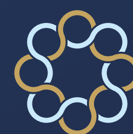

FINURA

YOUR GUIDE TO ALTERNATIVE INVESTMENTS

Pension TRANSFER Gold Standard

This guide is only suitable for investors who can evaluate the risks and merits of such investments, and who have sufficient resources to bear any loss that might occur. The availability of any tax relief, including EIS and SEIS, depends on the individual circumstances of each investor and of the company concerned, and may be subject to change in the future.

Any comments are offered for general informational and educational purposes only. They are not offered as, and do not constitute, financial advice. You should not act or rely on any information contained in this guide, without first seeking advice from a professional.

OVERVIEW

The central aim of Alternative Investment schemes is to encourage individuals to invest in smaller, unquoted trading companies which often find capital difficult to raise.

With a variety of incentives available across the various schemes, alternative investments have gained in popularity over the last few years. This has largely been driven by the financial crisis of 2008, which forced many small and medium-sized companies to look elsewhere for funding due to a lack of bank-backed finance.

Of considerable importance to many investors is the opportunity to support social enterprises and receive incentives for doing so. Investing in smaller, unquoted companies has also proven successful when the economy is recovering from recession, as smaller businesses can be the quickest to react, expanding rapidly, and seizing market share. They can also quickly multiply in size.

The following pages refer to five types of investment vehicles:

- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment Scheme (SEIS)
- Venture Capital Trusts (VCTs)
- Business Relief (BR)
- Social Investment Tax Relief (SITR)

	EIS	SEIS	VCT	SITR
Upfront Income Tax Relief	Up to 30%	Up to 50%	Up to 30%	Up to 30%
Annual Limits 2021/2022	£1m + carry back allowed[1]	£100,000 + carry back allowed	£200,000	£1m + carry back allowed
Tax Free Exit	Yes	Yes	Yes	Yes
Capital Gains Relief	Up to 28% deferral[2]	Up to 14% saved[2]	Nil	Up to 28% deferral[2]
Tax Free Dividends	No	No	Yes	No
IHT Free	Yes (after 2 years)	Yes (after 2 years)	No	Yes (after 2 years)[3]
Share Loss Relief	Yes	Yes	No	Yes
Minimum Holding Period	3 years	3 years	5 years	3 years

[1] Increased to £2 million for investments made on or after 06 April 2018 provided that any amount over £1 million is invested in "knowledge-intensive" companies
[2] Depending on the nature of the asset and the date of disposal
[3] The value of the shares may qualify for 100% business relief (BR) from inheritance tax (after a minimum two-year holding period, unless the shares are "replacement business property")

ENTERPRISE INVESTMENT SCHEME (EIS)

The Enterprise Investment Scheme (EIS) was established by the UK government in 1994 to encourage individuals to invest in small and medium-sized unquoted trading companies.

By way of incentive, the government introduced a number of tax benefits for investments into these companies, the most pertinent of which is a 30% tax reduction on investments up to £1m (available in either the current or prior year). This rises to £2m per year, as long as £1m of that is into knowledge intensive companies.

As well as the tax benefits, investors also benefit from the performance of the underlying EIS companies.

HOW DO EIS FUNDS WORK?

As well as investing directly into EIS qualifying companies, you can also invest through an EIS fund, which will invest in a number of qualifying companies on your behalf. You are still the owner of the shares.

Unlike other forms of tax-advantaged investment, there is no limit on the number of EIS investments that you can make in one tax year. However, for any given tax year, EIS tax reliefs are only available on EIS investments of up to £1m and joint investments are not allowed as an EIS needs to be held in the name of one person.

EIS qualifying companies can eventually become a quoted company, without investors losing their tax relief, but only if there were no arrangements in existence for it to become quoted when the shares were issued.

HOW DO INVESTORS CLAIM TAX RELIEF?

Tax advantages can be claimed when EIS-qualifying shares have been acquired, and you have received the EIS3 certificate relating to the shares. You can apply the relief to income tax due in the tax year the shares were purchased, or carry it back against income tax paid the previous tax year.

