For UK retail investors only.

Tax benefits of EIS investments

An explanation of the five key tax benefits of EIS, and a more detailed look at how capital gains deferral works.

octopus investments
A brighter way

The Enterprise Investment Scheme (EIS) is a government initiative that provides a valuable source of funding to early stage companies, while offering investment opportunities and a range of tax benefits to UK tax-paying investors.

30%
income tax relief on the amount invested[1]

100%
capital gains tax relief if shares grow in value

Up to
45%
loss relief if a company fails

For investors with the relevant personal circumstances there are also additional tax reliefs which they can benefit from.

Capital gains deferral

Applies to gains made 12 months after or 3 years before investment.

Inheritance tax relief

Provided shares are held for more than 2 years and at death.

Capital gains on death

If an investor reinvests a gain (for example the profits from the sale of a property or share portfolio) into EIS shares and dies while holding them, the gain does not come back in to charge.

Investing in EIS companies is high risk

The value of an EIS investment can fall as well as rise. Investors might not get back the full amount they invest.

When making an EIS investment, the tax treatment you receive will depend on your personal circumstances and might change in the future. Tax reliefs offered through the scheme depend on the companies you invest in maintaining their EIS-qualifying status.

Investors need to hold shares for three years to keep any tax reliefs claimed. Investors should be prepared to hold their shares for significantly longer to allow time for potential growth and exit.

Investments in smaller companies can fall or rise in value much more sharply than shares in larger, more established companies. They can also be harder to sell.

[1]The maximum investment amount on which income tax relief can be claimed is £1 million per tax year.

A closer look at capital gains deferral

Capital gains deferral window

A gain must be reinvested into EIS-qualifying shares in the period illustrated below.

How does the gain return to charge?

The gain is deferred for the period the EIS investment is held. A number of events can result in the gain returning to charge, the most common of which is sale or disposal of the EIS investment.

Deferring a gain across a portfolio of EIS companies

Most EIS investments are made into a portfolio of multiple EIS companies. You can make a claim to defer an amount of a gain into each of these companies. As these are early stage companies, their timeline to exit for investors is uncertain. Companies will be sold separately, and you should expect this to happen over a long period of time, likely many tax years.

This means that the amount of the gain deferred into each company will return to charge at different points in time in the future. And that the timing of this will be out of an investor's control.

We've used an example to show how this might look:

Benjamin sells his share portfolio	**Proceeds**	**£200,000**
Original cost of Benjamin's share portfolio	**Cost**	**(£100,000)**
Total gain on disposal	**Gain**	**£100,000**
Benjamin hasn't used his capital gains annual exempt amount elsewhere during the year, and wants to offset it against this gain.		
Annual exempt amount (£3,000 for 2024/2025)		**(£3,000)**
Chargeable gain on Benjamin's share portfolio		**£97,000**
Capital gains tax Benjamin expects to pay this year (at 20%)		**£19,400**

Benjamin

Given Benjamin's appetite for high risk investments his financial adviser suggests he invest £97,000 across five EIS companies six months after selling his share portfolio. As a result, the £97,000 gain is deferred, and he retains £103,000 from the sale in cash.

He can also claim £29,100 of income tax relief in the year – 30% of the amount he has invested.

His EIS portfolio is exited over time, and the deferred gains will be subject to capital gains tax at that point.

However, Benjamin could continue to defer the gain by reinvesting it in other EIS companies within 3 years of the gain coming back into charge.

In this example we've only shown the benefit of income tax relief and capital gains deferral for simplicity. Benjamin would also need to consider the impact of charges (including initial fee and ongoing fees, such as annual management charges, dealing fees and performance fees) relevant to any EIS investment he chooses.

We can't give you financial or tax advice, so we recommend you speak to a financial adviser. However, we can answer any questions you have about EIS and its associated tax reliefs. So, if you have any questions after reading this, please call our Investor Support team on **0800 316 2295** or visit octopusinvestments.com.

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