Capital Gains Tax

INVESTOR GUIDE

Created
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Reduce your CGT bill

with generous tax efficient investment schemes

Learn more about the EIS, SEIS and SITR

GCV

www.growthcapitalventures.co.uk

Who is this guide for?

This guide has been produced for sophisticated investors and high-net-worth individuals who are looking to reduce or defer their capital gains tax bill.

What constitutes a sophisticated investor?
An individual with considerable investment experience, who has worked within the investment industry, or has operated at an executive level in a company turning over more than £1 million annually can be classed as a sophisticated investor. For example, a sophisticated investor may have made several VC investments, worked for a private equity firm, or worked as the director of an investment company turning over above £1 million.

What constitutes a high-net-worth individual?
A high-net-worth individual (HNWI) is someone who earns £100,000 or more annually or owns at least £250,000 of assets (excluding their primary home and pension). For example, if an individual owns £250,000 in shares, or an additional property with equity above £250,000, they would be classed as a high-net-worth individual.

Why is this relevant?
Many tax efficient investment routes involve a high risk/high return strategy. Fully understanding the potential risks of these investment opportunities and having a sufficient level of capital to invest is crucial. Whilst accessing potential to generate significant financial returns and tax benefits, capital is at risk, and investors should ensure they have carried out thorough due diligence and are comfortable with the associated risk considerations.

This information is not advice or a personal recommendation. Tax laws can change at any time and the tax reliefs outlined in this guide are dependent on individual circumstances. Data is correct as of June 2023.

In this guide:

If you have made a financial gain – for example, through the sale of investment shares or an additional property – you could be subject to pay capital gains tax (CGT).

This guide offers an overview of capital gains tax and how it works, and explores **three** potential options to minimise your capital gains tax bill. Each option forms part of the UK Government's Venture Capital Schemes and can provide investors with 100% CGT exemption on qualifying shares, CGT deferral relief, and CGT reinvestment relief.

Norm Peterson

Growth Capital Ventures
Chief Executive Officer

01.

Capital gains tax: what is it and how does it work?

Individuals in the UK could face between 10% and 28% in capital gains tax on certain assets they have sold, which could significantly erode the profitability of selling an additional property or investment shares, for example.

Capital gains tax (CGT) is a levy on profit made from the disposal of certain assets.

'Disposing of' an asset is classed as selling, gifting, swapping, or receiving compensation in exchange for an asset (such as an insurance payout if your asset has been lost or destroyed).

Any financial profit realised in excess of the CGT-free personal allowance is taxed.

- As of the 2022/23 tax year, the personal allowance you could earn free from capital gains was **£12,300**.
- This allowance fell to **£6,000** at the start of the 2023/24 tax year.
- As of the 2024/25 tax year, the personal allowance is then set to halve to **£3,000**.

This emphasises the need for individuals to carefully plan when they expect to accrue capital gains, ensuring maximum use of the available allowance can be utilised each year.

Below are the marginal rates of capital gains tax in the UK as of the 2023/24 tax year, across property and other chargeable assets.

Tax Bracket	Income range	CGT rate on assets	CGT rate on property
Basic rate payer	£12,571 to £50,270	10%	18%
Higher rate payer	£50,271 to £125,140	20%	28%
Additional rate payer	Over £125,140	20%	28%

You could be subject to capital gains tax if you have sold any possessions with an individual value of more than £6,000, any business assets, any shares that are not held in CGT-efficient wrappers, or a property that is not your main home (or your main property, if you have previously let it out, or the plot is larger than one acre). These are known as chargeable assets.

02.

Reducing your capital gains tax bill

If you have attracted a significant capital gains tax bill, you may be considering potential ways to reduce the impact of this liability, such as deferring the payment or claiming relief.

