

AMERSHAM GROWTH FUND



Government approved tax advantaged EIS & SEIS Fund Investing

This is a briefing note concerning some aspects of UK tax-advantage investing.

Tax provisions change, and eligibility depends on any individual investor's personal circumstances and professional advice is recommended.

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Briefing note looking at Income & Capital Gains tax relief for Investors in SEIS & EIS Managed Funds

There has been much written on the nature and extent of the current tax “breaks” given to UK taxpayers who choose to invest in Start Up and growing UK companies which are qualifying companies under Enterprise Investment Scheme (“EIS”) and Seed Enterprise Investment Scheme (“SEIS”) legislation that has been introduced over the past few years to aid the growth and development of UK business particularly in the absence of banking finance for these start up and fledgling growth business. The tax reliefs are subject to individual personal circumstances and may change.

In summary the generous tax reliefs that are currently available for investors are as follows::

EFFECT	TAX	EIS	SEIS
Reduce tax liability for current or prior year to Investment date	Income Tax	30% of investment £ is reclaimed from Income tax owing or paid ¹	50% £ is reclaimed from Income tax owing or paid ²
	Capital Gains Tax	100% deferral relief on chargeable gains up to the value of the investment £, for the life of the Investment	50% Reinvestment relief which directly reduces a CGT charge by 50% of the invested amount
Further relief specific to the performance of the Investment	Income Tax	If an Investee Company fails, in both EIS and SEIS cases, the investment £ made, less reliefs already claimed, is available for additional loss relief at the taxpayers' highest marginal rate of tax	
	Capital Gains Tax	All profits on the investment are 100% exempt from Capital Gains Tax provided the shares are held for a minimum three year period	

¹ For the current tax year 2019/2020 the maximum amount that can be invested in the tax year is £1,000,000 for each qualifying tax paying Investor. From 2018/2019 there are higher limits for EIS investments in “knowledge intensive” companies.

² For the current tax year 2019/2020 the maximum amount that can be invested in the tax year into SEIS qualifying companies is £100,000 for each qualifying tax paying investor.

In addition, in both Income Tax and Capital Gains Tax cases, as the EIS and SEIS reliefs are reducer reliefs, they have a cash flow benefit for the tax payer in that “on account” payments for the following year, where applicable, are automatically reduced by the amount of the tax saved.

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Analysis

As an Investment Management Firm authorised and regulated by the FCA (Firm Reference Number 507460), Amersham Investment Management (“Amersham”) specialises in the EIS and SEIS marketplace. Amersham believes the tax reducer reliefs that are readily available, offer significant benefits for Investors able to take advantage of Amersham’s qualified pipeline opportunities that are ready for investment.

Investments made up until 5th April 2020 can (depending on each individual’s circumstances) be carried back to the tax year 2018/2019 where they will have an immediate tax saving benefit for a taxpayer. This is especially the case where qualifying investments are made (and the relevant S/EIS certificate is obtained from HMRC) before 31 January 2021, the 2019/2020 self assessment tax return filing deadline.

Amersham’s Approach to Company selection

Deal pipeline and selection for investment are critical components of our strategy because, in general, we believe it can be quite chillingly easy to invest funds but much harder to achieve a successful exit.

Deal pipeline typically comes from our network of trusted advisors and folk we work with on a regular basis. These specialists will typically look at the commercial side of a company before they pass the opportunity into our orbit for consideration.

Once an opportunity reaches us, we carry out preliminary checks against certain criteria we apply to any possible investment proposition which must be passed prior to moving on to the next stage.

If the opportunity has passed these preliminary checks – Gate 1 – in our process, we turn towards consideration of the valuation and the cash requirements of the prospective investee company. Assuming all of these elements – Gate 2 – also meet our requirements, the putative transaction proceeds to Heads of Terms and is subject to formal due diligence review. The Heads of Terms Agreement typically includes a commitment to pay abort costs should the investee company, subsequent to our conditional offer and entering the Heads of Terms, chose to move to another provider or withdraw from participation. Due diligence (“DD”) covers the following elements: Legal, technical, financial and commercial. All these have an equal weighting in our DD processes and constitute Gate 3. Investment will not take place should any element of the process fail our review. Amersham utilise the services of our professional partners, where necessary and appropriate, to ensure relevant domain expertise is applied in the review.

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We aim to develop a pipeline slate of opportunities which are capable of Investment Committee consideration for approval usually twice a year. Approval by the Investment Committee is Gate 4, the final stage. Following a successful outcome of the Investment process we will create a 'mini portfolio', typically of 3-5 companies in which EIS or SEIS investments are made for a cohort of investors, thereby creating a level of diversification for those investors.

