CROWD FOR ANGELS

Be an Angel, Fund a UK Company

The Ultimate Guide to the Innovative Finance ISA (IF-ISA)

Crowd for Angels (UK) Limited
8 Little Trinity Lane, London, EC4V 2AN
Telephone: 0207 437 2413
Email: info@crowdforangels.com
Website: www.crowdforangels.com

What is an ISA?

An ISA is an Individual Savings Account. It works like a normal savings account, except you don't pay any UK income or capital gains tax.

Different types of ISAs offer various ways to save and invest.

- A Cash ISA or a Junior Cash ISA is for saving cash only, without investing.
- With a Stocks and Shares ISA you can buy shares, funds and other types of investments.
- An Innovative Finance ISA is for investments such as peer-to-peer lending and crowdfunding debentures.
- A Lifetime ISA is for saving for your first home or retirement, and can be used to hold cash, shares, funds and other investments. You can only open one if you're between 18 and 39 years old.

What is the ISA allowance?

Each tax year (6 April to 5 April), there's a limited amount of money you can put in an ISA. This limit is set by the government and is called the ISA allowance.

In the 2021/2022 tax year, **the allowance is £20,000.** Which is expected to remain the same in the forthcoming years.

You can split the ISA allowance across different types of ISAs, but you can only add money to one ISA of each type in a tax year. However, lifetime ISAs work differently.

It's a good idea to use as much of the ISA allowance as you can, because that way you'll be making the most of the ISA tax break for your money.

The deadline for adding money to your ISA each tax year is midnight 5 April.
Tax rules can change and their benefits depend on your circumstances.

More Details on the Innovative Finance ISA

In reaction to the increased popularity of alternative finance, and in particular peer-to-peer (P2P) lending and crowdfunding, the government launched the Innovative Finance ISA (otherwise known as the IF-ISA) on 6th April 2016. The IF-ISA enables investors to use any or all of their annual allowance to invest in P2P loans, with any interest received being tax free. Debt securities issued by crowdfunding companies, such as Crowd for Angels, became eligible for inclusion in the IF-ISA on 1st November 2016.

As we write there are only a handful of providers who offer the IF-ISA as many platforms are yet to receive full authorisation from the regulator, the Financial Conduct Authority, along with the required permission from HMRC. Crowd for Angels, a leading investment-based crowdfunding platform, is one such company which is able to provide the IF-ISA, with a range of diverse “crowd bonds” available to its investors.

“They’re a half-way house between a cash ISA, which is safe, but very low return, and a Stocks and Shares ISA, which is a bit more racy, and where you carry more risk,”
Christine Farnish, chair of the P2P Finance Association

Peer-to-peer loans and crowdfunded debt securities have grown in popularity over the past few years as both lenders and borrowers are able to enjoy a better deal by using the low cost internet platforms which they are arranged through. Crowdfunded debt securities (or “crowd bonds” as they are branded on the Crowd for Angels platform work in a similar way to other crowdfunding products, whereby a large number of investors come together and collectively raise money for companies looking for loans.

What are the Benefits of the IF-ISA?

Potential for Higher Returns:

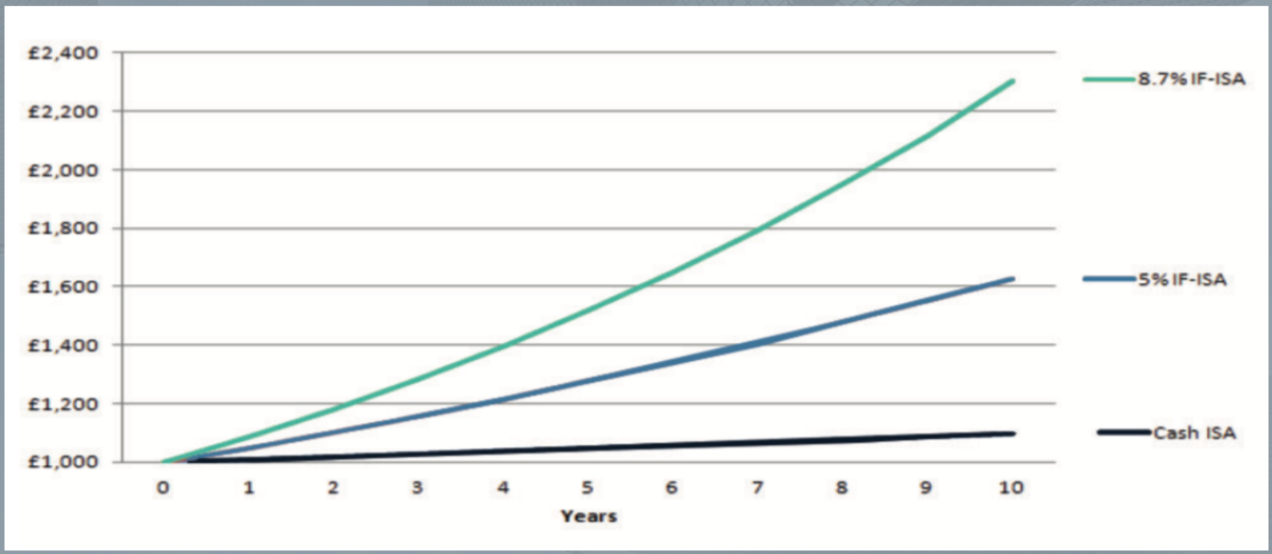
It’s no secret that Cash ISAs currently offer pitiful rates of return. Following the most recent Bank of England base rate cut in August 2016 rates have plunged to fresh lows, with figures from moneyfacts.co.uk suggesting an average one year Cash ISA rate of just 0.64% was on offer in February 2017. Combined with the government also introducing a Personal Savings Allowance, which allows basic rate tax payers to earn £1,000 in savings income tax free, there is even a debate that the Cash ISA has become almost redundant.

