

## Consider the following scenario:

- Sarah is in her 40's and a **higher rate taxpayer**
- She has already **made the full pension and ISA contributions for the 21/22 tax year**
- She also has a **large income tax bill for the 20/21 tax year** which she wishes to reduce
- She has **£50,000 of spare cash** from a recent bonus
- She doesn't meet with her adviser to discuss her 20/21 tax affairs until November 2021 due to Covid 19 – **after the end of the 20/21 tax year**
- Sarah and her adviser decide that an **EIS investment** would be suitable as the investment **matches her appetite for risk and capacity for loss and the income tax relief under EIS may be carried back** and offset against her income tax bill for 20/21 as desired
- Sarah and her adviser decide to invest £50,000 into a portfolio of EIS opportunities **to increase diversification and spread risk**



Sarah's £50,000 is deployed into 5 EIS investments of £10,000 each generating **£15,000 in income tax relief** which she **carried back to the 20/21 tax year**.

After 4 years all the EIS investments are sold and the proceeds are as follows:

Investment	Original cost	Exit proceeds
1	10,000	30,000
2	10,000	20,000
3	10,000	20,000
4	10,000	10,000
5	10,000	0
<b>Total</b>	<b>50,000</b>	<b>80,000</b>

## Sarah's cash flows

Target returns are not guaranteed. Capital at risk.

	Investment 1	Investment 2	Investment 3	Investment 4	Investment 5	Total
	£	£	£	£	£	£
1 Gross EIS investment	10,000	10,000	10,000	10,000	10,000	50,000
2 Income Tax Relief at 30%	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(15,000)
3 Net Investment Cost	7,000	7,000	7,000	7,000	7,000	35,000
4 Potential Income Tax Loss Relief (if all investments failed and assumed at 45% of Net Investment Cost)	(3,150)	(3,150)	(3,150)	(3,150)	(3,150)	(15,750)
5 Capital "at risk" (Net Investment Cost – Potential Loss Relief)	3,850	3,850	3,850	3,850	3,850	19,250
6 Capital "at risk" % of Gross Investment	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%
7 Exit proceeds	30,000	20,000	20,000	10,000	0	80,000
8 Loss Relief Claim (assumed at 45%)	N/A	N/A	N/A	N/A	3,150	3,150
9 Total "value" received on exit (CGT free)	30,000	20,000	20,000	10,000	3,150	83,150
10 Money multiple on gross investment (total "value"/gross EIS investment)	3.00 x	2.00 x	2.00 x	1.00 x	0.32 x	1.66 x
11 Money multiple on "cash" investment (total "value"/Net Investment Cost)	4.29 x	2.86 x	2.86 x	1.43 x	0.45 x	2.38 x
12 Money multiple on "risk" capital (total "value"/Net Investment Cost – Unclaimed Loss Relief)	7.79 x	5.19 x	5.19 x	2.60 x	N/A	4.32 x