NEW MONTHLY NEWSLETTER

INSIGHT

March 2018
growthfunders.com | 0330 102 5525

Providing the best hand picked **investment opportunities,** offering **EIS** and **SEIS** tax efficient investment structures

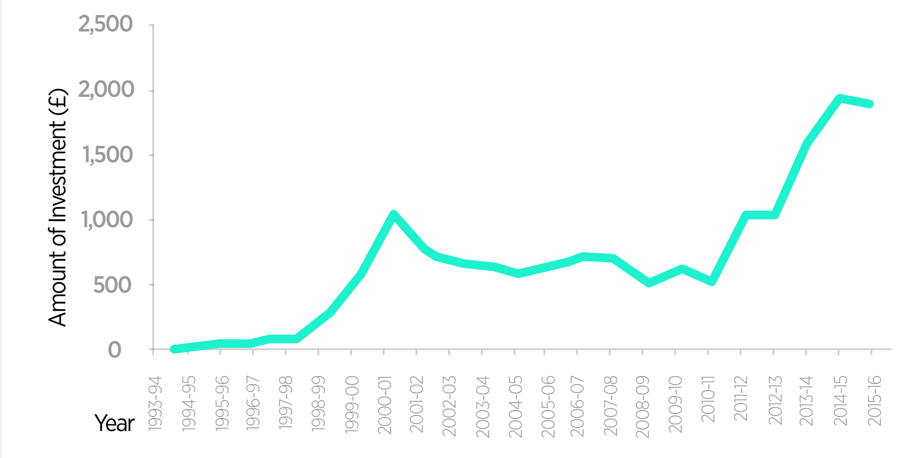
End of year tax efficient investments

With this tax year drawing to a close, ending on Thursday 5th April, many people will be taking a close look at their finances from the last year and trying to work out how much tax will be due to be paid. While it is too late to do anything about the amount of money you have made this year, it is still entirely possibly to affect the amount of tax you will owe. This is not about tax avoidance or evasion but rather tax efficient investing. This topic will therefore be at the top of the agenda for many investors.

Tax efficient investing is the process of investing while minimising the tax to be paid on that investment. This is possible through a number of government backed structures, some of which are familiar, such as ISAs or personal pensions, other less so, such as the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS). What is common is they offer a range of tax reliefs and incentives to help mitigate risks, ultimately allowing your capital to be used in funding business growth, either directly or indirectly.

> "Tax efficient investing is the process of investing while minimising the tax to be paid on that investment."

Amounts of funds raised through EIS 1993-94 to 2015-16



SEIS and EIS Angels

Beyond the tax benefits, these schemes allow many private investors to take their first steps to becoming an angel investor. As our Head of Operations and Investor Relations, Jordan Dargue, discussed recently in The Sunday Times, it is not only millionaires who are able to be angel investors. With the support of these schemes, it is possible for many to become an angel and they could even be viewed as a crucial incentive to angel investment as shown by data from the UKBAA and British Business Bank that 87% of angels who invested in 2016 used EIS or SEIS.


THE SUNDAY TIMES

"IT IS NOT ONLY MILLIONAIRES WHO ARE ABLE TO BE ANGEL INVESTORS"

This is supported by the Beauhust data which shows that despite the increase in crowdfunding, investment from recognised angel networks has continued to contribute in meaningful levels, particularly where early stage companies are raising larger levels of capital, over £500,000.