Capital gains tax can be a complex tax to navigate, and without expert advice, there is a risk you could pay more of it than is required. Below are a number of options with the ability to prevent a CGT bill and ensure that as much of your wealth as possible is protected from CGT:

- Offsetting any capital losses against your gains (unused losses from previous years can often be brought forward)
- Utilising the annual ISA allowance (currently £20,000)
- Contributing to a pension (this can effectively increase the upper limit of your income tax band)
- Gifting assets to qualifying charities

However, should you have amassed a CGT bill already, you may consider reducing it and mitigating further bills by making use of Government-backed tax-efficient investment wrappers, such as the Enterprise Investment Scheme **(EIS)**, Seed Enterprise Investment Scheme **(SEIS)**, and Social Investment Tax Relief **(SITR)**.

Helping to minimise the level of CGT investors may need to pay, these three schemes offer different combinations of four primary types of capital gains tax incentives:

1. **Disposal relief** – shares are exempt from CGT when you sell them
2. **Reinvestment relief** – claim up to 50% CGT relief due on any other assets
3. **Deferral relief** – defer a CGT payment due on any other assets
4. **Loss relief** – should an investment result in a loss, offset this against your CGT bill

03.

The Enterprise Investment Scheme

Investors in EIS-qualifying companies can benefit from three main types of capital gains tax relief, enabling more wealth to be retained and the impact of the falling CGT allowance to be somewhat counteracted.

Disposal relief

Provided that your EIS shares are held for a minimum of **three years**, any gains in the value of your shares are free from capital gains tax (as well as being free from income tax). This could facilitate the opportunity for considerable tax-free investment growth over time.

Deferral relief

Deferral relief enables investors to defer an existing payment of capital gains tax due on the disposal of any type of asset (such as an additional property, or an individual possession worth over £6,000). To qualify for this relief, the gain must be invested into an EIS-qualifying company within one year before or three years after it arises. So long as the original gain remains invested in EIS-eligible shares, the original CGT bill can essentially be deferred indefinitely.

Loss relief

Should an investor incur a loss on their EIS investment, loss relief allows the investor to offset this against their overall capital gains tax bill or income tax bill – whichever is preferable.

This can be a particularly attractive relief in the context of startup investing, where investors take on a high risk/high return investment strategy, and so being able to partially mitigate the risk of losing capital is highly beneficial.

Whilst the EIS can offer investors a range of generous tax reliefs, it is important to remember that the nature of this type of investment remains high risk. Investors should not select an investment opportunity simply for the potential to receive tax reliefs, but rather based on the inherent quality and suitability of the investment opportunity itself.

03.

The Enterprise Investment Scheme

Outlined below are two example scenarios of how capital gains tax deferral relief and capital gains tax loss relief available via the EIS could work.

For example: If you have made a profit of £100,000 on the sale of a residential property, and your annual tax-free CGT allowance has already been fully utilised, you would be liable to pay £28,000 in CGT if you are a higher rate income taxpayer (based on the current rate of 28%).

However, if you invested this £100,000 capital gain into an EIS-eligible business (or a number of EIS-eligible businesses), the £28,000 capital gains tax liability wouldn't need to be paid within the same tax year, but instead could be pushed back to a later year via EIS deferral relief. **There is no upper limit on the number of years this gain can be continuously deferred and reinvested.**

Additionally, CGT deferral relief is open to all investors (both individuals and trustees).

Loss relief is another important feature of the EIS. Should an unexpected event arise that results in an EIS investment being disposed of at a loss, investors can offset this loss against their capital gains tax bill or income tax bill.

Investors are able to calculate the loss relief available by multiplying their effective loss (the value originally invested minus the return realised) by the relevant rate of capital gains tax (either 10% or 20%).

For example: Should you invest £30,000 in an EIS-eligible company and realise just £20,000 in returns upon disposal, you could then multiply your effective loss of £10,000 by your 20% rate of CGT (should you be a higher or additional rate income taxpayer) and claim £2,000 back against your CGT bill, meaning that loss relief takes this loss down to £8,000.

04.

The Seed Enterprise Investment Scheme

Investors in SEIS-eligible companies can benefit from capital gains tax exemption on their SEIS shares, CGT reinvestment relief, and loss relief.

