REVIEW OF THE EMPLOYMENT AND INVESTMENT INCENTIVE AND SEED CAPITAL SCHEME

OCTOBER 2014
Executive Summary

In Budget 2011, the then Minister for Finance announced that the Business Expansion Scheme (BES) and Seed Capital Scheme (SCS) was being reformed and renamed the “Employment and Investment Incentive (EII) and Seed Capital Scheme (SCS)” to ensure that the tax relief is fully targeted at job retention and creation. Several amendments have been made to the scheme since then, including the removal of the initial 30% tax relief on investments from the high earners’ restriction, the inclusion of hotels, guest houses and self-catering accommodation and the extension of the scheme until 2020.

The EII scheme encourages and facilitates investment in Irish SME’s. The Government is committed to the SME sector and sees it as the key driver of ongoing economic recovery and growth.

The SCS provides support for entrepreneurs in the form of a refund of tax paid in previous years where qualifying investments are made in new companies. This is an important source of finance for new businesses who often find it difficult to source seed capital.

The review comprised of:

- An analysis of the background and rationale for the schemes;
- An analysis of the data available from the Revenue Commissioners including the cost and take-up of the schemes;
- Examination of the proposals and comments received from the Public Consultation on the EII/SCS which ran from 31 March 2014 to 9 May 2014;
- Consideration of discussions held with stakeholders on the schemes;
- Examination of similar type schemes in a number of other jurisdictions; and
- Consideration of options for the EII/SCS going forward.

A total of 19 submissions containing 51 proposals for amendments to the EII and 9 submissions containing 25 proposals for the SCS were received from groups including industry representative bodies, government agencies, companies and accountancy firms. In addition, 10 stakeholder meetings were held to discuss the proposals further. While the proposals vary, the consensus among stakeholders was that the EII and SCS are important sources of finance for companies and entrepreneurs and that the schemes should be enhanced.

A number of options have been considered such as allowing the schemes to run for another two years and then review them and amending the schemes and allowing them to run until 2020.
1. Introduction

1.1 In Budget 2011, the then Minister for Finance announced that the Business Expansion Scheme (BES) and Seed Capital Scheme (SCS) was being reformed and renamed the “Employment and Investment Incentive (EII) and Seed Capital Scheme (SCS)” to ensure that the tax relief is fully targeted at job retention and creation.

1.2 In 2013, the Minister announced that the EII/SCS would be extended until 2020 as part of a range of measures aimed at assisting small and medium-sized trading companies’ access development capital, stimulating investment, inspiring entrepreneurship and supporting employment. In addition, the EII has been removed from the high earners’ restriction for a period of three years until 31 December 2016.

1.3 Since the introduction of the EII/SCS, the Government, in its Medium Term Economic Strategy¹ (December 2013), committed to conduct a regular programme of tax relief reviews using public consultation as appropriate and to publish the results. The commitment to review the EII/SCS scheme was also restated in the Government’s Action Plan for Jobs 2014². Delivering on these commitments, the Department of Finance, in consultation with the Office of the Revenue Commissioners, undertook a comprehensive review of the EII/SCS in 2014.

1.4 The review comprised of:

- An analysis of the background and rationale for the schemes;
- An analysis of the data available from the Revenue Commissioners including the cost and take-up of the schemes;
- Examination of the proposals and comments received from the Public Consultation on the EII/SCS which ran from 31 March 2014 to 9 May 2014;
- Consideration of discussions held with stakeholders on the schemes;
- Examination of similar type schemes in a number of other jurisdictions; and
- Consideration of options for the EII/SCS going forward.

1.5 This report summarises the review of the EII/SCS and has been prepared to assist the Minister in his consideration of the EII/SCS in the context of Budget 2015.

¹ Medium Term Economic Strategy
² Action Plan for Jobs 2014 Action 3
2. Policy Context

2.1 The EII scheme encourages and facilitates investment in Irish SMEs. The EII provides a tax incentive to private investors to invest medium-term equity capital in companies which would otherwise find it difficult to raise such funding. Such companies would instead usually have to rely on loan finance, which can be difficult to obtain. Provided an investor holds his or her investment for a minimum period of 3 years, the EII provides individual investors with tax relief of 30% in respect of investments of up to €150,000 per annum. Where it has been proven that additional jobs were created or the company used the capital raised for expenditure on research and development, an additional 11% relief is available at the end of the holding period.

2.2 The SCS provides support for entrepreneurs in the form of a refund of tax paid in previous years where qualifying investments are made in new companies. This is an important source of finance for new businesses who often find it difficult to source seed capital.

