

WING TIPS

The tax benefits for investors in EIS and VCT shares

Most investors are probably aware of the Income Tax and Capital Gains Tax benefits when subscribing for shares in an EIS or VCT trading company but do they realise that there are also significant Inheritance Tax benefits attached to these investments?

Income Tax

With effect from 6 April 2004 the maximum annual investment that would attract Income Tax relief for a subscription of EIS and VCT shares was increased to £200,000.

The rate of Income Tax relief for EIS shares remains at 20%, however for VCT shares the rate was increased from 20% to 40% but only for subscriptions made between 6 April 2004 to 5 April 2006.

Providing certain conditions are met dividends are usually exempt from Income Tax and any capital loss from a disposal of EIS shares can be relieved against Income Tax or Capital Gains Tax.

Capital Gains Tax

Subject to certain conditions being met any gains arising on the disposal of EIS and VCT shares is exempt for Capital Gains Tax purposes. Gains arising on other assets can be deferred if the proceeds are reinvested in EIS / VCT shares (but not for VCT shares issued after 5 April 2004).

Inheritance Tax

For Inheritance Tax purposes all unquoted trading company shares - if held for at least two years and subject to certain restrictions - should qualify for “business property relief” (BPR) at 100%.

The conditions that must be met by EIS and VCT companies in order to qualify for Income Tax and Capital Gains Tax relief will by definition mean that they would also qualify for BPR. The relief will apply also even if the company subsequently becomes AIM listed as AIM shares are regarded as “unquoted” for Inheritance Tax purposes.

The current Labour government has suggested in the past that BPR is an area that they are reviewing and although no changes to the relief were made in the 2005 Finance Act it is possible that the relief will either be reduced to say 50% or completely abolished at some point in the future. This is therefore an excellent opportunity for individuals to look at other Inheritance Tax planning options now in order to take advantage of this generous relief before it is too late.

Peter Legg is Head of Inheritance Tax Planning Matters, a division of Vantis Tax Limited which is a subsidiary of Vantis plc. Contact him on 07717 740 055 or email him: peter.legg@vantisplc.com