BENEFITS OF THE ENTERPRISE INVESTMENT SCHEME

Income Tax Relief

- Reduction in income tax liability amounting to 30% of the total investment up to a maximum of £1m
- Income tax relief on investments of up to a further £1m can also be carried back to the previous tax year
- Relief cannot exceed an amount which reduces the investor's income tax liability to nil

Capital Gains Tax Deferral

Investors have the facility to defer paying capital gains tax (CGT) on all or part of a chargeable gain by investing the proceeds in qualifying EIS shares. It applies to any chargeable gains arising three calendar years prior to, or one year after, the issue of qualifying EIS shares.

Gains are deferred until a chargeable event e.g. disposal of the EIS shares or earlier breach of the EIS rules.

Tax Free Growth

There is no CGT payable on gains realised on disposal of EIS investments, if income tax relief is claimed. This applies if you have received income tax relief (which has not subsequently been withdrawn) on the cost of the shares, and the shares are disposed of after they have been held for a certain period (usually three years), any gain is free from CGT.

Share Loss Relief

If EIS shares are disposed of at a loss, you can elect that the amount of the loss, net of any income tax relief given, can be set against your income in the year in which the shares are disposed of, or the preceding year, instead of being set off against any capital gains.

Inheritance Tax Relief

Investments qualify for business property relief so are exempt from inheritance tax after two years, as long as you still own the shares on death. Any income tax relief you claimed will not be clawed back, and any deferred capital gains will be permanently extinguished.

The investment manager will usually liaise with your executors to arrange the transfer of shares to a beneficiary. If the shares are subsequently sold, they will be subject to CGT, taking the value at the point of transfer as the acquisition cost for the purposes of calculating the gain.

RISKS OF THE ENTERPRISE INVESTMENT SCHEME

Like any investment, investing in an EIS company involves risks, and it is important that investors understand these risks before deciding whether it is the right investment vehicle for their needs.

Investors must be prepared for the value of their investment to go down as well as up, meaning they may not get back as much as they invested. The level of returns, availability and timing of relief for investors may be impacted by:

- Returns generated by the investee companies
- The availability of investment opportunities for the fund manager
- The EIS qualifying status of investments made by the fund manager

The tax advantages may change
As with many other types of investment, tax rules, levels and regulations are subject to change and the availability of the tax reliefs will depend upon individual circumstances.

EIS investments should be considered as a medium-term investment
Investments made into an EIS company are likely to be illiquid and must remain within the scheme for at least three years.

SEED ENTERPRISE INVESTMENT SCHEME (SEIS)

The Seed Enterprise Investment Scheme (SEIS) was established in 2012 to help small, early stage and start-up companies with new trades to raise equity finance.

SEIS was introduced to complement EIS but with a particular focus on very early stage companies, who may face additional difficulties in attracting investment.

Investors, including directors, can receive up to 50% tax relief on investments of up to £100,000 alongside Capital Gains Tax exemption on any gains on the SEIS shares.

HOW DO SEIS FUNDS WORK?

The tax relief rules have been designed to mirror those of EIS on the basis that, as companies grow, they may wish to use EIS after an initial investment under SEIS.

As well as investing directly into a pre-identified single company, investors can also invest through an SEIS fund, which will invest in a series of qualifying companies on your behalf. You are still the owner of the shares.

As per EIS, there is no limit on the number of SEIS investments that you can make in one tax year, however, the total value of those investments cannot exceed £100,000.

SEIS qualifying companies must be less than two years old, employ no more than fifty staff and have a maximum of £200,000 gross assets.

HOW DO INVESTORS CLAIM TAX RELIEF?

Tax advantages can be claimed when SEIS-qualifying shares have been acquired, and you have received the SEIS3 certificate relating to the shares. You can apply the relief to income tax due in the tax year the shares were purchased, or carry it back against income tax paid the previous tax year.