SME Access to Finance

2.3 The challenges facing SMEs in Ireland wishing to access credit are the product of a complex interplay of demand and supply side factors. Since the onset of the financial crisis, the main problem faced by Irish SMEs has been a lack of demand for their products and services. This is unsurprising given the scale of the shock to the domestic and international economies. However, access to finance has also been a considerable problem for firms and indeed, as the economy has begun on the path towards recovery, concerns relating to access to finance have actually become more prominent.

2.4 Following a prolonged and sustained period of rapid economic growth, the Irish economy experienced a dramatic reversal in fortunes with real GDP contracting by a cumulative 10.2% in the period 2008 – 2010. The severity of the recession is highlighted by the dramatic increase in unemployment which rose from 4.5% in mid-2007 to a high of 15.1% in Q2 2012. Economic growth, albeit relatively modest, over the last eighteen months has contributed to unemployment falling to 11.1% by September 2014. This recovery remains fragile and significantly the ESRI, in its Medium Term Review\(^3\) notes that one of the key challenges facing the Irish economy in terms of its medium-term growth prospects is an adequate flow of credit to the real economy and a reduction of financing constraints for domestic firms.

Decline in Stock of Lending

2.5 Gross new lending to non-financial, non-property related SMEs amounted to €1.1 billion over the first six months of 2014; this was slightly above the €0.9 billion of new lending over the first half of 2013. Credit to non-financial, non-property SMEs registered a decline of 1.5 per cent during Q2 2014, to stand at €22.6 billion. In annual terms there was a fall of 4.6 per cent which compares with a decline of 5.8 per cent over the year to end-Q2 2013. Total business lending (outstanding loan balances) declined during the crisis and even more during the recovery period. SME loan data indicates that outstanding SME loans fell from €26.5 billion at end Q2 2011 to €22.6 billion at end Q2 2014.

\(^3\) ESRI Medium Term Review 2013-2020
2.6 Demand factors are clearly critical in determining the relative lack of credit extended to SMEs in Ireland, particularly for those businesses that are operating within the domestic sector. Reduced demand for credit has been reaffirmed in a series of independent demand surveys that have been commissioned by the Department of Finance since 2011. Analysis undertaken by the IMF and results from the ECB SAFE survey also highlight that the main problem faced by Irish SMEs has been a lack of demand for their products and services.

2.7 The Central Bank of Ireland recently produced a research document\(^4\) which illustrated that, both pre and post-crisis, Irish SMEs are among the most reliant on banks in Europe. Consequently Irish SMEs have been disproportionately exposed to the weaknesses in the banking sector, relative to other European countries, and the share of bank borrowing has fallen by roughly one half between 2005 and 2012, having been replaced by trade credit, equity and internal funding.

2.8 The period since 2008 has also witnessed a significant decline in competition within the retail banking sector as, in addition to the closure of domestic banks, foreign credit institutions have largely retrenched from the Irish banking market in terms of provision of new, or extension of existing, credit facilities to businesses. This is particularly notable in relation to SME lending and work by McCann and McIndoe-Calder (2012)\(^5\) confirms that the market for SME lending in Ireland is currently extremely highly concentrated. These authors suggest that that the increased concentration of the Irish enterprise lending market is likely to have contributed to, and to continue to exacerbate, SME funding difficulties. Furthermore Ryan et al. (2014) find that, across Europe, countries in which enterprises are more reliant on banks for funding — as is the case in Ireland — are those in which the impact of bank market power on SME credit constraints is greatest.\(^6\)

2.9 A combination of more stringent lending criteria, reduced risk appetite and a lack of confidence could potentially serve to constrain lending to the SME sector especially as demand for investment picks up. The Credit Review Office have reported that it remains concerned with banks’ willingness to lend beyond those SMEs that the Office viewed as being “safe bets”. This would suggest that the myriad of factors which have led to difficulties in Irish banking are being felt by SMEs at the margin i.e. firms that under a different financial regime would receive credit and could make investments.

