

# Income tax relief carry back with a Knowledge-Intensive EIS

Kim is a 45 year old middle manager who is building her wealth and saving up for retirement.

- She inherited a large investment portfolio and cash position. She uses her full annual allowance for her pension each year.
- Her annual income for the last two years was £65k after pension contributions. This has left her with an income tax bill of £18k in each tax year, a total of £36k.
- She is looking to mitigate her tax burden whilst also diversifying her portfolio. She would also like more of her capital to outpace inflation.

Kim would like to claw back some of the income tax she has paid from the previous two tax years.



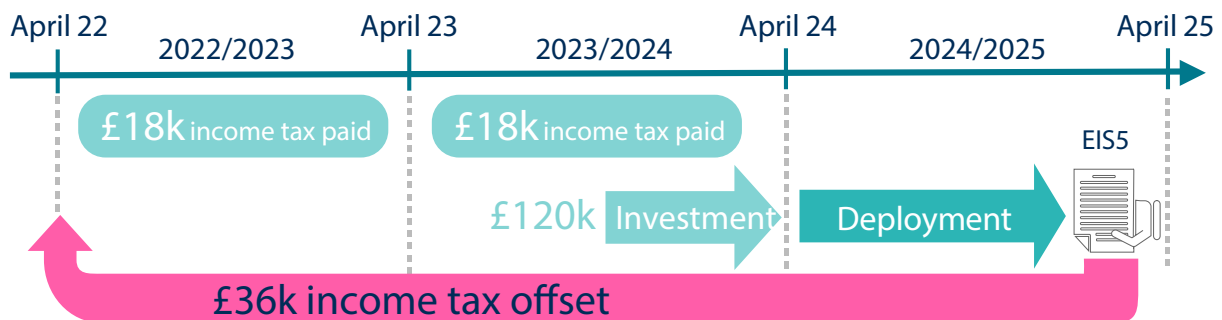
Kim's financial adviser recommends a Knowledge-Intensive EIS to take advantage of the certainty of income tax relief carry back with an approved fund.

As tax year end is approaching and any investment Kim makes into a typical EIS fund may not be deployed until the subsequent tax year, her adviser suggests a Knowledge-Intensive EIS fund.

As an HMRC approved fund, the date of the investment for tax purposes would be the date of the fund close (28th March 2024 in Mercia's case), and therefore fall into the tax year the client makes the investment, rather than the tax year the funds are deployed.

By using a Knowledge-Intensive EIS, Kim can carry back £18k Income Tax Relief into 2022/2023, as well as using the remaining £18k in the year in which the fund closed (2023/2024).

Kim has a medium attitude to risk, but in this instance venture capital will only represent a small portion of her portfolio. She can afford the risk and her portfolio would benefit from additional diversification and the ability to outpace inflation. Her financial adviser will also balance her portfolio with more 'lower risk' assets.



Once deployed, a single EIS5 certificate will be made available from the Knowledge-Intensive EIS, through which Income Tax Reliefs can be reclaimed.

Investors in KI funds can expect to receive a single EIS5 certificate, issued by the fund once it has invested 90% of its capital, which it is required to do within 24 months of the close. In contrast, investors in non-approved funds will receive individual EIS3 certificates for each investee company as and when the fund deploys capital.

By investing in a Knowledge-Intensive EIS, Kim can reclaim all the income tax that she paid from 2022/2023 and 2023/2024.

There are additional tax planning opportunities, such as managing a Capital Gain and Estate Planning. The EIS benefits from loss relief on each underlying company and her EIS gains are not taxable.

The maximum investment for income tax relief is £1m in any tax year or £2m if the additional investment is made into Knowledge-Intensive companies.

# EIS Tax Planning with Mercia | how advisers can achieve attractive tax advantages for their clients

EIS allows investors to gain exposure to high-growth British SMEs, whilst also benefiting from very attractive tax reliefs.

EIS tax reliefs are designed to give investors an added incentive to support smaller, entrepreneurial businesses with the benefit of an asymmetrical return profile in the form of downside protection and tax-free growth.

