

Loss Relief

Relief is available for EIS shares which are disposed of at any time at a loss (after taking into account EIS income tax relief which is retained). The loss can be set against the investor's capital gains, or his/her income in the year of disposal or the previous tax year. For losses offset against income, the net effect is to limit the investment exposure to as much as 38.5p in the £1, depending on the investor's marginal rate of income tax, if the shares become totally worthless. Alternatively the losses can be relieved against capital gains at the prevailing rate of 20% for higher rate taxpayers (28% for certain assets).

Worked Example

The loss can be offset against income tax of the same year or the preceding tax year, or against capital gains of the same year or carried forward to be offset against future gains, subject to the normal treatment of CGT losses. Loss relief can reduce the investor's exposure to 38.5% of the original investment if the investor elects to set off the loss against income tax due for the current year, and assuming the investor pays income tax at a marginal rate of 45%.

Example - Loss Relief against Income Tax

Initial Investment	£100,000
Less income tax relief @ 30%	(£30,000)
Net Cash Outlay for Investment	£70,000
If investment fell to £0 net loss	(£70,000) in 2015/16
Loss relief against income at 45%	£ 31,500
Net loss	(£38,500)
Percentage of original outlay	38.5%

Example - Loss Relief against Capital Gains Tax

If the loss is offset against capital gains tax, this can be claimed against capital gains of the same year, or carried forward and relieved against future capital gains. The current rate of capital gains tax is 20% for higher rate taxpayers (28% for certain assets).

Initial Investment	£100,000
Less Income Tax Relief @ 30%	(£30,000)
Net Cash Outlay for Investment	£70,000
* If investment fell to £0 net loss relief at 28%	(£19,600)

Net loss	(£50,400)
Percentage of original outlay	50.4%

*Assumes sufficient gains against which to offset the loss.

Thus an individual who has income which is charged to income tax at higher rates is likely to wish to offset the loss against income rather than capital gain.

Where deferral relief only is claimed, loss relief against income may be limited by the cap on income tax reliefs. The loss relief, when aggregated with all other specified income tax reliefs, is limited to a maximum of £50,000 or, if greater, 25% of the taxpayer's "adjusted total income" for the tax year.

Professional advice should be sought.