2.10 The Government is committed to the SME sector and sees it as the key driver of ongoing economic recovery and growth. The Department of Finance will continue to monitor both the availability of credit and the process of debt management with a view to taking appropriate actions as warranted to ensure that SMEs in Ireland have the opportunity to reach their full potential in terms of growth and employment generation. The Government response to date has included:

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\(^4\) The importance of banks in SME financing: Ireland in a European Context
\(^5\) Bank competition through the credit cycle: implications for SME lending
\(^6\) Does bank market power affect SME financing constraints?
• The establishment of a new SME State Bodies Group which meets on a monthly basis with a view to ensuring that the commitments contained in the “Access to Finance” chapter of the Action Plan for Jobs are carried through;
• The re-establishment of the SME Funding Consultation Committee to bring Government and private stakeholders together to come up with the best ideas to resolve the difficulties facing SMEs seeking funding;
• The credit guarantee scheme, which is soon to be widened in scope after an external review;
• The establishment of Microfinance Ireland to provide unsecured business loans of €2,000 to €25,000 for commercially viable proposals that have been declined bank credit;
• The Ireland Strategic Investment Fund (ISIF) will make €6.8 billion of resources available for supporting SME funding and for investment on a commercial basis to support economic activity and employment in Ireland;
• The ISIF has funds totalling close to €1bn in three new long-term funds which will provide equity, credit and restructuring/recovery investment for Irish small SMEs;
• The ground-breaking establishment of the Strategic Banking Corporation Ireland, which will provide over €500m to the SME sector;
• The Local Enterprise Offices as a One Stop Shop for anyone seeking information and support on starting or growing a business in Ireland;
• The SME online-tool, available on the Department of Finance website, is a portal by which SMEs can establish what element(s) of the €2bn of State supports they may be eligible for;
• The 10 Point Tax Reform Plan announced in Budget 2013 assists small businesses in a number of ways, including reducing the costs associated with the administrative burden of tax compliance; and
• The Budget 2014 Capital Gains Tax Relief to encourage re-investment of the proceeds of a previous asset disposal into new productive trading or a new company, keeping capital focussed on business and the creation and maintenance of employment.

**Action Plan for Jobs 2014**

2.11 Section 2 of the Action Plan for Jobs 2014 discusses the ways the Government can support the environment for entrepreneurs. The plan states the ambition for Ireland to be among the most entrepreneurial nations in the world and acknowledged as a world-class environment in which to start and grow a business. Growing the number of entrepreneurs and start-ups is hugely important for Ireland’s economic development.

2.12 The plan states that “the right conditions for entrepreneurship include the adoption of responsive public policies such as fiscal policy where both tax rates and targeted tax reliefs can support entrepreneurship, investment and influence business decisions. Tax incentives currently provided, including the SCS and the EII are an important source of finance for new entrepreneurs and need to be fit for purpose”.

2.13 Section 6 of the plan discusses access to finance for micro, small and medium-sized enterprises and acknowledges that levels of participation in Government sponsored access to finance schemes such as the SCS and EII needs to increase. One of the actions was to deliver a one stop shop to facilitate SMEs to access financial and other supports.

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7 SME Tool
8 Action Plan for Jobs 2014
Government Statement of Priorities

2.14 In the recently published Government Statement of Priorities\(^9\), the Government committed to use the new network of 31 Local Enterprise Offices (LEOs)\(^{10}\) in every local authority to support entrepreneurship and small business activity throughout the country. They also committed to publish a new Entrepreneurship Policy aimed at achieving a 25% increase in start-ups over the next five years and to deliver a doubling of the jobs impact of start-ups in 5 years, in part through improvements to the design of the Seed Capital Scheme in the upcoming Budget.

\(^9\) Statement of Government Priorities

\(^{10}\) Local Enterprise Offices
3. Background to the EII and SCS

3.1 The aim of the EII is to provide an alternative source of finance to SMEs and start-up enterprises and to support the creation and retention of employment in small and medium-sized enterprises across the economy, while the SCS aims to assist entrepreneurs in raising seed capital for their new businesses.

3.2 The EII aims to help address the market failure in relation to equity capital investment, which can act as a barrier to sales growth and market development for SMEs. It also aims to help the survival of companies (and their retention in Ireland) beyond the initial development stage.

3.3 Equity as a form of capital has become an ever more important form of investment for SMEs following the significant challenges for companies in raising debt as a result of the financial crisis, as evidenced in a report published by Forfás in 2012: “Review of the Equity Investment Landscape in Ireland”.\(^\text{11}\) This report also highlights the importance of investment from friends, family and founders, angel investors and venture capital at the pre-seed and seed stages respectively and the challenges of raising funding in Ireland.

3.4 The report goes on to state that “the presence of investment and investors is critical to restoring economic growth. A specific cohort of young, innovative, fast-growing start-ups do not neatly fit into the traditional model of bank lending and therefore rely on equity finance. In addition, there is a range of more mature companies where relatively high debt levels suggest greater potential may exist to utilise equity to support further growth”.