RISK WARNING

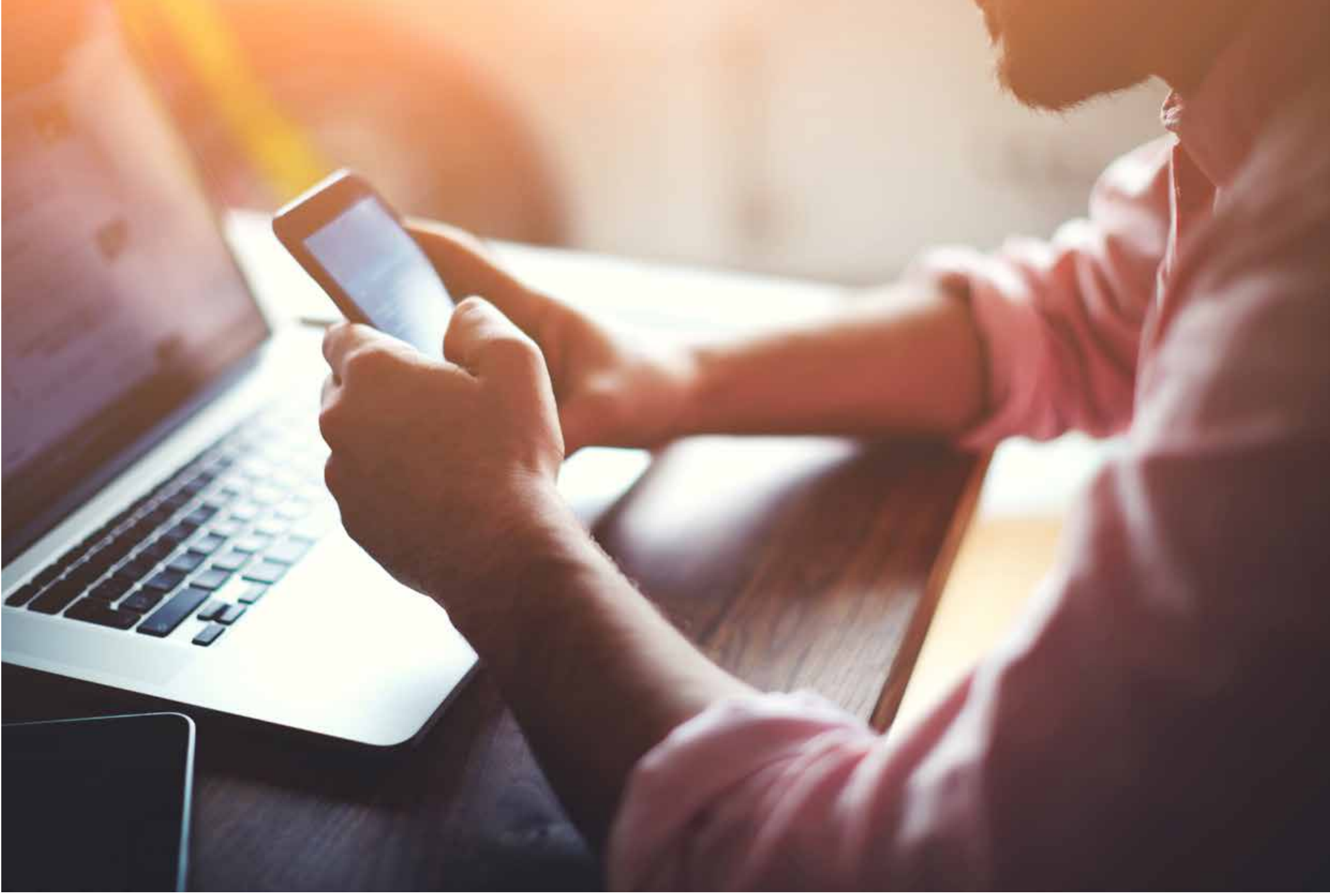
Investing in growth focused businesses and projects is a higher risk / higher return investment strategy and carries significant risks including; illiquidity, loss of capital, rarity of dividends and dilution. It should only form part of a balanced investment portfolio and is targeted at investors who are sufficiently sophisticated to understand the risks involved and are capable of making their own investment decisions.
For more information please view our Risk Policy at growthfunders.com

SEIS and EIS in 2018

Since launching in 1994 EIS has been used by in excess of 26,355 companies to raise over £16bn while a further 6,665 have raised over £621m through SEIS since 2012. This highlights the importance of these schemes in contributing to the economy by providing companies with much needed capital for growth. However, during 2017 these were under scrutiny as part of the patient capital review and many expected some withdrawal of these generous schemes. In November's Autumn Budget we were pleasantly surprised to hear that rather than withdrawing support, it would instead be extended and even increased.
This has been welcomed by investors and companies alike, ensuring benefits for both parties.
However, what has been made clear moving into 2018 is that these schemes are under scrutiny and should be used as intended to support early stage companies and innovation rather than for low-risk capital preservation.

Knowledge intensive companies

To aid investment into innovation, the EIS was expanded on in 2017's Autumn Budget to allow for greater investment into knowledge intensive companies. This increase saw the personal £1 million a year EIS cap doubled where the additional investment is made into such companies. Similarly, knowledge intensive companies saw the amount they can raise through EIS and VCT schemes doubled from £5 million in a single year to £10 million. These new limits for companies and investors apply for companies where the main source of business 10 years from the investment will come from developed intellectual property. Additionally, the company is required to spend either 10% of its operating budget on R&D in all three years before the raise or 15% in a single year.

