

Montpellier guide to EIS Loss Relief

Investments into many Enterprise Investment Schemes are split across a portfolio of typically 10 'qualifying' companies. These will be private companies or companies listed on the Alternative Investment Market (AIM).

The example below represents a theoretical investment of £100,000.00 split across a portfolio of 10 investments.

It is important to understand how each investee company has performed to illustrate how loss relief could work.

Loss relief is defined as the tax that an investor can claim back, should their investment fall below the 'effective' cost of that investment.

The 'effective' cost of an investment is equal to the amount invested less the upfront income tax relief. It is calculated at an investors marginal tax rate (either income tax or CGT i.e. up to 45%)

	Initial Investment (£)	Performance at Exit%	Net Investment at Exit (£)	Income Tax relief	Loss Relief at 45%
Company 1	£10,000.00	-100%	0	£3,000.00	£3,150.00
Company 2	£10,000.00	-100%	0	£3,000.00	£3,150.00
Company 3	£10,000.00	-100%	0	£3,000.00	£3,150.00
Company 4	£10,000.00	-100%	0	£3,000.00	£3,150.00
Company 5	£10,000.00	-100%	0	£3,000.00	£3,150.00
Company 6	£10,000.00	+50%	£15,000.00	£3,000.00	-
Company 7	£10,000.00	+100%	£20,000.00	£3,000.00	-
Company 8	£10,000.00	+100%	£30,000.00	£3,000.00	-
Company 9	£10,000.00	+50%	£15,000.00	£3,000.00	-
Company 10	£10,000.00	+100%	£20,000.00	£3,000.00	-
Total	£100,000.00		£100,000.00	£30,000.00	£15,750.00

Despite a flat return i.e. after three years the amount invested has shown no growth, and the fall in value of some of the investments, this example has delivered a 65% return on the net cost of investment because of the tax reliefs.

Investment Sum	Income tax relief (30%)	Actual Initial Investment	Return at year 3 (assuming no growth)		Loss Relief		Total Return (65%)
£100,000.00	£30,000.00	Net Cost £70,000.00	£100,000.00	+	£15,750.00	=	£115,750.00

We hope that you have found this brief guide useful. If you would like to find out how this may affect you or if you would like to learn how to implement elements of this planning within your financial affairs, then please contact us on the details below.

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