3.5 It also finds that “the presence of previous debts may inhibit a firm from accessing credit for potentially profitable investments. Encouraging equity investment represents one possible mechanism supporting viable businesses to restructure their balance sheet. Indeed, innovative growing companies, who are a vital source of long-term economic growth, often require large capital up front, which is hard to obtain from conventional sources of debt finance”.

3.6 In general, access to finance inclusive of debt and equity is significantly harder to come by for both exporting and non-exporting SMEs relative to their European counterparts. This reflects the current lending position of the banking sector, as evidenced in the CSO Paper “Access to Finance 2007 and 2010”.\(^\text{12}\)

3.7 A report by InterTrade Ireland on Access to Finance for SMEs\(^\text{13}\) states that “The fracture in the relationship between banks and our SME community, while leaving a considerable problem in terms of property debt and bank recapitalisation, has also revealed a serious number of defects in the wider financial ecosystem that supports the needs of growth-focused SMEs”. The report also states that “There is a dearth of diversity in the financing landscape for SMEs across the island. The capital structures, market and economic position of SMEs on the island have a disproportionate reliance on banks for their funding needs. Bank funding, largely in the form of overdrafts and loans, accounts for 94% of total SME finance which is comfortably greater than other European counterparts”.

\(^\text{11}\) Forfás (2012), Review of the Equity Investment Landscape in Ireland
\(^\text{12}\) CSO Paper Access to Finance 2007 and 2010
\(^\text{13}\) InterTrade Ireland Report Access to Finance for Growth of SMEs on the Island of Ireland
3.8 Considering the lack of availability of finance, companies have to turn to equity investment as an alternative. Agencies such as Enterprise Ireland and the National Pension Reserve Fund have intervened in the equity market on a commercial basis (in the case of the NPRF\textsuperscript{14}) and on a pari passu basis (in the case of Enterprise Ireland\textsuperscript{15}) in order to increase and to leverage the commitment of corporates and institutions to increase the availability of equity funding for SMEs.

3.9 However, this does nothing to increase investment from high net worth individuals into companies. Market failure remains an issue across the State in terms of access to finance in general and in the provision of equity investment in particular. Through venture capital interventions in the market, in line with the experience of our European partners, Ireland has tried to leverage further funding for earlier stage SMEs. Despite efforts at interventions there is a market failure in the provision of non-institutional equity in medium-sized companies throughout Ireland. Many of these companies also need an increase in equity and, inter alia, a strengthening of the balance sheet before they could consider seeking additional debt.

\textsuperscript{14} National Pension Reserve Fund for SMEs
\textsuperscript{15} Enterprise Ireland Development Capital Fund
4. History of the BES and SCS

Business Expansion Scheme

4.1 The Business Expansion Scheme (BES) was introduced in 1984 to provide an incentive to private investors to invest equity capital in small and medium-sized companies. The types of qualifying trades were quite limited, consisting of the following:

- the manufacture of goods (including computer services)
- the operation of certain tourist traffic undertakings
- internationally traded services
- the cultivation of mushrooms
- the micro-propagation of plants and plant cloning
- the cultivation of horticultural produce in greenhouses
- research and development activity which is undertaken with a view to carrying on certain of these qualifying trading operations
- commercial research and development activities
- the construction and leasing of advance factory buildings
- the production, publication, marketing and promotion of certain musical recordings by a new artist
- recycling activities in relation to waste material, which has been subjected to any process or treatment, which results in value-added material that is reusable

4.2 Tax relief was available at the marginal rate of 41% and shares were subject to a five year minimum holding period. Companies could raise a lifetime amount of €2 million, subject to a maximum of €1.5 million in a 12 month period.

Seed Capital Scheme

4.3 The Seed Capital Scheme (SCS) was introduced in 1993 as part of the BES to encourage individuals currently or formerly in PAYE employment to establish a new business. It provided a refund of tax previously paid at the marginal rate subject to certain conditions, for investments of up to €182,240.

4.4 Both of these schemes had approval under the EU State Aid Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-Sized Enterprises.16

4.5 The schemes were reviewed in 200617 by the Department of Finance in consultation with the Department of Enterprise, Trade and Employment and the Revenue Commissioners and subsequently extended until 2013. The reasons for this extension included:

- The clear market failure in providing equity capital for small firms in their start-up and early development phases;
- The evidence of how vital the scheme has been in the past for such firms and continuing needs in this regard; and
- The potential return to the economy from indigenous Irish companies.