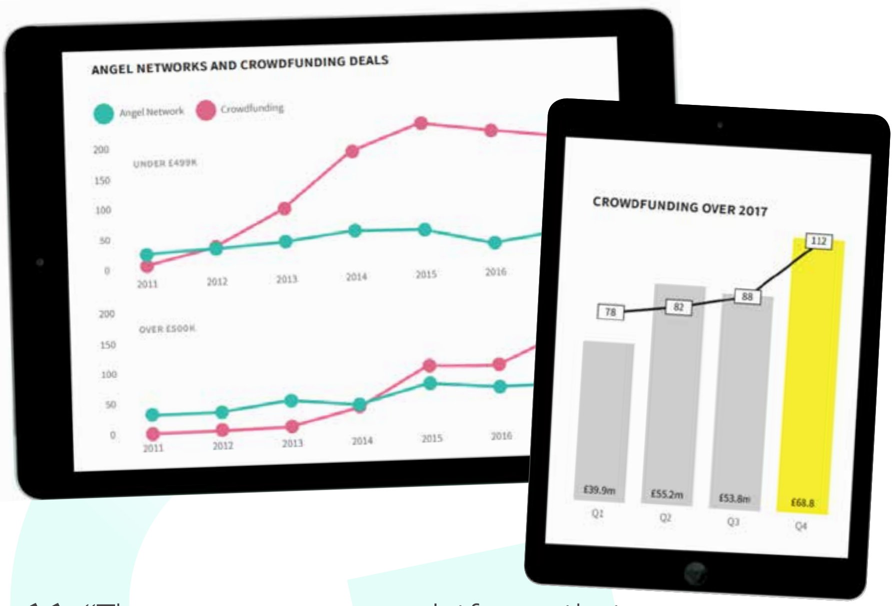


Platforms aid SEIS and EIS

One of the most overlooked or misunderstood factors in SEIS and EIS is the ease with which investments can be made. It is often thought that investing is difficult and time-consuming, particularly with early stage companies. However, with the use of technology, there are now many platforms that offer the ability to invest in these companies quickly and easily once thorough research has been completed, with the process of investing being complete in a matter of minutes.

This simplicity and speed has made investing through online platforms in SEIS and EIS investments increasingly possible. This is evident in the data from Beauhurst's latest report on early stage businesses which shows leading crowdfunding platforms account for nearly a quarter of the deals in 2017, mostly into seed and venture stage companies.

This came as part of another record year for both crowdfunding and wider early stage investment supported by these schemes with early stage businesses taking an astounding £8.3bn of investment last year.



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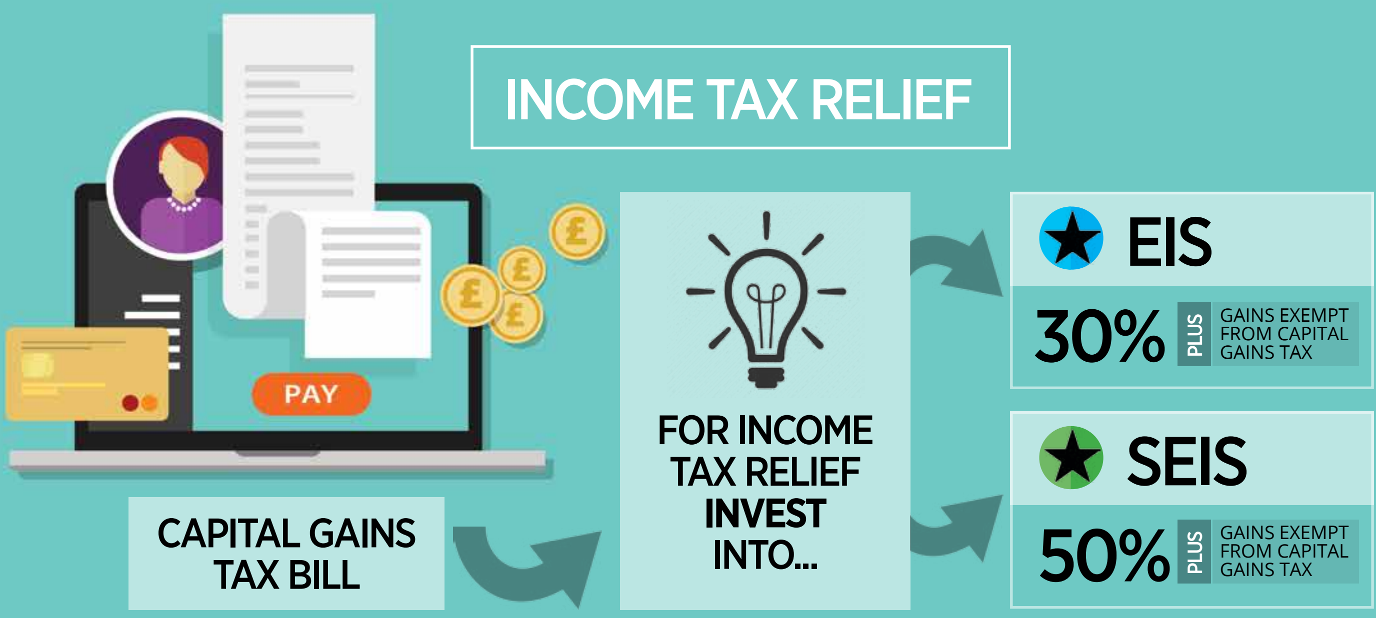

