

EIS AND VCT: TAX-EFFICIENT INVESTMENTS

Discover the tax benefits for higher-earners investing in UK businesses through government-backed schemes.



INTRODUCING TAX-EFFICIENT INVESTMENTS

In this guide, we will explore the mechanics of tax-efficient investment schemes, outlining their eligibility criteria, associated risks, and potential rewards.

What are tax-efficient investments?

Tax-efficient investment schemes were designed to attract investment into small UK companies. However, as this is a high-risk type of investment, the Government offers attractive tax breaks to help investors feel more comfortable with this level of risk.

With the various tax incentives, reliefs, and exemptions available under current legislation, these investment vehicles offer the opportunity to significantly enhance your overall financial performance and tax-efficiency.

This guide focuses on two tax-smart strategies for those looking for greater tax-efficiency: the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT).

These schemes not only offer a range of tax benefits, such as income tax relief, Capital Gains Tax exemptions, and loss relief - they also present unique opportunities to invest in early-stage businesses and innovative companies.

In this guide, we will explore the mechanics of EIS and VCT investments, outlining their eligibility criteria, associated risks, and potential rewards. Furthermore, we will illustrate how these options can integrate seamlessly into an overall tax planning strategy.

Whether you are a high-net-worth individual seeking innovative ways to grow your wealth or someone passionate about supporting the UK's entrepreneurial ecosystem, we hope this guide will give you a good introduction to these investments.

However, it is important to seek Independent Financial Advice to find the best solution for your individual needs. Therefore, following this guide, please get in touch to speak to one of our experts and explore your options.



ENTERPRISE INVESTMENT SCHEMES (EIS)

What is an EIS?

Introduced in 1994 by the UK government, the Enterprise Investment Scheme (EIS) is designed to stimulate economic growth and innovation by facilitating capital flow to start-ups and smaller enterprises.

There are specific criteria for the companies that can be invested in as part of the EIS. These should be based in the UK, have fewer than 250 employees, and gross assets of less than £15 million before the investment and £16 million post-investment.

The UK has produced almost 400 high-growth start-ups since 2000, including over 144 ‘unicorns’ and 237 ‘future-corns’ - fast-growing companies predicted to be most valuable in the next few years¹.

EIS appropriate companies can come from a variety of sectors, from fintech to property development, biotechnology to entertainment.

Some examples of successful businesses previously funded by EIS include snack company Graze and property site Zoopla (Source: Octopus Investments, 2024).

Who is eligible to invest in EIS?

To qualify for EIS tax relief, investors must also meet certain criteria:

- EIS relief is only available to individual investors. Limited companies and trusts are not eligible.

- Have up to £1 million to invest in EIS-qualifying companies in a single tax year. (This amount may be increased to £2 million if the investment in knowledge-intensive companies is at least £1 million).
- UK taxpayers with a tax liability against which they can offset the EIS relief.
- Must hold shares for a minimum of three years to benefit from EIS tax relief. (If shares are sold or lost before this period, the tax relief will be revoked.)

1. Source: Gov.uk 2022



VENTURE CAPITAL TRUSTS (VCT)

What is a VCT?

Venture Capital Trusts (VCTs) are UK publicly listed investment companies that aim to provide investors with access to a diversified portfolio of early-stage and growth-oriented companies. Established in 1995, VCTs were created to encourage investment in smaller, unquoted companies by offering tax incentives to investors.

The primary objective of VCTs is to support the UK's entrepreneurial landscape, facilitating capital flow to innovative businesses, and stimulating economic growth while providing investors with an opportunity to generate returns through capital appreciation and income.

VCTs have a minimum investment period requirement, which was designed to encourage long-term investment in emerging businesses while providing investors with early liquidity options.

VCT-backed companies can include various industries such as healthcare, telecommunication, renewable energy or subscription boxes. Car retailer Cazoo and online clothing marketplace Depop, are just two examples of now household names that sourced funding through VCTs (source: Wealth Club, 2022).

Who is eligible to invest in VCT?

To benefit from VCT tax reliefs, investors must meet certain conditions:

- Individual taxpayers (Institutions and companies are not eligible for VCT tax relief).
- Ability to invest a minimum amount - typically around £3,000 - to qualify for VCT benefits (however, specific requirements may vary by VCT).

- Must hold shares for a minimum of five years to retain the associated tax advantages (selling shares before this period will result in the loss of the tax relief).
- Investors must be UK taxpayers to be eligible for VCT tax relief.
- Be limited to investing up to £200,000 per tax year in VCTs.



IS A TAX-EFFICIENT INVESTMENT SCHEME IS RIGHT FOR YOU?

