

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 risk investments, you should seek professional advice from your options adviser for extremely careful guidance in order to make an informed decision.

Unlock the full guide here:

[Download](#)

It is important to understand your preferences that can help you to be invested in. Our team is here to explain your options in a clear and understandable way.

Many factors can control the performance and attractiveness of an investment. Our team of experts will help you to understand these factors.

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

This document is intended for information purposes only and in no circumstances should be taken as advice. If you do require personal financial advice please contact your financial advisers. The value of investments can fall as well as rise and is not guaranteed. Past performance is not a reliable indicator of future returns.

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