Crowdfunding

Providing an alternative to conventional financing, crowdfunding has risen in popularity in recent years. The process involves a number of people each investing, contributing or lending money to a new business, often in small amounts.

This financing option enables a company to attract outside investment from the wider population and also helps to prove the concept of a new product.

The main types of crowdfunding available are discussed below:

Rewards crowdfunding

Platforms such as Kickstarter and Indiegogo enable start-ups to raise finance relatively cheaply. People who invest and contribute towards a business are compensated with a reward in the form of the product or service the company is selling. This format enables such companies to market their products and build followers, without giving away equity. This type of crowdfunding is common in creative industries.

Equity crowdfunding

Equity crowdfunding sees money exchanged for company equity, or ownership, as opposed to products or services. A start-up will decide on the amount of money it is looking to raise in exchange for a percentage of its company. The amount owned by investors is proportionate to their level of contribution. Seedrs and Crowdcube are the UK's leading platforms for this type of crowdfunding.

Lending crowdfunding

Lending crowdfunding enables companies to connect with funders looking for a good return via an online platform, as an alternative to traditional bank lending services such as Funding Circle, LendingCrowd and Market Invoice. A recent review of the alternative investment market shows that peer-to-peer business lending is the largest segment of the market, but equity crowdfunding is the fastest growing.

Aggregators

There are a number of comparison and review sites available which compare the crowdfunding platforms. These allow hundreds of offerings from sites to be viewed side-by-side, to help businesses find the best options available.

Why do people invest?

Crowdfunding investors can be excited by the product or service on offer, but are often more interested in the likely return on their investment, an assessment of the risks involved and the exit strategy for their investment. Preparing an achievable and detailed business plan and a good investor deck is therefore key to a successful crowdfunding campaign.

Tax Relief

There are a number of tax incentives for investing in a new company, such as the Seed Enterprise Investment Scheme ("SEIS") and Enterprise Investment Scheme ("EIS") which can be obtained in conjunction with certain crowdfunding options. If a company is a qualifying company for these tax incentives, it makes an equity investment more attractive, reducing the financial risk of quallifying investors who are issued new shares in the company.

Whether crowdfunding is right for your business and which path to take very much depends on the circumstances. There are different costs, risks and returns involved with all the options compared to traditional lending or obtaining angel investment.

How Blick Rothenberg can help?

We can provide the following services:

- Advice on the types of fundraising available
- A review of your company for EIS/SEIS and regular compliance checks
- Assistance with business plans/forecasts
- General business advisory and tax services

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