As these are riskier investments, it is crucial to consider your options extremely carefully and consult a professional financial adviser for guidance in order to make informed decisions.



It is important to understand your goals, beliefs and preferences that can influence the fund you would like to be invested in. Our team of experts will take the time to explain your options in a way that is clear and understandable.

Many factors can contribute to the appropriateness and attractiveness of an EIS or VCT investment, and comprehensive due diligence should be carried out to review key aspects such as the:

- Business Model
- Financial Health
- Management Team
- Industry Background
- Valuation
- Tax Implications
- Performance

Our Investment Committee

Integrity365's Central Investment Proposition is closely monitored by our Investment Committee who ensure that due diligence has been carried out on any investment we recommend to clients.

As well as the points mentioned, the committee uses independent research and expertise to ensure that we are comparing the offerings fairly. We then build a preferred portfolio of these investments, and continue to review them as we do our traditional funds. We do not only focus on performance, but also their communication and administration of the funds.

EXPLORING THE TAX BENEFITS

EIS and VCT investments offer distinct tax advantages compared to standard investments which can significantly enhance their overall appeal for investors seeking to mitigate risk.

The tax benefits associated with EIS and VCT investments make them appealing options for individuals to support the growth of smaller companies. However, it is important to understand the specific tax considerations for each, as they differ slightly.

Income Tax Relief

Investors can claim up to 30% income tax relief on investments, with up to £1,000,000 per tax year for EIS provided the shares are held for a minimum of three years, or up to £200,000 per annum with a minimum holding period of five years for VCT.

Capital Gains Tax Exemption

Capital gains made on disposal of EIS shares are exempt from Capital Gains Tax (CGT) if the shares were held for at least three years, and any capital gains realised upon selling VCT shares are also exempt. EIS investment also allows you to defer a gain, which has to be the amount of the gain, not the tax, and either within 36 months of realising the gain or 12 months in advance.

Tax-free Dividends

Dividends received from VCT investments are tax-free, providing an attractive income stream without the typical tax liabilities. EIS does not provide tax-free dividends, as shares are typically not entitled to dividends in the same way.

Inheritance Tax Relief

Whilst VCT shares do not, EIS shares can qualify for Business Relief, which currently offers 100% relief from Inheritance Tax (IHT) if held for at least two years.

However, from April 2026, Business Relief rules are due to change whereby the 100% rate of relief is reduced to 50% after the first £1 million of qualifying assets. This means that careful financial planning is more important than ever and professional advice should be sought.

Tax Relief Over Two Tax Years

With EIS shares, the income tax relief is based on the tax years when the shares are bought (rather than when you might subscribe to the scheme if using one).

With careful planning, you can choose to treat an investment as though it was made in the previous tax year and therefore spread the total income tax relief over two tax years if you do not have sufficient income tax paid in the one year.

COMPARING THE TWO: EIS vs VCT

Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) are both investment vehicles designed to encourage investment in small and early-stage companies in the UK, particularly those that are considered higher-risk.

However, there are key differences between the two in terms of structure, tax reliefs, and investment criteria. At a glance, the table overleaf shows some key comparisons between EIS and VCT.

EIS investments allow individual investors to directly back companies with substantial tax reliefs associated with those investments, whilst VCTs offer a way for investors to gain exposure to a diversified portfolio of qualifying companies through a managed fund structure.

The choice between the two depends on individual investment preferences, risk appetite, and tax planning needs.

When considering your investment options, it is important to review all aspects of their criteria and ways of working to decide if one, all, or neither are appropriate for your circumstances.

Feature	Enterprise Investment Scheme	Venture Capital Trust
Structure	Direct investment into individual small businesses	Investment through a listed company owning a portfolio of investments
Inheritance Tax	Typically qualifies for Business Property Relief	Does not qualify for Business Property Relief
Income Tax Relief	30% on investments up to £1 million (£2 million for knowledge-intensive) per tax year	30% on investments up to £200,000 per tax year
Capital Gains Tax	Deferred if reinvested; exempt after 3 years	Exempt on gains made from VCT shares
Dividend Tax	Taxed normally	Tax-free dividends
Investment Limits	Up to £1 million per tax year	Up to £200,000 per tax year
Risk and Diversification	Higher risk due to lack of diversification unless investing in multiple EIS companies	Built-in diversification across a portfolio of companies
Liquidity	Generally illiquid; shares must be held for 3 years	More liquid; shares can be traded on stock exchanges
Eligibility of Companies	Fewer than 250 employees and gross assets < £15 million	Fewer than 250 employees and gross assets < £15 million



WORKING TOGETHER: A TAX-EFFICIENT STRATEGY

Working Together

In some circumstances, EIS (Enterprise Investment Schemes) and VCT (Venture Capital Trusts) can complement each other in an overarching tax-efficient investment strategy by allowing investors to maximize tax benefits while diversifying risk.