To assist investors, Amersham provide a preference form to consider when making an application to subscribe funds for investment; this way should an investor indicate a preference not to invest in a particular sector (for example in Film or Mobile Gaming) then these preferences can be taken into account when allocating investments.

Following completion of the transaction documentation and close, our investee companies move into our investment monitoring process as they grow and develop, which may include additional follow-on rounds of investment.

AMERSHAM GROWTH FUND FAQ's:

Why may using a Fund Manager offer significant benefits to Investors?

1. *Familiarity with process requirements.*

Many investors entertain and make direct investments into EIS & SEIS qualifying Companies. This can particularly make sense where the investor is, say, acting in an active 'angel' capacity and knows the company and its business very well. However, where that is not the case, Amersham considers investors' best interests can be better served by a Fund Manager being involved in all stages of the investment process - from origination of the opportunity, assessing its investment readiness and making the initial investment through progress monitoring and at the end of the investment period on to exit negotiation and execution of the sale transaction.

Keeping abreast of developments in regulatory matters that affect SEIS and EIS together with evolving tax code provisions affecting tax-advantaged venture capital is also vital and Amersham, as a member firm of EISA, takes this aspect very seriously.

2. *Administrative streamlining.*

Amersham uses a (regulated) Custodian's Nominee to hold shares in investee companies. This allows the Investee Company to have one shareholder (represented by Amersham) to address in all corporate actions and discussions affecting corporate actions.

Similarly, the Investors have one entity (Amersham) acting as their formal representative monitoring and managing their investment, providing regular updates and a voice in the company's development and growth.

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3. *Strengthen the negotiation position for exits.*

When the time comes to realise the investment, the Fund's shareholding will be sold as a block rather than in a piecemeal method, with the Fund Manager acting as corporate financier for the transaction. Being able to affect a 'block trade' is a valuable consideration in negotiations and can help to maximise individual investor's interests, rather than individual investors having to act in isolation and possibly in areas where one or more may lack particular relevant expertise.

4. *Added investor protection.*

By investing through an FCA authorised and regulated fund manager, eligible investors gain certain protections afforded by the Financial Services Compensation Scheme.

FINALLY, AMERSHAM FEES and COSTS

Fees and Costs

Wherever possible, but not in every circumstance, Amersham's fees and costs are paid by the Investee Company rather than by the Investors. Amersham's annual fund management fees are, depending on the size of the investment, 2% of the funds invested, plus 3rd party costs for EIS investee companies and £3k or 2% for SEIS investee companies. In addition, there are transaction charges for due diligence and the investment process which are agreed with each investee company on a case by case basis.

In accordance with the terms of the Fund's Information Memorandum, Performance and exit transaction fees are payable by investors on exit of an investment. However, performance fees require a hurdle test to be passed so that investors receive their returns first.

Full details on fees and charges are set out in the Amersham Growth Fund's Information Memorandum.

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Details of the the Seed Enterprise Investment Scheme & Enterprise Investment Scheme

The Seed Enterprise Investment Scheme (“SEIS”) was introduced by the UK Government in 2012, the Enterprise Investment Scheme (“EIS”) was introduced by the UK Government in 1994, as a successor to the Business Expansion scheme. Both SEIS and EIS were introduced to enable seed and smaller start-up companies to raise finance and to grow and develop into enterprises positively contributing the UK economy by offering various tax benefits to those investors purchasing new shares in qualifying companies.

Amersham believe the quality of the products and services opportunities in the UK and in the founders and talent available are amongst the most important factors when investing; however, the tax benefits afforded by the SEIS and EIS schemes afford a means to achieve tax advantaged returns for the investor. SEIS and EIS rules for investing are strict and well defined, including a minimum three-year investment period in any qualifying company.

In addition, qualifying funds must only be used for working capital and development purposes. These terms have been recently re-defined by HMRC following the conclusion of the HM Treasury’s Patient Capital review in November 2017.

The Amersham Growth Fund proposition is to find medium term investment opportunities with therefore, typically a minimum four-year “lock-in” expectation for investors and investors should be prepared to hold their investments for, say, 5 years or longer, as follow on funding may also be time-determined.

An investment objective will be for investors to exit the underlying investments after at least the minimum “lock-in” period for each underlying investee company. SEIS and or EIS relief will be available in respect of the development and expansion of the invested companies while, wherever possible, banking finance and non-EIS qualifying monies may also be used to further develop intellectual property along with other assets developed and put forward by each portfolio company.

Amersham usually requires investee companies, prior to investment, to seek and receive HMRC Advance Assurance regarding eligibility for SEIS and or EIS relief. Amersham believes it is of prime importance that investors be able to claim SEIS and or EIS relief back as soon as possible on their investment, but all investors should be aware that de-minimis rules apply with regards to length of trade to allow SEIS compliance statements to be submitted to HMRC, although this is not a requirement for EIS only investee companies.