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16 Community Guidelines on State Aid to Promote Risk Capital Investments in SMEs
17 Department of Finance 2006 Review of the BES and SCS
High Earners’ Restriction

4.6 The high earners’ restriction was introduced in 2007 to address the issue of high income individuals who, mainly by means of the cumulative use of various tax incentive reliefs, had been able to reduce their income tax liability to a very low level or to zero. Individuals with an adjusted income of €500,000 or more (where the restriction applied in full) paid an effective tax rate of 20%. In the context of the economic downturn, Government decided that in the interests of equity, those subject to the restriction should make a greater contribution and that it should apply at lower thresholds of income. From the year 2010 onwards, individuals with an adjusted income of €400,000 or more (where the restriction applies in full) now pay an effective rate of tax of approximately 30% (excluding USC) on a combination of adjusted income and ring-fenced income (e.g. income subject to DIRT).

4.7 Where adjusted income is between €125,000 and €400,000, a tapering approach ensures that there is a graduated application of the restriction, with the effective rate of tax increasing towards 30% as adjusted income increases towards €400,000.

4.8 The Business Expansion Scheme was a specified relief for the purposes of the restriction.
5. Introduction of Current EII/SCS

5.1 The EII/SCS was announced by the then Minister for Finance in Budget 2011, replacing the BES/SCS Scheme. In his Budget speech, the Minister said “Small and medium-sized companies are the wellspring of employment and innovation in the economy. The Business Expansion Scheme has helped companies to gain access to capital investments. But given that job creation and protection is our top priority, it is essential that schemes like the BES and the 3 year corporation tax exemption for start-up companies are targeted and evaluated against jobs created or retained. Accordingly, the BES is to be revamped and renamed as the Employment and Investment Incentive.”

5.2 An Ex-Ante Economic Impact Assessment\(^{18}\) was published by the Department of Finance in March 2011 which outlined the rationale behind the introduction of the new scheme.

5.3 The scheme was amended significantly, with the main changes as follows:

- The qualifying trades’ limitations were removed and the scheme was made available to the majority of small and medium-sized trading companies in order to encourage investors to invest in a broad range of companies which would not have previously had access to BES funding.
- Certification requirements were simplified and are handled, in the main, by the Revenue Commissioners. Companies qualify where they meet the requirements for company size and are not on the list of excluded trades.
- It is easier for companies carrying on green energy activities, i.e. activities undertaken with a view to producing energy from renewable resources, to qualify.
- The maximum amount that can be raised by a company in 12 months was increased by two-thirds from €1.5 million to €2.5 million, in line with changes to the Community Guidelines to Promote Risk Capital Investments in Small and Medium-Sized Enterprises.
- The lifetime amount that can be raised by a company was increased five-fold from €2 million to €10 million. This increase was introduced to reduce dependence on loans, and thereby reduce costs for businesses. It was also envisaged that it would aid companies operating in the green sector obtain access to a greater level of funding in order to reach production stage.
- The required holding period for share capital was reduced by 40% from 5 years to 3 years. This meant that investors would have to lock away their investments for a much shorter period than was allowed under the BES.
- In recognition of the reduced investment period, initial tax relief for investments was reduced from 41% to 30%.
- Notwithstanding the reduced holding period and in order to focus the incentive on job creation, a further 11% in income tax relief was made available where it is proven that employment levels have increased at the company at the end of the 3 year holding period or where evidence is provided that the company used the capital raised for expenditure on research and development. Thus, it is possible for investors to get 41% relief on their investment without locking away their investment for a minimum of 5 years, as was the case for the BES. This additional 11% relief is excluded from the high earners’ restriction.

\(^{18}\) Department of Finance Ex-Ante Economic Impact Assessment of the EII
5.4 The scheme was made available until 2013, to coincide with the expiration of the Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-Sized Enterprises. In Budget 2013, the Minister announced his intention to extend the EII and SCS until 2020, and also to include the operating and managing of hotels, guest houses and self-catering accommodation for a period of two years. Subsequently, in Budget 2014, the Minister announced that the initial 30% tax relief would also be excluded from the high earners’ restriction for a period of three years, in order to encourage individuals to invest in qualifying companies.
6. Description of the EII and SCS

**EII**

6.1 The EII provides tax relief to individual investors for investments made in qualifying companies. Tax relief is available at an initial rate of 30% in respect of investments of up to €150,000 per annum in qualifying companies. Where it has been proven that additional jobs were created or the company used the capital raised for expenditure on research and development, an additional 11% relief is available at the end of the three year holding period.

