

Income Tax Relief

If an EIS qualifying investment is held for at least three years from the date of issue of the shares, or three years from commencement of trade (if later) an individual (who holds no more than a 30% interest in the company) can reduce their income tax liability by up to 30% of the amount invested. There is no minimum subscription and the maximum investment in EIS qualifying companies which qualifies for EIS Income Tax Relief is £1 million in the current tax year. Income Tax Relief is offset in the appropriate year of claim, up to a maximum of the income tax liability. In other words, initial income tax relief could reduce your tax bill to nil.

Individuals may elect to treat their subscription for EIS shares as if made in the previous tax year, up to their maximum annual allowance, thereby effectively carrying income tax relief back one year. This assists an investor to maximise the relief available.

Example

Income tax relief is available to individuals (counting husbands and wives separately) for the entire amount subscribed for eligible EIS qualifying company shares at 30%, to a maximum of £1m per tax year.

This relief is usually passed to the Investor in the form of a tax rebate or via an adjustment in PAYE code. The relief may only be claimed once the investor has received form EIS 3 from the company.

Example

Initial Investment	£100,000
Less Income Tax Relief @ 30%	(£30,000)
Net Cost of Investment	£70,000

Investors may elect for subscriptions to be treated as made in the previous tax year, provided the total claim, with any amount already subscribed for the previous year has not exceeded the annual limit of £1m in any tax year. Thus an investor who had made no EIS investment in a tax year may make EIS subscriptions of up to £2m in the following tax year and elect to carry back £1m to the previous tax year to claim income tax relief.