



**WISE INVESTOR
EIS FACTSHEET**

EIS: A Tax-Efficient Investment Opportunity for Sophisticated Investors

The Enterprise Investment Scheme (EIS) is a government-backed initiative designed to encourage wealthy and sophisticated investors to support the growth of small, private companies in the UK. By offering a range of attractive tax reliefs, EIS helps mitigate the inherent risks associated with investing in these high-potential businesses.

Fueling the Engine Room of the UK Economy

Small and medium enterprises (SMEs) are the backbone of the UK economy, accounting for over 99% of all private businesses, employing millions, and generating trillions in turnover annually. While some of these companies may achieve remarkable success, many others will face challenges or even fail, making EIS investments high risk.

Five Key Tax Advantages of EIS



Up to 30% income tax relief with the option to carry back to the previous tax year.



Tax-free growth – no capital gains tax on any profits.



Deferral of capital gains made elsewhere.



Loss relief – offset losses against income or capital gains tax.



Inheritance Tax (IHT) relief after two years.

To retain these tax benefits, you must hold your EIS shares for at least three years, and the investee companies must remain EIS-qualified.

Knowledge-Intensive Companies: Enhanced EIS Benefits

Knowledge-intensive (KI) companies are young, innovative businesses heavily invested in R&D and intellectual property development. These companies enjoy preferential treatment under EIS, including:



Eligibility to receive more funding over a longer period.



Investors can invest up to £2 million in EIS, with amounts over £1 million allocated to KI companies.



KI-approved EIS funds can simplify tax planning by providing a set investment date for income tax purposes and a single EIS5 certificate.

Single Company or Diversified Portfolio?

EIS investors can choose between investing in a single EIS-qualifying company or a professionally managed EIS portfolio or fund. While single-company investments offer full visibility and control, they lack diversification and are particularly high risk. EIS portfolios and funds typically invest in multiple companies, providing some diversification, although they remain high risk.

Understanding the Risks

EIS investments are high risk, and you should anticipate some failures. Your money is typically invested in young, private companies that are statistically more likely to fail than succeed. You could lose all the money you invest. EIS should only be considered if you have a significant portfolio of other assets to mitigate potential losses.

Claiming EIS Tax Reliefs

EIS tax reliefs are typically claimed via your self-assessment tax return using an EIS3 or EIS5 form provided by the EIS manager. Claims can be submitted up to 5 years after the 31 January following the tax year in which the shares were issued.

EIS vs. VCTs

While EIS and Venture Capital Trusts (VCTs) are subject to similar investment rules, there are notable differences:



VCTs are listed on the London Stock Exchange, while EIS investments are typically in unquoted companies.



EIS investments are usually less diversified and less liquid than VCTs, making them riskier.



EIS offers more generous tax reliefs, a higher investment allowance, and a shorter minimum holding period (three years for EIS, five years for VCTs).



EIS can be more flexible for tax planning, with the option to offset income tax relief against the current or previous year's tax bill.

EIS: A Tax-Efficient Investment Opportunity for Property Investors

The Enterprise Investment Scheme (EIS) is a government-backed initiative that offers a range of attractive tax reliefs to encourage wealthy and sophisticated investors, including property investors, to support the growth of small, private companies in the UK. By investing in EIS-qualifying companies, property investors can defer capital gains tax on their property sales, making it an appealing option for those looking to manage their tax liabilities.

Deferring Capital Gains Tax on Property Sales

One of the key benefits of EIS for property investors is the ability to defer capital gains tax (CGT) on gains realized from the sale of property assets. If you have made a taxable gain from selling a property and invest that gain into an EIS-qualifying company, you can defer the CGT liability for as long as the money remains invested and the EIS conditions are met.

When you eventually sell your EIS shares, the deferred gain will come back into charge, and you will need to pay CGT at the prevailing rate. However, you could choose to reinvest the proceeds into another EIS-qualifying company and continue to defer the gain indefinitely.

Complementing Property Investment Strategies

EIS investments can be an excellent complement to a property investor's portfolio, offering not only CGT deferral but also the potential for high returns. By investing in innovative, high-growth companies, property investors can diversify their wealth and participate in the success of the UK's thriving startup ecosystem.



Mitigating Risk Through Tax Reliefs

Investing in small, private companies carries inherent risks, as these businesses are more likely to face challenges or even fail compared to established, larger companies. However, the generous tax reliefs offered by EIS help mitigate these risks for property investors:



Income Tax Relief: Investors can claim up to 30% income tax relief on their EIS investments, up to a maximum of £1 million per tax year (or £2 million if investing in knowledge-intensive companies).



Tax-Free Growth: Any profits made on the sale of EIS shares are exempt from capital gains tax, provided the shares have been held for at least three years and the investee company remains EIS-qualified.



Loss Relief: If an EIS investment fails, investors can offset losses (less any income tax relief already claimed) against their income tax or capital gains tax liabilities.



Inheritance Tax Relief: EIS shares held for at least two years should qualify for 100% relief from inheritance tax, providing an additional benefit for estate planning.

Claiming EIS Tax Reliefs

To claim EIS tax reliefs, property investors should complete their self-assessment tax returns using the EIS3 or EIS5 form provided by the EIS manager. Claims can be submitted up to 5 years after the 31 January following the tax year in which the shares were issued.



Seeking Professional Advice

While EIS investments can be a valuable tool for property investors looking to defer capital gains tax and diversify their portfolios, it is essential to remember that these investments are high risk, and you could lose all the money you invest. Before making an investment decision, property investors should carefully review the offer documents and consider seeking professional advice to ensure that EIS aligns with their overall investment strategy and risk tolerance.

Choosing the Right EIS Investments

Property investors have the option to invest in single EIS-qualifying companies or professionally managed EIS portfolios or funds. While single-company investments offer greater control and visibility, they lack diversification and are particularly high risk. EIS portfolios and funds, on the other hand, typically invest in multiple companies, providing some level of diversification, although they still remain high risk.

Learn More with Wise Investor

At Wise Investor, we provide expert guidance and carefully selected EIS investment opportunities tailored to the needs of property investors and other sophisticated investors. To learn more about how EIS can help you defer capital gains tax and diversify your portfolio.