

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 30% of the amount invested from April 6th 2011. Income tax relief on up to £500,000 can also be claimed for the 2010 tax year at the previous 20% rate. The minimum subscription is £500 per company and the maximum is £500,000 in EIS to get income tax relief in the tax years 2007/8 to 2011/12. (It is proposed this limit will increase to £1m per annum from 6 April 2012 – EU State Aid Approval for this has been obtained.) 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. However, any excess subscription should be applied to the previous tax year in order to maximise the effect of this relief.

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

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 £500,000.

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

Subscriptions may 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 £500,000 in any tax year. An investor who had made no EIS investment in a tax year may subscribe up to £1m in the following tax year and elect to carry back £500,000 to the previous tax year to claim income tax relief.