Your guide to key financial issues of today

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Helping you maximise the effectiveness of your financial planning

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Tax-efficient alternative investment vehicles

As the tax year turns it may be time to take a look at alternative tax-efficient investment vehicles.

Tax breaks from VCT and/or EIS investment

Both Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS) offer the investor considerable tax advantages. An investment in a VCT or an EIS offer income tax relief of 30% of the amount invested (provided you have that much tax liability initially). In addition, in the case of an EIS, any gains will not be subject to Capital Gains Tax (CGT), provided the investment qualifies for the income tax relief.

There are substantial caps on the amounts that can be invested in such investment vehicles. In the case of a VCT this is £200,000 and in the case of an EIS it is £1 million. The EIS has an additional benefit in that the investor can 'carry back' one year, so they could invest a total of £2 million in the first year, possibly gaining up to £600,000 income tax relief in the process. This 'carry back' is not available with a VCT, so the income tax relief would be limited to £60,000.

Both these vehicles should only be considered as medium or long-term investments, as EIS shares must be held for a minimum of three years and VCT shares must be held for at least five years. If they are not then any income tax relief will be withdrawn.

As with any investment portfolio, diversification is advised. EIS portfolios offer the opportunity to spread the investment across multiple opportunities thus reducing the risk of any one EIS failing (as is always possible). In the case of one or more EIS investment failing, any loss incurred here can be offset against other taxable income; however, any gain from the remaining portfolio will be free of CGT, thus offering the chance of still seeing a positive return even assuming some level of failure.

Professional advice should always be sought, so do contact us to discuss VCT or EIS investment in greater detail.