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The following is a short summary of some of the key tax advantages that may be claimed by investors depending on their individual circumstances. Investors should also be aware their capital is at risk. Such tax advantages are based on current UK legislation which may change from time to time and include:

Income tax relief

SEIS: Up to 50% income tax relief on an investor's subscription into the SEIS qualifying companies is available on an aggregate maximum qualifying Investment of £100,000 in the tax year ended 5 April 2020, subject to the investor having paid sufficient tax for the year. Income Tax relief for an SEIS investment cannot exceed an investor's income tax liability for the year but can be carried back to the preceding tax year provided the limit for relief was not exceeded in that earlier year.

EIS: Up to 30% income tax relief on an investor's subscription into the EIS qualifying companies is available on an aggregate maximum Qualifying Investment of up to £2,000,000 (for knowledge-intensive companies), £1,000,000 for all other companies in the tax year ended 5 April 2020, subject to the investor's individual tax liability for the year in which the shares are issued.

Investors are also able to carry back an EIS subscription to the preceding tax year provided the limit for relief was not exceeded in that earlier year.

Capital gains tax re-investment relief

SEIS: An individual can claim exemption for half of a capital gain realised in the tax year that is reinvested in the same tax year in qualifying SEIS investments, saving up to 14% in capital gains tax (CGT). CGT re-investment relief is only available if the conditions for receiving income tax relief on the investment are met. Provided the SEIS shares are held for at least three years before being disposed of, and income tax relief has been given and not withdrawn, half of the gain re-invested will not come back into charge.

EIS: An individual can claim deferral relief in respect of a capital gain realised in the 36 months before or 12 months after the Qualifying Investment is made. Deferral relief is available on all for amounts up to the total amount invested in qualifying EIS investments. CGT re-investment relief is available if the conditions for receiving income tax relief on the investment are not met.

Provided the EIS shares are held for at least three years before being disposed of, and income tax relief has been given and not withdrawn, half of the gain re-invested will not come back into charge.

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Exemption from capital gains tax

Any capital gains realised on a disposal of shares in a SEIS or EIS qualifying company after the three year period, during which SEIS and or EIS shares are held and on which SEIS and or EIS income tax relief has been given and not withdrawn, will be capital gains tax free.

Inheritance tax exemption

The value of investments which qualify under provisions to enable them to be exempt from IHT that have been held for two years or more at the date of death should qualify for IHT business property relief and, under existing legislation, proceeds received on exit from the portfolio company can be reinvested into IHT qualifying companies to maintain the IHT-free status.

Loss relief

A loss on any SEIS qualifying shares due either to disposal at a loss or the shares becoming of negligible value can be offset against other taxable income restricted for the income tax relief received on subscription. Taken together with the initial income tax relief of 50%, even if their investment was to fall to zero, for a current 45% tax payer, this represents reliefs totalling up to 72.5%, ignoring any CGT saving they may have received as well. If 14% CGT relief has also been received, the tax relief could potentially be 86.5p for each £1 invested.

A loss on any EIS qualifying shares due either to disposal at a loss or the shares becoming of negligible value can be offset against other taxable income restricted for the income tax relief received on subscription. Taken together with the initial income tax relief of 30%, even if their investment was to fall to zero, for a current 45% tax payer, this represents reliefs totalling up to 61.5%, ignoring any CGT saving they may have received as well. If 28% CGT deferral relief has also been received, and the deferred gain is brought back at 20% the tax relief could potentially be 69.5p for each £1 invested.

Connected persons: Individuals connected with the portfolio company (including employees) will not be able to claim income tax relief or capital gains tax exemption. For this reason, investments into a Qualifying Company will be limited to 30% of the shares issued in that Qualifying Company by any one individual investor.

Please understand that the information above sets out a very brief summary of the current UK SEIS/EIS tax reliefs.

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Further details are set out in the Amersham Growth Fund's Information Memorandum. The value of the tax reliefs will depend on personal circumstances, which may change. References to tax are based upon current legislation and HMRC practice, which might be subject to change in the future.

CAPITAL AT RISK. PLEASE SEE THE RISKS SECTION OF THE FUND'S INFORMATION MEMORANDUM.

In addition, the availability of tax reliefs depends on the portfolio companies maintaining their qualifying status. Please refer to the HM Revenue & Customs website for further guidance on the tax reliefs available on SEIS/EIS investments or consult your tax adviser.

For further information regarding EIS/SEIS investing through Amersham and the opportunities we have available please contact us.

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