

## Tax Breaks for Business Angels

### Overview

The term “Angel” originally meant an investor in a theatrical production. Most of the time, Angels lost money, but made their investments out of an interest in the theatre.

The term has been hijacked, and a “Business Angel” is someone who invests in someone else’s company. Unlike theatrical Angels, however, Business Angels are usually looking to get a good return on their investment.

Various UK Governments have considered that this type of investment is good for the economy, and Business Angels need to be encouraged. By providing tax breaks, the hope is that the tax savings will be enough to persuade Business Angels to take the risks necessary to stimulate the economy.

### Enterprise Investment Scheme

To encourage Angels to invest in the companies of others, there are a number of tax breaks under the title “Enterprise Investment Scheme”, or “EIS” as it usually called. To get the breaks you have to invest in new shares in small companies (small isn’t necessarily that small; assets of up to £8m are possible). There are a lot of conditions that need to be satisfied, and we won’t go into the details of those, but if they are satisfied the following tax benefits result:

- The investor can get 20% Income Tax back on the investment of up to £500,000 in a tax year. In other words, if he invests £100,000, he can have £20,000 tax back — assuming he has paid £20,000 tax in that year. As long as the investor keeps the shares for at least three years, the Income Tax refund is his to keep. If he sells in less than three years, some or all of the refund may be clawed back.
- If the investor holds the shares for at least three years, then when they are sold there is no Capital Gains Tax to pay on any profit. On the other hand, if there is a loss, it is possible to get tax relief for the loss, against income.
- If the investor has made other capital gains, he can “roll over” some of the gains into the investment in the EIS company, and so put off paying the tax. This does not get rid of the tax (unless the investor dies — that gets rid of the tax!), it just puts it off until the new investment is sold. But it gives a cashflow advantage.

### Death and taxes

Business Angels get one more benefit from investing that they often don’t realise. The conditions to get EIS more or less automatically ensure that the shares qualify for 100% Business Property Relief, an exemption from Inheritance Tax, once they’ve been held for two years (less in certain circumstances). Of course, this means holding them until you die. If you do end up selling them, then reinvesting the cash in new EIS shares means you can continue to qualify for exemption, even if you’ve not held the shares for two years when you die.

### Warning!

This summary is intended to give no more than a brief idea of the tax breaks available to Business Angels, and we have had to miss out lots of important details. Before investing, make sure you’ve had full advice to ensure you satisfy the conditions for the tax reliefs.

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