In contrast, the IF-ISA offers the potential for significantly higher rates of return in comparison to the Cash ISA. The main reason for this is related to risk.

If you lend your money to companies via crowd bonds there is the risk that the borrower might not be able to pay back the money or be able to cover the interest payments. So the higher returns offered compensate for that fact. The more risky a company is considered to be the higher the interest rate it will have to offer in order to attract investors.

Returns on the IF-ISA are also boosted by the efficiency of the platforms that provide them. Crowdfunding platforms such as Crowd for Angels use technology to power and automate their operations so do not require large corporate offices or huge administration teams, unlike the big banks. As such, they are able to pass on the benefits of these lower costs by way of higher returns for investors.

Amongst the current IF-ISAs on the market target rates of return range average between 5% and 8.7%, with returns varying according to a number of factors. Over time, assuming these rates are met, IF-ISA investors therefore have the potential to grow their savings to a much higher value than they could by investing in a Cash ISA. The compounding effects of this are shown in the chart below.



At the end of 10 years a Cash ISA investor who deposited an initial £1,000, earning 0.64% annual interest, would have grown their money to just £1,066. In comparison, £1,000 put into the 8.7% IF-ISA would have grown to £2,303, assuming re-investment of interest at the target rate.

Tax Benefits:

As mentioned above, the whole point of the ISA is to give savers a tax free “wrap- per” to put their investments into. To quantify the tax savings, a basic (20%) rate paying investor using the whole of their £15,240 allowance in the 8.7% IF-ISA would make an annual tax saving of just over £265 (on top of their £1,000 personal allowance). A higher (40%) rate taxpayer would make an effective saving of just over £530 to add to their personal allowance of £500.

Diversification:

Given their risk profile, peer-to-peer loans and crowdfunded debt securities can be considered to be a separate asset class, thus helping investors to spread their investments and diversify their portfolios. Many IF-ISA providers offer investors the opportunity to choose between loans to different companies and different types of loans with different maturities, thus helping to spread risks further.

While investors can only subscribe funds to one IF-ISA in any tax year they are not limited to investing in only one crowd bond, thus helping to diversify risk.

Transfers provide flexibility:

Just like with any other ISA, you can transfer your IF-ISA from one provider to another at any time. You can transfer your savings to a different type of ISA, such as from the IF-iSA to a Cash ISA, or to the same type of ISA. For money you invested in previous years, you can choose to transfer all or part of your savings. However, if you want to transfer money you've invested in an ISA during the current year, you must transfer all of it – this is in line with the rule that only one IF-ISA can be subscribed to in any one tax year.

To switch providers contact the ISA provider you want to move to and fill out an ISA transfer form to move your account. If you withdraw the money without doing this, you won't be able to reinvest that part of your tax-free allowance again. Don't forget to check with your provider for any restrictions they may have on transferring ISAs. They may also make you pay a charge.

What are the Downsides of the IF-ISA?

Higher Risks:

As with all investments, the higher the potential reward the higher the risk. In a worst case scenario, companies and individuals who take out loans may not be able to pay them back. In that situation investors who lent the money may lose some or all of their investment and also the future interest payments which were due. In other words, both capital and unearned income are at risk.

Lack of Liquidity:

If an investor requires access to their cash it may not be possible to liquidate loans by selling them to other investors. Although some platforms offer this feature it can't be guaranteed that other investors will want to buy the loans and you may have to pay a fee to sell them in this way. As such, all loans should be seen as long- term investments and not be treated as an instant access savings account.