EIS offers substantial tax relief and the potential for tax-free capital gains if shares are held for at least three years, making it ideal for high-risk, high-reward investments in early-stage companies. On the other hand, VCTs provide tax-free dividends and capital gains with a lower annual investment limit (£200,000), along with liquidity through share trading on stock exchanges.

As well as looking at individual options, it is wise to develop a comprehensive financial plan that integrates various suitable strategies to optimise your investments and align with your long-term goals.

By combining these investment vehicles, individuals can take advantage of the robust tax reliefs offered by EIS while benefiting from VCTs' diversification and liquidity, thus creating a balanced portfolio that manages risk and maximises tax efficiency over the long term.

Case Study

Our client, Katherine, has invested in EIS and VCTs for a number of years as part of a tax-efficient retirement planning strategy. Katherine is in her fifties and has already reached the amount in pensions to use her full lump sum allowance and is reluctant to pay more into her pension scheme due to the Inheritance Tax (IHT) charge of 40% that would be applied from April 2027. Therefore, we needed to look at other suitable options

for saving and investing her wealth. As an additional rate taxpayer, after maximising Katherine's ISA allowances, we would usually have £50,000 left to invest annually in other ways, to help further reduce her tax bill.

In order to reclaim some of the tax Katherine has paid, we introduced her to VCT investments, which would benefit from Income Tax relief of 30% (£15,000), typically within 6-8 weeks from investment. From 6-12 months after investing, she would also typically receive a tax-free amount of around 5%. Most VCTs usually start to pay an income of this level within the first year.

CASE STUDY CONTINUED...

Working with an Independent Financial Adviser can uncover opportunities within your tax plans that may go unnoticed, allowing you to optimise your finances through strategies tailored to suit you.



In the 2025/26 tax year, Katherine was able to save £15,000 in tax and received £2,500 tax-free income (usually otherwise subject to Income Tax at 45%), saving a further £1,125.

When we first met Katherine, she owned a rental property, although the rule changes around these properties made her more inclined to sell, and her current tenant offered a reasonable market price for it. However, due to the £200,000 gain on the property, Katherine was concerned about the 24% Capital Gains Tax (CGT) (£48,000) that would apply.

For this tax year, we used an EIS investment rather than a VCT, as you can defer CGT within an EIS investment while

still receiving the Income Tax at 30% of the investment amount. By investing £75,000 in EIS shares, Katherine could reclaim £22,500 of this in Income Tax relief as the amount invested is greater than the gain. This meant that the £48,000 gain was deferred and Katherine also benefits from Business Relief on this after two years, meaning there is no added IHT liability which, at the current 40% rate, would have otherwise been £30,000.

By putting these tax-efficient plans in place, Katherine was able to save approximately £70,500 for this tax year for a £75,000 investment.



EXIT STRATEGIES: HOW DOES IT WORK?

To be comfortable in making important investment choices, it is vital to understand investment principles and the concept of risk and return, especially when dealing with these more complex investments.

Exiting an investment in either the Enterprise Investment Scheme (EIS) or a Venture Capital Trust (VCT) is a critical aspect of the investment process, and having a well-defined exit strategy can significantly influence overall investment success. Here are some common exit strategies to consider for both EIS and VCT investments:

Sale of Shares

For EIS investments, selling shares in the underlying company is the primary exit strategy. Investors must hold EIS shares for at least three years to retain tax reliefs, but they can sell shares afterwards. A successful sale can occur through private sales to other investors

or strategic sales to larger companies. It is essential to conduct due diligence and engage in valuations to ensure that the sale aligns with investment goals.

On the other hand, VCT shares are publicly traded on the stock exchange, providing more liquidity compared to EIS shares.

Investors can sell their shares in the VCT through the stock market at any time, assuming there is sufficient market demand. It is advisable to monitor share price performance and market conditions to optimise the timing of the sale.

EXIT STRATEGIES CONTINUED...

When or how you wish to sell your shares to make a return on your investment is a decision that requires careful consideration, ideally with professional guidance.

Buybacks or Corporate Sales

Companies backed by EIS may decide to buy back shares from existing investors, providing an exit route. Additionally, if a company is acquired by another firm, investors may receive cash or shares as part of the acquisition, offering a potentially lucrative return on investment.