Disposal relief

Under the condition that SEIS shares are held for a minimum of **three years**, investors can benefit from any gains made on their SEIS shares being 100% exempt from both capital gains tax and income tax, facilitating the opportunity for significant tax-free investment growth.

Reinvestment relief

One of the most generous CGT benefits available, reinvestment relief allows an SEIS investor who has profitably disposed of a chargeable asset (such as non-EIS or SEIS investment shares or a secondary property) to treat up to **50% of the gain as CGT-exempt**, should they reinvest it into SEIS-qualifying shares.

Loss relief

Should an SEIS investment face an unexpected event resulting in shares being disposed of at a loss, SEIS loss relief – as with EIS loss relief – allows investors to offset the value of this loss against their capital gains tax bill or income tax bill.

Investors must note that because the SEIS focuses on younger, 'seed-stage' companies compared to the EIS, the associated risk levels tend to be greater.

Earlier-stage companies may have less experience and stability within their market, meaning that chances of failure could be higher. As a result, investors must – as with any investment – conduct thorough due diligence and understand that returns are not guaranteed.

04.

The Seed Enterprise Investment Scheme

Highlighted below is an example of how the capital gains tax benefits offered by the SEIS could work on a £100,000 investment.

Reinvestment relief enables an individual who has disposed of a chargeable asset to treat a maximum of **50% of the gain as exempt from capital gains tax**, where they have reinvested all or part of the value of the gain in qualifying SEIS shares.

For example: If a higher rate income taxpayer disposed of a secondary residential property and realised a £100,000 capital gain, they would usually face a CGT bill of **£28,000** (according to 2023/24 rates). However, using SEIS reinvestment relief, it would be possible to reduce this liability by 50%, to **£14,000**, provided that the full sum of the £100,000 gain is invested into SEIS-qualifying shares. Although, even if the full gain isn't reinvested, up to a 50% reduction on the amount invested can still be provided.

This relief can be applied to a gain made up to five years after an SEIS investment was made. Should the investor instead wish to claim reinvestment relief on a gain that was made in the previous tax year, the SEIS is able to facilitate this too, through the carry-back feature.

Reinvestment relief can only be claimed if SEIS income tax relief has already been claimed on the investment. To achieve the full 50% reinvestment relief, you must invest in qualifying SEIS shares an amount at least equal to the chargeable gain. If you invest less, reinvestment relief is limited to half the amount invested.

Please remember: tax rules can change and the benefits available depend on individual circumstances.

> Both the EIS and SEIS are incredibly useful tools at the disposal of UK investors looking to invest in growth-focused, early-stage companies.
>
> Supporting the backbone of Britain's economy by providing growth capital for innovative companies, EIS and SEIS investments have the potential to generate superior returns – as well as long-term positive impact – all whilst offering investors a range of generous tax reliefs, helping to minimise investment risk and maximise return potential.

Dan Smith
Investor Relations Director,
GCV

05.

Social Investment Tax Relief

A much smaller-scale investment scheme modelled on the EIS, Social Investment Tax Relief (SITR) can offer tax incentives for individuals who invest into qualifying charities and social enterprises.

Disposal relief

SITR investors pay no capital gains tax on any gain realised from disposing of the investment, however income tax must be paid at the standard marginal rate on any dividends or interest earned on the investment.

Capital gains tax deferral relief

Similarly to the EIS, individuals can defer capital gains tax by investing a chargeable gain in a qualifying social investment. The CGT will only become payable when the social investment is sold or redeemed.

Loss relief

Investing via SITR can offer loss relief against your capital gains tax or income tax bill. However, with SITR, investments can be made in the form of equity or debt, and loss relief is not offered on debt. Please note, to benefit from the above tax reliefs, investors must have held their investment for at least **three years**.

SITR is the Government's tax relief for social investment in trading social enterprises. The scheme was introduced as social enterprises are often ineligible to receive investment under existing tax-efficient schemes (such as the EIS) due to their legal form.

