



Further Funding Opportunities for Fast Growth Businesses Impacted by COVID-19

In addition to the previously announced measures, two further government backed funding programmes, with funding of £1.25 billion pledged, have been announced with a focus on helping innovating and privately held UK firms during the COVID-19 pandemic.

The funding is split into two schemes:

1. The Future Fund

Private investors as well as directors of private companies will be interested to note the £500 million investment fund for fast-growth companies impacted by the crisis, made up of funding from the government of up to £250 million and the private sector of £250 million. The scheme will launch in May 2020 and will be delivered in partnership with the British Business Bank.

In order to qualify, the applicant business must be an unlisted UK registered company (with substantive economic presence in the UK) that has previously raised at least £250,000, in aggregate, in equity investment from private third party investors in the last five years. The scheme is not open to businesses headquartered outside of the UK.

The key terms of the funding are as follows:

- Unsecured loans of between £125,000 and £5 million from the government will be available, with private investors at least matching the government commitment. The minimum loan is therefore £250,000.
- The funding must be used for working capital purposes.
- The loans will mature after a maximum of 36 months and carry a minimum of 8% per annum interest.
- The loans will automatically convert into equity on the company's next qualifying funding round at a minimum conversion discount of 20% to the price set by that funding round, or at the end of the loan if they are not repaid.

Further detail on eligibility criteria and fund operation will be published in due course with the government's initial funding being open until the end of September 2020. The government has stated that the scale of the fund will be kept under review.

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At first glance, the launch of the Future Fund appears to be welcome news for owners of qualifying businesses. The key challenge is likely to be securing funds from private investors who will be cautious about investing cash in the current climate. Hopefully, the government's commitment to the matched funding may be just the impetus private investors need. Parting with cash in this context could be made more attractive if private investors will be able to access some of the existing personal tax reliefs, e.g. under the Enterprise Investment Scheme (if conditions are modified) or Business Investment Relief for those from abroad.

However, the absence of tax breaks linked to the Future Fund rules themselves, means that a lot of the restrictions which traditionally attach to tax favoured incentives equally will not apply. This comparative freedom may appeal to those private investors with a flavour for risk but larger than normal potential upside. Thus, for example, there are no restrictions on how much they can invest, what return they can seek and if, in the event they end up owning shares, far from those share being bottom of the pile (which is normally the case with EIS shares etc.) they will have preferential rights. The ability to help companies they believe in, and which have government support, without the normal concern of tax clawback if qualifying tax conditions are breached, could make this an attractive part of a portfolio. The shares, if acquired, should normally also qualify for inheritance tax business property relief and thus in time be part of an estate planning portfolio.

Full advice should be sought by both business owners and prospective investors on commercial and tax consequences of taking this opportunity when full details are released in the coming weeks.

2. Grants and loans for Small and Medium Sized Enterprises ('SME') focusing on research and development

The second scheme provides for £750 million of targeted support for the most R&D intensive SMEs and will be available through Innovate UK's grants and loan scheme.

The £750m of funding is to be allocated to existing Innovate UK customers as follows:

- Acceleration of £200 million of grant and loan payments for the 2,500 existing Innovate UK customers on an opt-in basis;
- An extra £550 million to increase support for existing Innovate UK customers; and
- £175,000 of support will also be offered to around 1,200 firms not currently in receipt of Innovate UK funding.

The first payments under this scheme will be made by mid-May.

For further information, please contact your usual Rawlinson & Hunter advisor or one of the contacts below. For technical support on COVID-19 related initiatives, please see the technical updates section on our website [here](#).

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