BENEFITS OF THE SEED ENTERPRISE INVESTMENT SCHEME

Income Tax Relief

- Reduction in income tax liability amounting to 50% of the total investment up to a maximum of £100,000
- Relief cannot exceed an amount which reduces the investor's income tax liability to nil

Capital Gains Reinvestment Relief

A new relief introduced under SEIS, investors can benefit from 50% capital gains tax relief on gains which are invested in to eligible SEIS shares. This was originally introduced as a temporary measure but, in the 2014 Budget, chancellor George Osborne made it permanent.

Tax Free Growth

There is no CGT payable on gains realised on disposal of SEIS investments, if income tax relief is claimed. This applies if you have received income tax relief (which has not subsequently been withdrawn) on the cost of the shares, and the shares are disposed of after they have been held for a certain period (usually three years), any gain is free from CGT.

Share Loss Relief

If SEIS shares are disposed of at a loss, you can elect that the amount of the loss, net of any income tax relief given, can be set against your income in the year in which the shares are disposed of, or the preceding year, instead of being set off against any capital gains.

Inheritance Tax Relief

SEIS investments qualify for business property relief so are exempt from inheritance tax after two years, as long as you still own the shares on death. Any income tax relief you claimed will not be clawed back, and any deferred capital gains will be permanently extinguished.

The investment manager will usually liaise with your executors to arrange the transfer of shares to a beneficiary. If the shares are subsequently sold, they will be subject to CGT, taking the value at the point of transfer as the acquisition cost for the purposes of calculating the gain.

RISKS OF THE SEED ENTERPRISE INVESTMENT SCHEME

Being an equity investment, investors should be aware that returns are not guaranteed, and the original amounts invested could be lost in part or in their entirety.

SIS investments should be considered as a medium to long-term investment

Given that small companies can take time to grow, and an exit may not be immediately apparent for shareholders, SEIS investments should be considered high risk and long-term investments, being at least three to five years, if not longer.

In order to maintain the tax benefits available under SEIS, an investor must hold their shares for 3 years from the date of issue and the company must continue to meet the qualifying conditions throughout this period. Failure to do so, could result in a withdrawal of the tax reliefs.

Investors must consider the risks versus potential returns

The availability of tax benefits should not distract investors from the need to properly consider the risks versus potential returns of any given opportunity. As with any alternative investment, tax should not be the driving reason behind an individual's reason decision to invest.

VENTURE CAPITAL TRUSTS (VCTS)

The Venture Capital Trust scheme was introduced on 6th April 1995 with aim of encouraging individuals to invest into smaller, higher risk companies, whose shares and securities are not listed on the main stock exchange, and benefit from their investment through tax efficient advantages. They are open to anyone who is over 18 years of age and a UK resident.

VCTs are themselves listed on the London Stock Exchange and any money raised from individual investors is pooled by the VCT to acquire several different investments with the aim of spreading risk across the VCTs portfolio.

HOW DO VCTS WORK?

To retain Government approval as a VCT, the VCT manager must invest at least 70% of raised money in 'qualifying holdings' within three years. These are defined as shares or securities, including loans of at least five years duration, in unquoted companies and those whose shares are traded the alternative markets such as AIM and NEX Exchange. These companies must carry out a qualifying trade wholly or mainly in the UK. The balance of 30% can remain invested in other 'non-qualifying' holdings.

The maximum amount on which tax benefits can be claimed is £200,000. Investors who subscribe to the issue of new VCT shares will receive 30% tax relief upfront, subject to a minimum investment period of five years. The VCT allowance is in addition to an investor's pension and ISA allowances for the current tax year.

HOW DO INVESTORS CLAIM TAX RELIEF?

After investing in a VCT, individuals will receive a share certificate and a tax certificate, which they need to send to HMRC to claim income tax relief. If the individual pays tax under PAYE then they have two options depending on the timing of the purchase. They can have their tax code adjusted immediately and start paying less tax or, if it is the end of the tax year, they can apply for an immediate repayment or claim through self-assessment.

