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Dividend Allowances and EIS

Changes to dividend taxation are yet to be finalised. Let's look at a scenario which shows how EIS investing can add value, whether the reduction of the current £5,000 tax free allowance to £2,000 in April 2018 happens or not (all figures have been rounded):

A higher rate tax payer originally invested £100,000 into a share portfolio:

- Share portfolio now worth £150K
- Generates dividend income of > circa. 3% > £4,500 pa
- Currently payable gross > within £5,000 tax free allowance
- After 5 April 2018 this could be taxed up to 32.5% for higher rate tax payers
- Net return £3,687.50

An alternative solution would be to sell £85,000 and invest in an EIS:

- Invest in an EIS — Generates a capital gain £31,200 (net of associated costs and CGT)
- CGT Bill £6,240
- Defer the Capital Gain — £25,500 Income tax rebate available against any income tax the client has paid in the current and previous fiscal year.

So with the share portfolio now worth £65,000, if the dividend allowance reduces to £2,000 or stays at £5,000 the investment utilising an EIS will:

- Generates dividend income of > circa 3% > £1,950 pa
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- The EIS would produce an income tax rebate in the region of £25,500. As most EIS arrangements run around 5 years equates to an equivalent tax-free income — £5,100 pa
- The two tax free allowances: Dividend income and EIS income tax rebate would provide an equivalent income amount of — £7,050 pa (an over 50% increase in previous tax free income)

Summary

- Increase in equivalent tax free income, most of which is in advance
- Capital gains deferment
- After 2 qualifying years the EIS is free of IHT
- Brings 'funds under influence' within a client relationship

Kuber VENTURES
Opening the door to EIS investment

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The final point is that investments held for 2 qualifying years in an EIS arrangement are free of IHT therefore saving the client's beneficiaries an estimated £34,000.

An Enterprise Investment Scheme (EIS) is a higher risk investment plan designed to invest into qualifying unlisted shares in UK based companies which has 5 main tax benefits:

1. Income tax rebate of 30% against all income tax sources paid in the current and the previous fiscal tax year.
2. Ability to defer a capital gain
3. After 2 years all qualifying investments that are held become exempt from IHT, provided they continue to be held at the time of death
4. Should investments underperform then they can qualify for loss relief
5. When the investments mature they are free of income and capital gains tax when an income tax rebate has been claimed at the outs

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The information contained in this flyer is for discussion purposes only for professional advisers and their clients, it is not for Retail Clients. The example provided in this flyer is for illustrative purposes only and should not be relied on when taking or advising on any investment decision.

EIS/SEIS/BPR Funds are not suitable for all investors as the underlying investments are often illiquid and therefore high risk. Investors may not receive back some or all of their initial investment. Advice should always be sought from a professional adviser prior to investing.

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