Don’t invest unless you’re prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 3

BLACKFINCH

CASE STUDY

Deferring Capital Gains

Clients who have realised a taxable gain – for example, by selling investments or a second home – can defer the Capital Gains Tax (CGT) due on the proceeds by investing the gain via a Enterprise Investment Scheme (EIS). With careful planning, a CGT bill can be deferred until there is no CGT left to pay.

Scenario

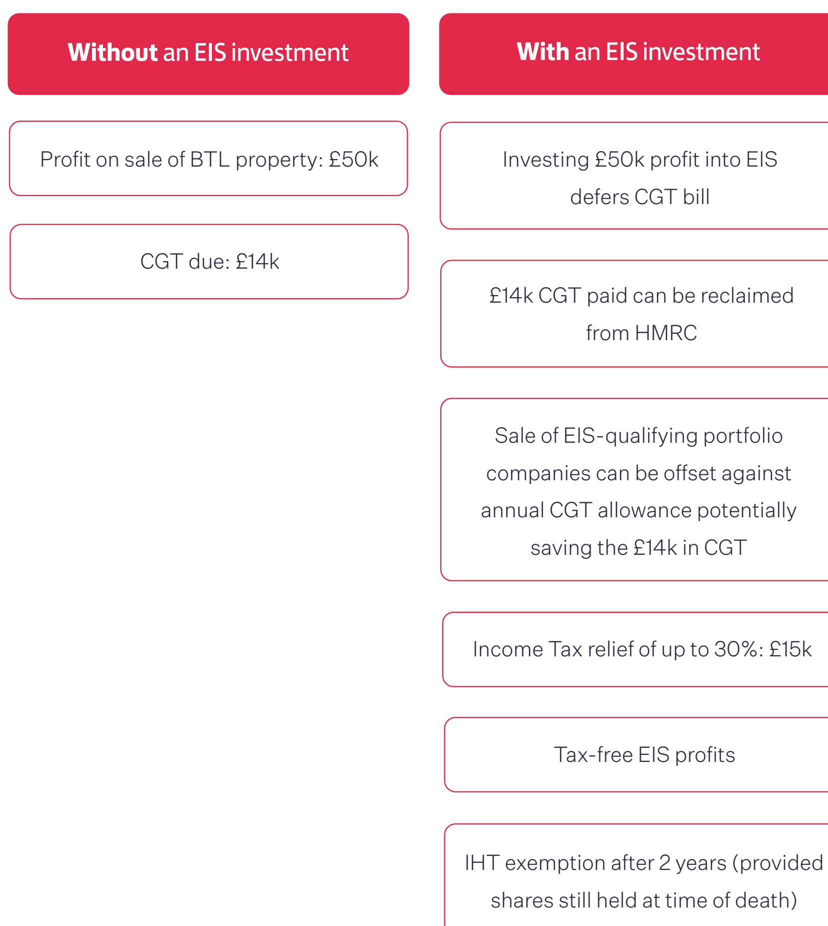
Victoria has a buy-to-let property she no longer wants. She sells the property for £250k. The profit Victoria made after utilising her annual CGT allowance was £50k and, as a higher rate taxpayer, she had to pay £14k in capital gains tax within 60 days of selling the property. Victoria wasn’t happy about this and asked her financial adviser if there was any way to get this tax back. She was therefore delighted when her adviser let her know that yes, there was.

Victoria’s adviser explained how investing the profit from the sale of the property could help her defer her CGT bill and reclaim the £14k in CGT already paid. The adviser also explained that Victoria would be able to claim up to 30% Income Tax relief on the value of her investment, meaning she would receive a refund from HMRC of £15k paid in Income Tax in the last tax year and the current tax year.

Victoria was also pleased to hear that all profits made on the EIS investment would be completely tax free, and that the investment would be free from Inheritance Tax after it had been held for two years, and provided it was still held at the time of her death.

The adviser went on to explain that her EIS investment allowed Victoria to defer her CGT bill, effectively transferring the CGT liability from the buy-to-let property to the portfolio. As a result, when the EIS-qualifying companies in her EIS portfolio were sold or matured, the CGT bill would become payable again. However, the adviser explained that her EIS portfolio would feature at least ten different companies, which, in all likelihood, would be sold or reach maturity in different tax years. Therefore, Victoria could use future annual CGT allowances against the deferred gains when CGT again became due.

Even in a scenario where several EIS portfolio companies were sold in the same year over and above her annual CGT allowance, Victoria could reinvest some of the proceeds of the sales into another EIS-qualifying investment, redefer the remaining gain, and repeating this process as necessary until there was no CGT bill left. Also, if Victoria died while still owning her EIS portfolio,, then any CGT liability would be eliminated upon her death.



Solutions for Investors and Support for Advisers

Blackfinch is a tax-efficient investment specialist working in partnership with advisers to meet clients' requirements. To find out more please speak to one of our team on **01452 717070** or email **enquiries@blackfinch.com.**

IMPORTANT INFORMATION

Capital at risk. This article is issued by Blackfinch Investments Limited (Blackfinch), which is authorised and regulated by the Financial Conduct Authority (FCA number 153860). Registered address: 1350-1360 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH. Registered in England and Wales company number 02705948. This article is for intermediary information only and does not form any offer or invitation to invest. All information correct at August 2023.

Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).