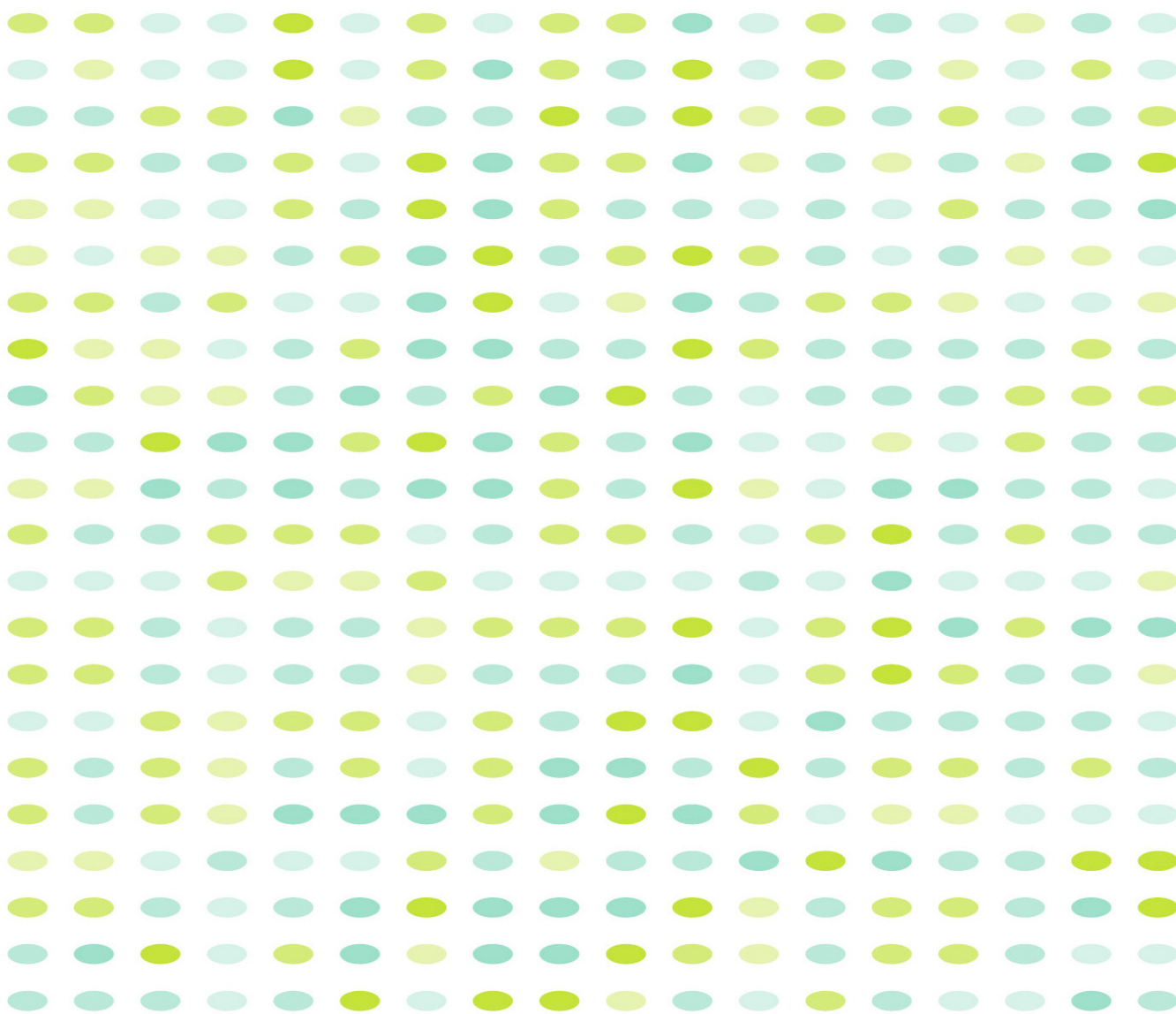


SWAIN guide to using private pension funds for Angel investment



In conjunction with:

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The South West Angel Investor Network (SWAIN) connects private investors or “Business Angels” with companies looking for investment.

SWAIN specialises in helping small and medium sized companies to find equity finance, and assists private investors in the South West to search for investment opportunities in businesses with growth potential.

The following guide has been produced to help you understand the issues involved in negotiating the right deal for you. It is especially targeted toward the process of achieving investment and has a bias toward those seeking such investment rather those seeking to invest (although inevitably Business Angels will find the content of interest).

Since April 2007, it has been possible to use your pension fund to invest in private company shares.

The vehicle for this is a Self Invested Personal Pension (SIPP). Experts in this area are Ovation Finance Limited. Chris Budd, the managing director, explains.

“For many people, pensions are ‘dead’ money. They languish in insurance company funds, rarely checked on, and unloved.

“A SIPP is an ideal vehicle for consolidating one’s pension arrangements, and actively managing the funds. This could include applying a management process, spreading the investment around various sectors, investing in commercial property, and so on. Of growing interest, however, is the possibility of investing in private company shares.”

Great care must be taken in choosing the trustee for your SIPP, however. There are a number of rules that apply, for example the member of the SIPP must not be a controlling director, and the SIPP and member (plus connected parties e.g. spouse) combined cannot own more than 20% of the company. Whilst this should not be a problem for most SWAIN investors, it does lead to possible problems in the future. Chris Budd comments.

“Whilst many unquoted equity deals will fulfil the criteria at outset, many trustees are extremely concerned that the rules can be breached after the initial purchase without them knowing. For example, say an individual purchases 5% of a company’s shares himself, and another 10% through his SIPP. Let us then suppose that, two years later, the individual purchases a further 20% of the company personally. He will now be a controlling director, and the rules will have been breached, and yet the trustees of the SIPP would have been unaware of this.

“The net result would be significant tax charges both to the pension fund – of up to 55% – but also to the trustees of 15% of the investment. We can therefore see why many trustees are refusing unquoted equity investments.”

There are a few trustees of SIPPs who will still allow such investments, however, clearly, careful advice needs to be sought on this area.

Another interesting comparison is to be made between the tax position of a SIPP, and that of EIS relief. This can be summarised in the following table:

	SIPP	EIS
Tax relief?	Up to 40% (on contribution to pension)	20%
Minimum period?	None	3 years
Restriction on Investor	Must not be controlling director (owning more than 20%)	Must not be connected (owning more than 30%) nor must provide more than 30% net assets
Capital gains tax?	None (other than small amount of withholding tax on dividends)	None (but subject to certain criteria)
Loss relief?	No	Yes (against personal income or capital gains tax)
Clawback of relief?	No	Possibly e.g. if company liquidates within 3 years
Restriction on investment?	100% earnings per annum	£500k per annum
Exit route from investment?	No restriction (but proceeds remain property of pension fund)	Trade sale, floatation or liquidation

Whether you are looking to unlock existing pensions, gain tax relief on your investment, or a combination of both, it is clear that a SIPP has a part to play for many SWAIN angels. A final comment from Chris Budd.

“Considering that for many people their pension fund will be their second or third largest asset (behind the house and maybe their business), it is shocking how many pension funds languish in insurance companies. For example, many With Profit funds are paying annual bonuses of anything between 0% to 2%. The first stage should be a review of the existing pensions, preferably by a fee based advisor who will charge on an hourly rate.

“These assets can then, hopefully, be released, and used to be much more proactive investing, including unquoted equities.”

If you require further information on how SIPPs work, Ovation Finance Limited can be contacted on 0117 942 4333.

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