

Business Angel Investment

Business Information Factsheet

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Introduction

Business angels are high-net-worth individuals who invest their own money in start-ups and early-stage businesses. In addition to their investment, angels provide mentoring, support and access to their network of industry connections.

Business angels either invest alone or as part of a syndicate. According to the UK Business Angels Association (UKBAA), the typical amount invested by individual angels is between £5,000 and £500,000.

In exchange for their investment, angels receive equity (shares in the business), which means that angel investment is only available to limited companies. The amount of equity that angels receive varies widely, but is usually around 10% to 30%.

This factsheet provides examples of organisations that help smaller businesses seeking investment to connect with angels. It also outlines some of the due diligence checks that are typically carried out by angels and business owners before any investment is made. It summarises the enterprise investment schemes that provide tax benefits to angels who invest in businesses.

The factsheet is intended as a starting point only. It is important to take professional legal and financial advice before making any decisions relating to business investment.

Angel networks

The UKBAA provides a directory of angel investors, as well as networking events and an online investment platform to connect investors and business owners. For more information about the support that it offers to business owners seeking investment, go to <https://ukbaa.org.uk/entrepreneurs>.

There are also numerous angel investment networks that connect business owners with suitable investors. Examples include the following:

- Investors (<https://investors.envestry.com>).
- Equity Gap (www.equitygap.co.uk).
- Wealth Club (www.wealthclub.co.uk).
- Kelvin Capital (www.kelvincapital.com).

Due diligence

Angel investors carry out a wide range of due diligence checks before investing in a business. They expect business owners seeking investment to provide a business plan and key business records such as balance sheet, cash flow forecast, articles of association, any existing shareholder agreement and evidence of intellectual property rights and other assets.

Angels typically carry out their own independent research to assess a company's financial position, the viability of its business plan and the potential return on their investment.

Business owners also carry out thorough checks on potential investors before entering into an investment agreement. This enables them to find out as much as possible about the business angel's previous track record as an investor, the level of mentoring and support that they are prepared to provide, their experience in relevant business sectors and their network of contacts.

They can also check that the investor has self-certified as either a 'high-net-worth individual' or a 'sophisticated investor' in accordance with rules set out by the Financial Conduct Authority. For more information about self-certification, go to <https://ukbaa.org.uk/resources/what-is-certified-hnwi-and-a-certified-sophisticated-investor>.

Enterprise investment schemes

The Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), which are operated by HM Revenue & Customs (HMRC), help businesses raise equity finance by providing investors with tax benefits. These benefits include income tax relief (at a rate of 30% under the EIS or 50% under the SEIS), capital gains tax relief and tax relief on losses.

To be eligible to issue shares that qualify for tax relief under these schemes, a business must meet a range of conditions. For example, under EIS rules, the business must have been trading for less than seven years and have fewer than 250 employees. Under SEIS rules, it must have been trading for less than three years and have fewer than 25 employees.

Under both schemes, the maximum amount of equity that an investor can have in the business is 30%, and their investment must be for a minimum period of three years.

Useful resources

The UK Business Angels Association (UKBAA) is a trade body for angel and early-stage investment. Members include business angel networks and syndicates, individual investors, equity investment platforms, universities and accelerators.

<https://ukbaa.org.uk>

'Angel Investment Checklist'

British Business Bank

www.british-business-bank.co.uk/business-guidance/guidance-articles/finance/angel-checklist

'What is Angel Investing? A Definitive Guide'

Sage

www.sage.com/en-gb/blog/what-is-angel-investing-definitive-guide

'Apply to Use the Seed Enterprise Investment Scheme to Raise Money for your Company'

HMRC

www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme

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HMRC

www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme

Related factsheets

BIF040 Sources of Finance for Starting a Business

BIF062 Financing a Business with Venture Capital

BIF496 Seed Enterprise Investment Scheme (SEIS)

BIF497 Enterprise Investment Scheme (EIS)

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