EIS Tax Reliefs at Work in a Fund

The combination of reliefs offered by the EIS scheme potentially substantially increase returns whilst mitigating risk because of the portfolio effect. Whilst academic, the following example scenarios illustrate this. The examples assume the investor is a 45% taxpayer, who has utilised his/her annual CGT exemption and will therefore pay tax on any capital gains, or, where he/she has an overall loss, that he/she has other income and gains, including income chargeable at 45%, against which to relieve the loss.

Scenario 1 - Enhanced Returns: +25% return

The following figures assume that losses are offset against income tax at 45% and the EIS income tax relief is obtained at 30%. Losses relieved were offset against Capital Gains Tax would obtain relief at the prevailing rate of 20% (28% for some assets).

Assume that of six equal investments 3 double in value and 3 halve in value. The overall investment return on the Fund is therefore +25%.

	ISA	Unit/Investment Trust	EIS Fund
Portfolio Return	25%	25%	25%
Income Tax Rebate	Nil	Nil	30%
Loss Relief	Nil	Nil	4.5%
Capital Gains Liability	Nil	(7%)	Nil
Total Return	**25%**	**18%**	**59.5%**

Scenario 2 - Enhanced Returns: 0% return

Assume that of six equal investments 2 double in value and 4 halve in value. The overall investment return on the Fund is therefore zero.

	ISA	Unit/Investment Trust	EIS Fund
Portfolio Return	0%	0%	0%
Income Tax Rebate	Nil	Nil	30%
Loss Relief	Nil	Nil	6%
Capital Gains Liability	Nil	Nil	Nil
Total Return	**0%**	**0%**	**36%**

Scenario 3 - Loss mitigation: -25% return

Assume that of six equal investments 1 doubles in value and 5 halve in value. The overall investment return on the Fund is therefore -25%.

	ISA	Unit/Investment Trust	EIS Fund
Portfolio Return	(25%)	(25%)	(25%)
Income Tax Rebate	Nil	Nil	30%
Loss Relief	Nil	Nil	7.5%
Capital Gains Liability	Nil	Nil	Nil
Total Return	**(25%)**	**(25%)**	**12.5%**

Note: the above examples are for illustration only as to the potential impact of the combined EIS tax reliefs.