Social enterprises are required to spend funds raised through SITR on their trade. The expectation is that the investment will help the social enterprise to carry on trading and generate profits to be used, wholly or in part, to provide a social benefit. It must be noted that this type of investment is not focused on generating superior returns, and so may not be suitable for every investor.

The tax reliefs offered by SITR can provide a substantial incentive for individuals to invest in social enterprises. However, to ensure the scheme is sustainable, continues to meet regulations, and is not open to abuse, the investment and the organisation receiving SITR must comply with certain criteria, such as receiving no more than £1.5 million of investment via the scheme over the company's lifetime.

06.

About GCV

Focusing on three core asset classes – venture capital, property and private equity – GCV Invest provides private investors with access to carefully selected, growth-focused alternative investment opportunities.

What is GCV Invest?

GCV Invest is an investment platform that brings together an online and offline network of over 700 private and institutional investors seeking to co-invest in high-growth, impact-driven opportunities. The investments we offer have the potential to deliver attractive returns and significant tax benefits for investors, alongside measurable long-term positive impact for industries and communities.

> "Building and backing ventures that transform industries and communities."

Can investments with GCV offer capital gains tax relief?

Yes, certain EIS- and SEIS-qualifying investments with GCV can offer the full range of associated capital gains tax reliefs. We prioritise thoroughly researched and carefully selected high quality tax-efficient investment opportunities for our investor network.

The benefits of investing with GCV

In addition to offering a number of highly vetted investment opportunities that can provide our investors with capital gains tax exemption, deferral relief and reinvestment relief (as well as up to 50% income tax relief and inheritance tax relief), our opportunities are positioned to create positive social and economic change.

Furthermore, we target investor returns of 10x money-on-money (MoM) for venture capital investments, 3x MoM for private equity deals over a five-year hold period, and 1.5x MoM for property investments over a two-year hold period, providing the potential for investors to access significant capital growth.

We provide our network with a select number of alternative investment opportunities each year via the GCV Invest platform. Our secure investment portal offers access to the latest opportunities, enabling you to invest online and monitor the performance of your portfolio throughout the investment lifecycle.

> Our focus is to help experienced investors build and retain their wealth by providing access to a small number of carefully selected, growth-focused alternative investment opportunities utilising tax efficient wrappers wherever possible.

Craig Peterson
Chief operating Officer,
GCV

Interested?

If you are interested in learning more about tax efficient investments and the opportunities available with GCV, you can contact us via our website or get in touch with our Investor Relations Director here:

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About the author

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Connect with Norm:

Norm Peterson, Growth Capital Ventures' Chief Executive Officer, has over 30 years of experience in alternative finance.

Norm has held senior positions in startups, mid-sized SMEs and PLCs operating across a variety of sectors, including finance, telecommunications, infrastructure and property.

Throughout his career, Norm has been involved in raising finance to support business growth and large-scale infrastructure projects.

This experience includes raising seed capital for startups, securing expansion capital (£60m) for an Internet Service Provider (ISP) and development capital for infrastructure projects. Norm is an Approved Person with the Financial Conduct Authority (FCA).

He holds the RICS Postgraduate Diploma in Project Management, studied his MBA at Bradford and completed the Oxford Private Equity Programme at Saïd Business School, University of Oxford.

Norm is also an active angel investor, with a portfolio spanning banking, fintech, HR tech and property and housebuilding.

Growth Capital Ventures

GCV is an FCA-authorised investment firm that operates a private investor network: GCV Invest.

GCV Invest brings together an online and offline network of experienced private investors and institutional investors to co-invest in growth-focused investment opportunities.

We provide access to tax efficient, impact-driven investment opportunities with the potential to deliver higher returns than many traditional investment products.

Facilitating investment across three main asset classes, we target 10x money-on-money returns for venture capital opportunities, 2.5x for private equity deals, and 1.5x for property investments.

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