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Discussion Document Not for Advice Purposes

Dividend Allowances and EIS

Important Notice

Please read the following information carefully as a professional adviser.

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

Let's look at a scenario which shows how EIS investing can add value, to a higher rate tax payer.

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 £2000 tax free allowance
- £2,500 taxed at 32-50%
- Net return £3687.50

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, the dividend falls within the £2000 allowance:

- Generates dividend income of > circa 3% > £1,950 pa
- +
- 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)

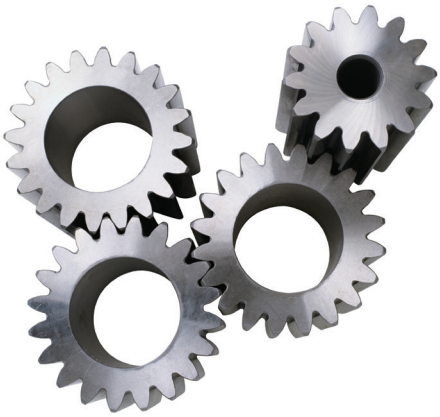
Summary

> 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

Important Notice

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

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