No FCSC Protection:

Loans eligible for the IF-ISA are not covered by the Financial Services Compensation Scheme – a kind of insurance policy which provides a degree of protection to savers and investors in the event that a financial services provider goes bust. This is in contrast to deposits in Cash ISAs which are protected up to £75,000 and Stocks & Shares ISAs, which have a compensation limit of £50,000.

Variable Returns:

Rates publicised alongside the various IF-ISAs on the market are often an estimate or an average rate based on a number of factors. They may not include additional variables such as bad debts and fees. Also, investors themselves may choose to invest in loans offering a lower rate. As such, they could receive a rate of interest on their IF- ISA which is lower than the target rate.

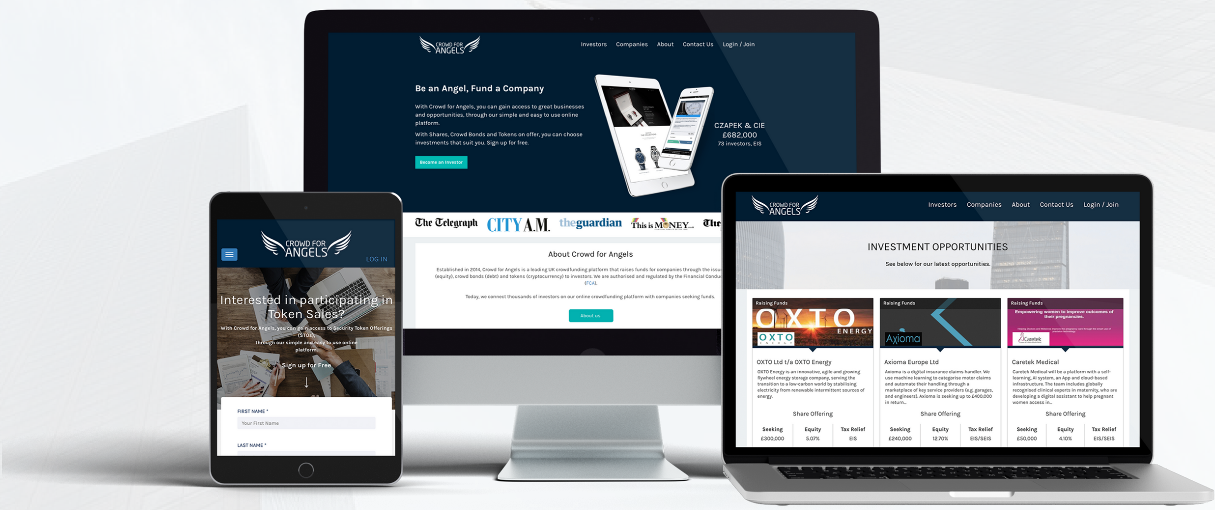
About Crowd for Angels

Crowd for Angels is a regulated crowdfunding platform that raises funds for companies through the issue of shares and crowd bonds to investors in a tax efficient manner.

Our investors get the opportunity to invest in shares in a tax efficient manner through the use of SEIS/EIS tax relief and through Bonds that can be held in a tax free IF-ISA wrapper. We never charge our investors any fees and companies looking for investment only pay if the funding is a success.

Crowd for Angels (UK) Limited is authorised and regulated by the Financial Conduct Authority registered under number 03064807.

TO OPEN A FREE CROWD FOR ANGELS ISA VISIT
CROWDFORANGELS.COM/OPEN-AN-ISA



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Risk Warning

The availability of any tax relief depends on the individual circumstances of each investor and tax law may be subject to change in the future. If you are in any doubt about the availability of any tax relief, or the tax treatment of your investment, you should obtain independent tax advice before proceeding with your investment.

Investing in small public listed or private companies involves risks, including illiquidity, lack of dividends, loss of investment and dilution, and it should be done only as part of a diversified portfolio. Investing in debt pitches through Crowd for Angels (UK) Limited involves lending to companies and therefore your capital is at risk and interest payments are not guaranteed if the borrower defaults. Crowd for Angels is targeted exclusively at investors who are sufficiently sophisticated to understand these risks and make their own investment decisions. You will only be able to invest via Crowd for Angels once you are authorised.

Please visit crowdforangels.com/risk-warning to read the full Risk Warning.

This guide has been approved as a Financial Promotion by Crowd for Angels (UK) Limited (Company number: 03064807), which is authorised and regulated by the Financial Conduct Authority (Reference number: 176508). Investments made in companies listed on the Crowd For Angels platform are not covered by the Financial Services Compensation Scheme (FSCS).