes (EIS) are higher risk investments which offer 30% cash-back (and are free of death duties too).

Enterprise Investment Schemes are booming, following the changes in pension rules. EIS investments receive 30% tax relief, which is claimed back via your tax return (but must be held for at least 3 years). The schemes are also Inheritance Tax-free after 2 years.

These attractions were already significant, but the cut to the amount higher earners can put into their pensions has suddenly added to demand. Since April 2016, those who earn more than £150,000 per year have been limited down to pension contributions of £10,000 (per year, once their income hits £210,000).

At the same time, new restrictions on the type of companies that EIS schemes can invest in have made it harder for managers to find suitable ventures.

In particular, the Government removed the ability for EIS schemes to invest in renewable energy companies. This move alone withdrew about £400m of previously eligible investment opportunities, according to the specialist analyst Tax-Efficient Review. Previously, renewable energy companies made up about a third of all the companies funded via the EIS.

Whilst supply is falling, demand is rising and there has been a surge in demand for tax-efficient schemes such as EIS, Seed Enterprise Investment schemes and Venture Capital Trusts as a result of lower pension limits.

Investors are able to contribute up to £1m each year. Investments can be made directly in businesses which have EIS "qualifying status" with platforms such as Seedrs highlighting these companies, or you can use a fund, which will aim to spread the risk between different businesses.

There is often a rush of investments as the April 5th tax year end looms. Schemes are broadly split into Capital Preservation and Growth models. Renewable energy companies make up a large part of the capital preservation category, meaning that investors may also find it harder to get lower-risk EIS investments.

At Investment Solutions, we generally recommend an investor to build a portfolio of EIS investments, rather than putting all their cash into a single arrangement.

How does the tax relief work?

For any EIS investment made the investor receives tax relief, equivalent to 30% of the cost of the investment made. This will be set against their income tax liability for the tax year in which the investment was made.

This applies up to the maximum investment of £1m, meaning that there will be a maximum tax reduction in any one year of £300,000. To get this tax relief, the investment must be held for at least 3 years. If the investment makes a loss, income tax relief on the original investment will still be granted, but in addition, loss relief can be applied, meaning that any loss can be set against income and used to reduce the income tax bill in that financial year, based on the investor's marginal tax rate.

Any EIS investments will also not be liable for Inheritance Tax should the holder die while invested, so long as the investment has been held for 2 years.

In order to claim tax back, investors need to receive a form (EIS 3) from the Company, or an (EIS 5 form) if investing via a fund. This form can then be used to claim tax back via self-assessment. Investors have 5 years in which to claim back any tax relief, from the time the investment was made.

If investing through a fund, investors need to ensure that the fund is approved by HMRC, and if so, the process of claiming tax relief is the same as above.

In order to be eligible for the tax relief available under EIS, a company must first seek approval from HMRC. Assuming the Tax Office approves, giving the company "qualifying status", the company must not deviate from its business model, or break any rules surrounding EIS status. If it does, it risks losing qualifying status, meaning that tax relief will not be given to investors.

Need Advice?

We are here to help

Telephone: 01903 214640
e-mail: ifa@investment-solutions.co.uk
w: www.investment-solutions.co.uk
www.facebook.com/financialadviserworthing
Twitter: @investment_sols