Investors that may benefit from the below tax reliefs may wish to consider an EIS investment. If an individual can benefit from more than one relief, the rationale for an EIS investment will be even stronger.

Mercia's minimum subscription is £25,000. The maximum investment for income tax relief is £1m in any tax year or £2m if the additional investment is made into Knowledge-intensive companies.

Mercia also offers an Approved Knowledge Intensive (KI) Fund once a year, and always has a tranche of its main EIS fund open. We also offer a Business Investment Relief (BIR) service for UK resident non-domiciles.

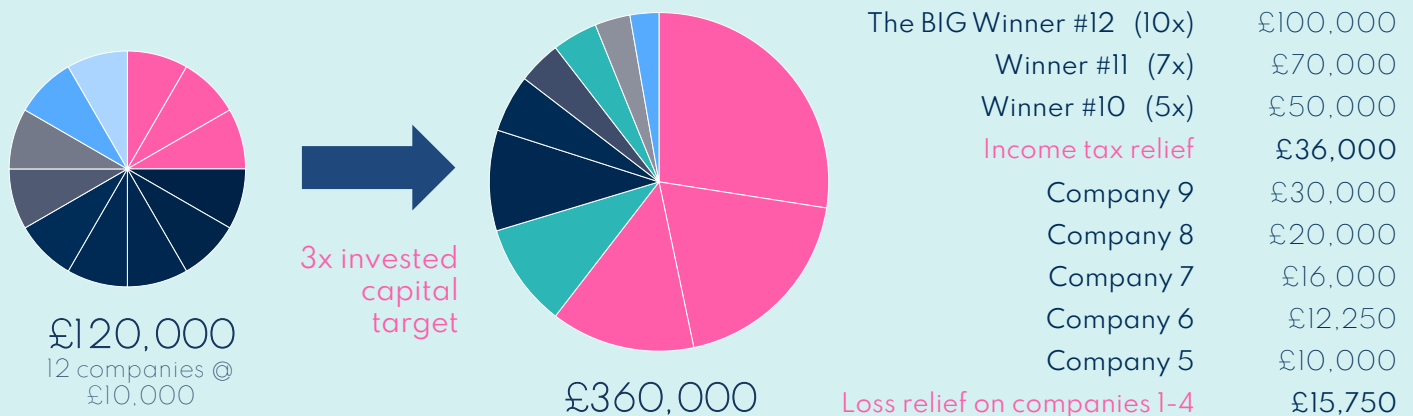
## Tax incentives available

- **Income Tax Relief** - 30% income tax relief is available until the investor's income tax bill is reduced to zero.
- **Capital Gains Tax (CGT) deferral** - which can be used to manage a CGT liability. For example, when selling a business, a second home or a share portfolio.
- **Inheritance Tax Relief** - An investment into an EIS fund typically qualifies for Business Relief, reducing the inheritance tax to 0% for these assets.

## Tax-free growth and downside protection

- **Tax-free gains** - if EIS shares are sold for more than was paid for them, any profits are free from capital gains tax.
- **Loss relief** - We expect a third of portfolio companies to fail (see image below) and when this happens investors can offset any loss against their income tax (or capital gains tax) liability.

## Mercia EIS model portfolio\*



\*Please note that this model is not guaranteed and should only be used for illustrative purposes. It does not include any benefits from CGT deferral or IHT reliefs.

## Risk warnings

EIS investment is restricted by the FCA rules to persons who qualify as high net worth, restricted or sophisticated, or who are acting upon advice from a suitably qualified financial adviser. Investing in early-stage businesses involves significant risks. The risks may include, but are not limited to; illiquidity, lack of income, loss of investment and dilution, and it should be done only as part of a diversified portfolio. You should not rely on any past performance as a guarantee of future investment performance. Tax relief depends on an individual's circumstances and may change in the future. In addition, the availability of tax relief depends on the company invested in maintaining its qualifying status. You may lose all the money that you invested; the investments are highly illiquid and have no ready market for disposal; there is a risk from future dilution of your shareholding.