THE COMPANIES VCTS INVEST IN

HM Revenue & Customs (HMRC) sets rules on what business activities are allowed, how big the companies can be and the limit on how much a VCT can invest. Some VCTs invest in small, dynamic businesses that are still in the early stages of development and are not quoted on any exchange. Other VCTs, however, choose companies that trade on the Alternative Investment Market (AIM).

ALLOWABLE BUSINESS ACTIVITIES

Companies must carry out what HMRC calls a 'qualifying trade' to receive VCT funds - most trades are allowed, with a few exceptions, such as land dealing, financial activities, forestry, farming and running hotels. The company must also have a permanent establishment in the UK. If excluded trades make up more than a fifth of a company's activities, it can't receive VCT funding.

COMPANY SIZE

VCTs can invest in a company if the gross assets are £15 million or less at the time of the investment (or £16 million immediately afterwards) and they have fewer than 250 full-time employees. If a company later lists on the London Stock Exchange, it can continue to be treated as a qualifying VCT investment for up to five years.

INVESTMENT AMOUNTS

A VCT has three years to invest at least 70% of its money in qualifying small businesses. It can invest by a combination of buying shares and making loans, which must last at least five years. A VCT can invest up to 15% of its money in a single company, while each company is allowed to receive up to £5 million of VCT funding in a twelve-month period. The £5 million figure has to take into account any investment via the Enterprise Investment Scheme (EIS) or Seed Enterprise Investment Scheme (SEIS) as well as any other investment the company has received via any measure covered by the European Commission's Guidelines on State aid to promote Risk Capital Investment in Small and Medium-sized Enterprises.

TYPES OF VCT

Each VCT is set up with its own individual parameters, reflecting how long they are designed to last, whether the companies they invest in are unquoted or quoted on AIM and what their investment focus is.

Some are set up to last indefinitely (often called 'evergreen' VCTs) to provide long-term capital growth or a stream of tax-free dividends – or both. Others will be created as limited-life VCTs, which will be wound up as soon as possible after the minimum five-year holding period for shares and any accumulated assets distributed amongst the shareholders.

A generalist VCT invests across a range of different industries. In contrast, specialist VCTs focus on specific industry sectors, such as healthcare or technology. Concentrating on a single sector can involve more investment risk but could also offer higher returns if the chosen sector does particularly well.

BENEFITS OF VENTURE CAPITAL TRUSTS

Income Tax Relief

- 30% upfront tax relief on an investment of up to £200,000 in a tax year
- Relief cannot exceed an amount which reduces the investor's income tax liability to nil
- If your VCT pays dividends, you will not have to pay tax on them.

Tax Free Growth

If you sell your shares, any profit you make on them won't be liable for capital gains tax. (If you sell within five years the upfront income tax relief will be withdrawn).

Inheritance Tax Relief

If you die, even within the first five years, your estate will not have to pay back any income tax relief you have claimed. Dividends will still be tax-free and there won't be any capital gains tax to pay on any growth your shares might achieve.

Investing in growing UK businesses

By investing in a VCT you could be helping smaller companies to create jobs, generate wealth and contribute to the UK's economic growth. These types of businesses also offer the potential for significant long-term growth if the companies in your VCT are successful.

RISKS OF VENTURE CAPITAL TRUSTS

Investors must be prepared for the value of their VCT shares to go down as well as up, meaning they may not get back as much as they invested.

Smaller companies are likely to be more volatile

VCT shares are likely to have higher volatility and liquidity risk than other types of shares quoted on the London Stock Exchange Official List because businesses in the early stages of development can have a higher failure rate than more established businesses. In addition, they can change value more quickly and more significantly than larger companies.

VCTs are for the longer term

If you sell your VCTs before you have had them for five years, you will have to repay any income tax relief you have claimed (unless you sell them to your spouse or you die). As such, VCTs should be viewed as a long-term investment.

In some cases, it may also be difficult for you to find a buyer for your shares, although most fund managers offer buy-back schemes. Whichever way you sell your shares, it is likely that the price will be lower than the overall value of the companies in the VCTs portfolio.