The Benefits

The most prominent tax benefit is the income tax relief - 30% for EIS and 50% for SEIS - that can be claimed on tax paid in this year. It is also possible to carry back relief and make an investment that will not be issued until after 5th April but to claim against this year. Additionally, any capital gain from these investments will be free from tax should they be disposed of (at least after three years, in 2020/2021). Where the schemes differ most is in the treatment of capital gains owed. For SEIS, if you have a capital gains tax bill for 2017/18, these gains can be reinvested to make 50% exempt from CGT when invested in an SEIS eligible company.

Conversely EIS offers the deferral relief, which allows the capital gain liability to be deferred up to the point of disposal of the EIS shares. This is particularly interesting at this time of year if you know you will have a CGT liability in 2017/18 as if this is reinvested in EIS now, that gain will be viewed as having occurred when the shares should they be disposed of, after at least three years. With the increase in CGT allowance for 2018 announced in November, this allows more of the capital gain to be exempt from tax when it is disposed.

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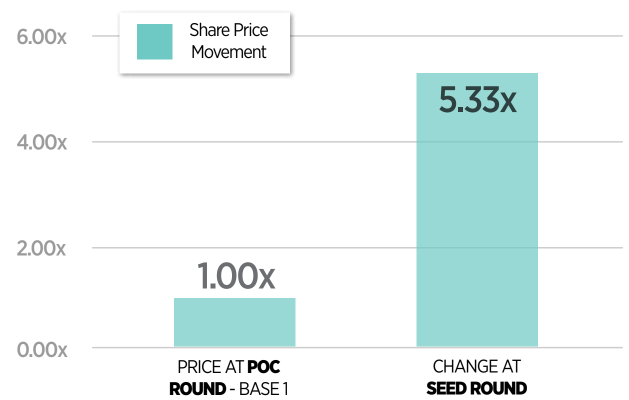
SEIS and EIS at GCV

At Growth Capital Ventures, we are keen to back the next generation of British businesses that have the potential to grow and deliver an impact, while also ensuring a healthy return for investors. This is the reason we are strong supporters of these schemes and angel investment. Our portfolio contains a number of companies that have used both SEIS and EIS investment to achieve growth, often from SEIS to EIS round, demonstrated by the increase in share price from round to round.

One recent example is Intelligence Fusion, who closed their EIS eligible second round earlier this year, raising over £485,000, and previously completed an SEIS-eligible round in 2015, raising £22,500 to develop the proof of concept (POC).

Intelligence Fusion used a co-investment model to attract investment from institutional investors, angels and through the online platforms at GrowthFunders and Crowdcube.

Change in share price - based on pre-money valuation



Intelligence Fusion directly benefited from this investment, realising a growth in pre-money valuation from £150,000 to £800,000 between these two rounds, representing a 5.33x increase, as shown above.

GrowthCapitalVentures GrowthFunders GrowthLenders G.Labs G.VENTURES INVESTOR CLUB

To discuss any of the schemes further email **jordan.dargue@growthcapitalventures.co.uk** or call **0330 102 5525**