Loss Relief

If EIS shares are disposed of at any time at a loss (after taking into account income tax relief), the loss can be set against the investor's capital gains, or his income in the year of disposal or the previous year. For losses offset against **income**, the net effect is to limit the investment exposure to 35p in the £1 for a 50% taxpayer, if the shares become totally worthless. Alternatively the losses can be offset against **Capital Gains** at the prevailing rate of 28%.

Worked Example

The loss can be offset against income tax of the same year or preceding year or against capital gains of the same year or carried forward to be offset against future gains. Loss relief can reduce the investor's exposure to 35% of the original investment (assuming a 50% tax payer) if the loss is offset against income tax due for the current year and onwards under current rates.

Example - Loss Relief Against Income Tax

Initial Investment	£100,000
Less income tax relief @ 30%	(£30,000)
Net Cash Outlay for Investment	£70,000
If investment fell to £0 net loss	(£70,000)
Loss relief at 50%	£ 35,000
Net loss	(£35,000)
Percentage of original outlay	35%

Example - Loss Relief Against Capital Gains Tax

If the loss is offset against capital gains tax, this can be claimed against the same year or carried forward, at the prevailing rate currently 28%

Initial Investment	£100,000
Less Income Tax Relief @ 30%	(£30,000)
Net Cash Outlay for Investment	£70,000
If investment fell to £0 net loss relief at 28%	(£19,600)
Net loss	(£50,400) 50.4%

Thus an individual who has income which is charged to income
tax at higher rates is likely to wish to offset the lost against income rather than capital gains. Professional advice should be sought.