The tax advantages may change

As with many other types of investment, such as ISAs and pensions, HMRC may change the rules on VCT tax relief in the future. The availability of tax relief also relies on the investee companies maintaining their qualifying status. The setup of your own personal investment portfolio will also determine how much you can benefit from VCT tax relief.

BUSINESS RELIEF (BR)

BR (formally BPR) has been an established part of inheritance tax legislation since 1976. When it was introduced, the main aim of BR was to ensure that after the death of its owner, a family-owned business could survive as a trading entity without having to be sold or broken up to pay an inheritance tax liability.

Over time, successive governments have intentionally expanded BR so that now it is also an investment incentive for private investors.

Similar to VCTs, BR's aim is to encourage individuals to invest into smaller companies, whose shares and securities are not listed on the main stock exchange, and may be willing to accept the additional potential risk of investing into these types of businesses.

HOW DOES BR WORK?

Investments that qualify for Business Relief (BR) can be passed on at a reduced rate of 50% or free from inheritance tax upon the death of the shareholder, provided the relevant business property has been owned for at least two years. BR-qualifying assets can also be settled into relevant property trusts, potentially mitigating entry, exit and periodic charges.

However, because standalone BR investments aren't part of HMRC's Venture Capital Schemes (such as EIS, VCT etc.), there is generally no upfront tax relief for investing in such schemes, nor tax free dividends/capital gains. Often any returns from the offer are structured as returns of capital and are subject to tax accordingly.

RELEVANT BUSINESS PROPERTY	RATE OF RELIEF
A business or an interest in a business	100%
Unquoted securities which on their own or combined with other unquoted shares or securities give control of an unquoted company	100%
Unquoted shares	100%
Quoted shares which give control of the company	50%
Land or buildings, machinery or plant used wholly or mainly for the purposes of the business carried on by a company or partnership	50%
Land or buildings, machinery or plant available under a life interest and used in a business carried on by the individual	50%

BENEFITS OF BUSINESS RELIEF

Speed

Whereas a gift typically takes seven years for the estate to achieve full inheritance tax exemption, a BR-qualifying investment can be passed on at death free from inheritance tax provided it has been held for at least two years.

Access and ownership

Whereas settling assets into trust or gifting permanently removes assets from the client's ownership, shares in BR-qualifying investments continue to be held in the client's name. Subject to liquidity, clients can ask to sell shares and have the proceeds returned to them, or they can set up regular withdrawals to meet changing needs, such as care home fees.

BR-qualifying investments do not use the nil-rate band

Investors can use their £325,000 allowance to reduce the inheritance tax charge on less liquid assets, such as their home, which are otherwise difficult to remove from the estate when planning for inheritance tax.

Clients looking to move to the UK from abroad

BR-qualifying investments are an option available for migrants who want to invest a minimum of £2 million in the UK under the Tier 1 (Investor) visa rules. Some BR-qualifying investments also qualify for Business Investment Relief, which could be attractive to non-domiciled clients looking to bring funds to the UK.

Individual savings accounts (ISAs)

In 2013, the Government made it possible for investors to hold AIM-listed shares in an ISA. Therefore, an ISA that invests specifically in AIM-listed companies expected to qualify for BR can offer inheritance tax exemption as well as the traditional ISA benefits of tax-free income and capital growth.

RISKS OF BUSINESS RELIEF

BR-qualifying investments are not likely to suit everyone, and it is important that investors understand the risks associated with such an investment.

Capital is at risk

Investments will be made in trading companies that are not listed on a main stock exchange. The companies invested in could fall in value, and investors may get back less than they invest. They may also be harder to sell.

Shares could be more volatile and less liquid

Investments in unquoted companies or those quoted on AIM are likely to have higher volatility and liquidity risk than securities on the main market of the London Stock Exchange.

The tax advantages may change

The value of tax reliefs will depend on an investor's personal circumstances. BR is assessed at the time a claim is made and there can be no guarantee that a company will remain BR qualifying. Tax treatment depends on individual circumstances and may change in the future. Tax reliefs depend on the portfolio companies maintaining their qualifying status.

