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CASE STUDY

BLACKFINCH VENTURES

Sheltering a Gain and Targeting Higher Returns with the Blackfinch Ventures EIS Portfolios

Please note:

Benefits of tax-efficient investments are subject to change and personal circumstances.

Scenario

Clients with rental properties face the issue of Capital Gains Tax (CGT), including if they plan to sell. Matthew is a married middle-aged professional and homeowner. He has savings and owns rental properties with a total value of £1.5 million. He plans to sell one of these at a profit. However, he's aware this will create a CGT liability.

With retirement a way off, and a higher appetite for risk, Matthew is looking at investing into an Enterprise Investment Scheme (EIS). He knows that through an EIS he can access tax benefits including deferring the CGT that will arise when he sells the property. And even though he must hold shares in EIS-qualifying companies for 4-7 years on average, in some cases longer, he can also aim for a return.

Solution

Matthew discusses his aims with his adviser, who tells him about the Blackfinch Ventures EIS Portfolios. Michael is interested in the service for several reasons:

- EIS tax benefits include deferment and possible mitigation of CGT
- The service targets higher returns over a longer timeframe of 4-7 years
- The portfolios are invested in high-growth new technology firms
- A team of technology experts and entrepreneurs runs the portfolios
- The team works closely with firms from investment to exit to build value
- The fee structures are competitive, creating further value for investors

Matthew's adviser ensures that Matthew understands the risks, including that these are offset by tax benefits. Matthew also knows that investment risks are further mitigated because his EIS investment is part of a more diversified investment portfolio, like those he holds in cash and property.

Steps

- **Sell property:** Matthew sells the property at a profit, resulting in a gain of £70,000.
- **Invest in EIS and shelter gain:** Matthews invests the £70,000 in the portfolios. This enables him to immediately shelter the gain from CGT, and benefit from income tax relief of £21,000.
- **Target higher return:** With the team aiming for higher returns, Matthew can look at potential growth in his investment, which in an EIS will be free of CGT.
- **Continue to shelter gain:** As the investment is typically held for a period of 4-7 years, Matthew has the assurance that he can shelter the gain throughout this time.
- **Plan to rollover investment:** At the end of the investment timeframe, Matthew can rollover what may be a larger sum into a new EIS investment and continue CGT deferral.

Solutions for Investors and Support for Advisers

Blackfinch works in partnership with advisers to help meet their clients' investment needs. A specialist in tax efficient investing, it develops solutions in response to adviser feedback.

To find out more please speak to one of our team on **01452 717070** or email **enquiries@blackfinch.com**.

IMPORTANT INFORMATION

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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).