2. Equity or Debt?

So you have decided to raise funds on a crowdfunding or peer-to-peer platform. The next question is do you raise equity via crowdfunding or debt via peer-to-peer sources?

If you are a start-up or you have not been trading for 12 months, then consider taking the equity route. You will be "selling" shares to investors which means you will be parting with some of the ownership of your business. Equity investors will be seeking a capital gain, that means at some point in the future they hope to dispose of the shares at a premium.

Some businesses are eligible for tax relief under the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS). If your business is eligible you should apply for either SEIS (if you are raising up to £150,000) or EIS (if you are raising up to £5 million). Both schemes offer equity investors tax relief which can make the shares you are selling more attractive.

If you have been trading for over 12 months and you have accountants lodged at Companies House then consider taking on a loan through a peer-to-peer platform. Peer-to-peer loans account for over 80% of the alternative finance sector hence there are more platforms to choose from. The key is to prove that your business can afford the loan you are applying for.

Platforms may want to see your filed accounts, your management accounts and financial projections made on the assumption that the loan is in place. Some platforms insist that a loan is secured on a property or other assets such as stock. Normally, the more security you can offer along with proof that you can service the loan may reduce the interest rate charged by a platform

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