SOCIAL INVESTMENT TAX RELIEF (SITR)

SITR encourages individuals to invest in, and support, socially-focused enterprises.

Organisations must have a defined and regulated social purpose. Charities, community interest companies or community benefit societies carrying out a qualifying trade, with fewer than 250 employees and gross assets of no more than £15 million may be eligible.

HOW DOES SITR WORK?

The key benefit of SITR is that individual investors can deduct up to 30% of the cost of their investment in an eligible enterprise from their income tax liability, either in the year the investment was made or the previous tax year (if after April 2014), as long as the investment is held for a minimum of three years.

Individual investors can invest up to £1m in Social Impact Investments however, this would need to be spread across more than one enterprise as, under EU rules, individual enterprises can only receive up to €344,827 per annum (about £250,000, or the equivalent amount at the exact exchange rate on the date of investment) over the three years. Any investments in social enterprises are independent of SEIS or EIS, which are subject to their own limits.

HOW DO INVESTORS CLAIM TAX RELIEF?

The company will send you a compliance certificate that shows they've met the conditions of the scheme and how long you will need to hold the shares for. You must have received this certificate before you can claim tax relief. You can claim relief up to 5 years after the 31 January following the tax year in which you made the investment.

BENEFITS OF SOCIAL INVESTMENT TAX RELIEF

Income Tax Relief

- Reduction in income tax liability amounting to 30% of the total investment up to a maximum of £1m
- Relief cannot exceed an amount which reduces the investor's income tax liability to nil

Capital Gains Tax Deferral

Investors can defer any payable Capital Gains Tax (CGT) that may be due in the current tax year by investing their gains into an eligible social enterprise; this means the tax will instead be payable when the investment is redeemed or sold, the company stops meeting the scheme conditions or you become non-resident. Whilst no CGT is payable on the investment itself, income on any dividends or interest remains taxable.

RISKS OF SOCIAL INVESTMENT TAX RELIEF

Being an equity investment, investors should be aware that returns are not guaranteed, and the original amounts invested could be lost in part or in their entirety.

SITR investments should be considered as a medium to long-term investment
Given that small companies can take time to grow, and an exit may not be immediately apparent for shareholders, SITR investments should be considered high risk and long-term investments, being at least three years, if not longer.

Investors must consider the risks versus potential returns
The availability of tax benefits should not distract investors from the need to properly consider the risks versus potential returns of any given opportunity. As with any alternative investment, tax should not be the driving reason behind an individual's reason decision to invest.

RISK CONSIDERATIONS

Alternative investments are not suitable for all investors. Potential investors are strongly recommended to seek expert independent financial and expert tax advice before investing. As with all investments, there are risks associated with investing. Some of these risks are summarised below.

- Investors may not receive back the full amount that they have invested. The value of each investment made may fall, and any of the investments may lose all of its value.
- Investments in shares in unquoted companies are not readily marketable and the timing of any realisation cannot be predicted. An investment should not be made unless the investor has carefully thought about whether they can afford it and whether it is right for them, having had the opportunity to take independent advice. They should expect to leave the investment intact for significantly longer than five years.
- Investments in smaller and unquoted companies involve a higher degree of risk than investments in larger companies and those traded on the main market of the London Stock Exchange. Smaller companies generally may have limited product lines, markets or financial resources and may be more dependent on their management or key individuals than larger companies.
- The past performance of investments should not be regarded as an indication of the future performance.
- The Investment Committee may be unable to find a sufficient number of attractive opportunities to meet the investment objectives or fully invest all of the capital subscribed.
- Rates of tax, tax benefits and allowances described in this guide are based on current legislation and HMRC practice. These may change from time to time and are not guaranteed.
- The tax reliefs are subject to the investors making the proper filings and claims with HMRC within the requisite time periods.
- The dates on which initial income tax relief, CGT deferral relief and inheritance tax relief relating to investment in EIS or SEIS qualifying companies are available, will vary depending on the date on which qualifying investments are made within the portfolio.
- Tax reliefs depend on your individual circumstances and may be subject to change in the future.

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