

## EIS Tax Reliefs at Work in a Fund

The combination of reliefs offered by the EIS scheme potentially substantially increase returns whilst mitigating risk because of the portfolio effect. Whilst academic, the following example scenarios illustrate this. The examples assume the investor is a 50% taxpayer, who has utilised his/her annual CGT exemption and will therefore pay tax on any capital gains, or, where he/she has an overall loss, that he has other gains, including income chargeable at 50%, against which to relieve the loss.

### Scenario 1 - Enhanced Returns: +25% return

The following figures assume that losses are offset against income tax at 50% and the EIS income tax relief is obtained at 30%. If losses were offset against Capital Gains Tax at the prevailing rate of 28% from 23 June 2010, the returns would be different.

Assume that of six investments 3 double in value and 3 halve in value. The overall investment return on the Fund is therefore +25%.

	ISA	Unit/Investment Trust	EIS Fund
<b>Portfolio Return</b>	25%	25%	25%
<b>Income Tax Rebate</b>	Nil	Nil	30%
<b>Loss Relief</b>	Nil	Nil	5%
<b>Capital Gains Liability</b>	Nil	(7%)	Nil
<b>Total Return</b>	<b>25%</b>	<b>18%</b>	<b>60%</b>

### Scenario 2 - Enhanced Returns: 0% return

Assume that of six investments 2 double in value and 4 halve in value. The overall investment return on the Fund is therefore zero.

	ISA	Unit/Investment Trust	EIS Fund
<b>Portfolio Return</b>	0%	0%	0%
<b>Income Tax Rebate</b>	Nil	Nil	30%
<b>Loss Relief</b>	Nil	Nil	6.6%
<b>Capital Gains Liability</b>	Nil	Nil	Nil
<b>Total Return</b>	<b>0%</b>	<b>0%</b>	<b>36.6%</b>

### Scenario 3 - Loss mitigation: -25% return

Assume that of six investments 1 doubles in value and 5 halve in value. The overall investment return on the Fund is therefore -25%.

	ISA	Unit/Investment Trust	EIS Fund
<b>Portfolio Return</b>	(25%)	(25%)	(25%)
<b>Income Tax Rebate</b>	Nil	Nil	30%
<b>Loss Relief</b>	Nil	Nil	8.3%
<b>Capital Gains Liability</b>	Nil	Nil	Nil
<b>Total Return</b>	<b>(25%)</b>	<b>(25%)</b>	<b>13.3%</b>

**Note: the above examples are for illustration only as to the potential impact of the combined EIS tax reliefs.**