Initial Public Offering (IPO)

An IPO is a pathway for early-stage companies to transition to public ownership. If a business funded through EIS successfully goes public, EIS shareholders can either sell their shares at the IPO price or retain ownership in a publicly traded company, benefiting from liquidity and potential capital appreciation.

Dividends and Reinvestment

While EIS shares typically do not provide income through dividends during the holding period, successful exit strategies for VCTs may involve receiving tax-free dividend income. Investors can choose to reinvest these dividends in additional VCT shares or other investments, thereby compounding returns over time.

Waiting for Tax Benefits to Realise

Especially for EIS investments, waiting until the right time to sell can be strategic. Holding onto shares until significant capital gains are realised can enable investors to fully utilise tax benefits, such as exemptions from Capital Gains Tax after three years or Business Relief if held for over two years.

Transfer of Shares

In some cases, EIS investors may explore transferring shares to family members or trusts. This can provide estate planning benefits while potentially leveraging tax allowances for the recipient.

Utilising a Secondary Market

For both EIS and VCT investments, some platforms and brokers offer secondary markets where investors can sell their shares to other interested parties. This approach can provide liquidity before a traditional exit strategy becomes feasible.

Engaging a Financial Adviser

As market conditions and company performance can vary, working with an Independent Financial Adviser can provide valuable insights into optimal exit strategies. Advisers can help assess market trends, evaluate company health, and navigate the complex regulatory landscape to ensure that exit strategies align with overall financial objectives.

UNDERSTANDING THE RISKS

While EIS and VCT investments can be attractive due to their tax benefits, potential investors should carefully weigh the associated risks and perform thorough due diligence before committing capital.

High Risk of Loss

EIS and VCT investments are directed primarily at early-stage companies, which are often unproven and can be highly volatile. The risk of business failure is significant, and investors may lose all or part of their investment.

Illiquidity

EIS and VCT investments are usually illiquid, as shares in private companies are not easily sold. Investors may need to commit their capital for the long term (minimum of three years for EIS, five years for VCT) before they can realistically exit their investment.

This may not be an appropriate option for people who wish to maintain flexibility with their investments and access funds quickly.

Complexity

These types of investments can be very complex to fully understand, particularly for novice investors. Caution should be taken and professional advice sought before considering EIS or VCT investments.

Limited Diversification

Most financial planning experts will often say that a diversified approach to investing is key in order to limit your exposure to risk and the 'all eggs in one basket' scenario.

However, due to the nature of EIS and VCT investments, where funds are often concentrated in a few companies, the potential for diversification is limited. There is also a

geographical risk, as all the companies have to be small UK companies and therefore, more exposed than a diversified global portfolio.

This concentration, therefore, increases exposure to specific business risks that other investment strategies better mitigate. Those who are more risk-averse may be wise to opt for a lower-risk investment approach.

Regulatory Changes

As tax laws and investment environments evolve, changes to EIS regulations or tax reliefs could impact the attractiveness and viability of these investments in the future. However, for those working with an Integrity365 Independent Financial Adviser, we will

ensure to keep you up to date with legislation changes that could affect your investments, and make any adjustments to your plans as necessary.

Integrity365's tax-efficient investment specialists can assist you in gaining insight into your options, weighing up the risks, and, if appropriate, implementing a strategy tailored to your goals.

We understand the importance of transparency and open communication when navigating complex investment products like EIS and VCTs. Our experienced advisors will work closely with you to ensure that your investments align with your financial objectives and risk tolerance.

READY TO EXPLORE YOUR INVESTMENT OPTIONS?

Your future awaits - let us help you navigate it with confidence with the investment expertise of an Integrity365 Independent Financial Adviser by your side to guide you on your journey.



The landscape of tax-efficient investments not only offers numerous opportunities to enhance your wealth but also inherent risks that require careful navigation.

Our experienced advisers are here to guide you every step of the way. We understand that each investor has unique goals, risk tolerances, and financial situations, which is why we take the time to listen, understand you and provide personalised solutions that maximise your tax position and align with your financial objectives.

Please do not hesitate to reach out for a comprehensive review of your investment portfolio. Together, we can help you make informed decisions that empower your financial journey today and plan for tomorrow.

Get in touch:

Email: enquiries@integrity365.co.uk

Visit: integrity365.co.uk

Bristol Tel: 0117 450 1300

High Wycombe Tel: 01494 509 666

London Tel: 020 7417 0417

Essex Tel: 01277 634 500

Inverness Tel: 01463 242 242

Helensburgh Tel: 0141 951 4000

Arbroath Tel: 01241 464 480



Please note: this guide was published in November 2025 and all information is correct as at this date.

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