6.2 The maximum amount that an investor can invest in any one year is €150,000. If the investor cannot obtain relief on all of their investment in a year of assessment, either because their investment exceeds the maximum of €150,000 or their income in that year is insufficient to absorb all of it, they can carry forward the unrelieved amount to following years up to and including 2020, subject to the normal limit of €150,000 on the amount of investment that can be relieved in any one year.

6.3 The investor may not be connected with the company in which the investment is being made i.e.:

- They cannot be a partner in the company
- They cannot control the company
- They cannot directly or indirectly possess or be entitled to acquire an interest of 30% or more in the company

6.4 There are several conditions with which the company must comply in order to be a qualifying company:

- The company must be resident in the State or another EEA State with an establishment in the State carrying out qualifying activities
- The company must be a micro, small or medium-sized enterprise as defined by the European Commission
- The company must not be regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty
- The company cannot control or be under the control of another company
- The company shares cannot be listed on a stock exchange. However, a listing on the Enterprise Securities Market of the Irish Stock Exchange shall not disqualify a company
- Likewise, a listing on the Enterprise Securities Market of the Irish Stock Exchange and a corresponding market of the stock exchange of one or more Member States of the EU shall not disqualify a company where the Irish listing takes place before or at the same time as the other EU listing
- The company must not intend winding up within 3 years of receiving EII investment unless for bona fide commercial reasons

6.5 The EII is aimed at small and medium-sized enterprises, which are a significant feature in the Irish economy. CSO Business Demography figures for 2012 show that small and medium-sized enterprises accounted for 99.7% of the total enterprise population for 2012. They also accounted for 68% of total persons employed.

6.6 While the range of trades that qualify for the EII is significantly broader than those that qualified for the BES, some trades are specifically excluded by the Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-Sized Enterprises. In

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19 European Commission SME definition
20 EU Commission Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty
21 CSO Business Demography 2012
addition, some trades are excluded on the basis that they are purely speculative in nature and it is unlikely that they will contribute to the job creation objectives of the incentive in a meaningful way. The following trades are excluded from the EII:

- Adventures or concerns in the nature of trade
- Dealing in commodities or futures in shares, securities or other financial assets
- Financing activities
- Professional service companies
- Dealing in or developing land
- Forestry
- Operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home
- Operations carried on in the coal industry or in the steel and shipbuilding sectors
- The production of a film within the meaning of section 481 of the Taxes Consolidation Act 1997

6.7 A company may apply for outline approval for the EII in order to ascertain whether or not it would qualify for the EII. A form EII Outline (see Annex 1) must be completed. It is worth noting however, that entitlement to relief is determined when the share issue has taken place and the fact that a company may obtain outline approval does not guarantee the availability of relief.

6.8 In order for an individual to receive relief under the EII the company must submit a form EII1 (see Annex 2). The form must be certified by the company receiving the investment. A claim for relief must be made within 2 years of the end of the year of assessment in which the shares are issued. Relief is given as a deduction from total income before tax credits and allowances. The maximum investment that qualifies for relief is €150,000 and the minimum is €250 in any tax year.

6.9 In the case of an established company, tax relief is given to the investor as soon as the Revenue Commissioners are satisfied that all relevant conditions have been complied with and relief applies in respect of the tax year in which the shares are issued. Where an investor invests in eligible shares through a designated investment fund, but the shares are not issued until the following year of assessment, he/she can opt for relief for the year in which he/she made the investment in the fund rather than for the year in which the shares were issued.

6.10 In the case of new companies, tax relief is not given unless and until the relevant company has been carrying on relevant trading activities for four months. If the company is not carrying on relevant trading activities at the time the shares are issued, the relief is not given unless and until the company begins to carry on such activities within two years from the date of purchase of the shares, or expends not less than 30% of the funds raised on research and development activities which are connected with and undertaken with a view to carrying on relevant trading activities.

6.11 The claim for relief must be made within two years of the end of the year of assessment in which the shares are issued, or if the company is not carrying on a trade at the time the shares are issued, within four months of the commencement of the trade.

6.12 While a claim for the initial 30% tax relief may be made once all the conditions are met, the remaining 11% relief will only be granted in the year of assessment following the end of the 3 year holding period if there is an increase in the number of employees or the funds
raised have been expended on R&D. This further 11% relief can be claimed when the holding period ends, and not later than two years of the end of the year of assessment in which the holding period ends.

SCS

6.13 The SCS provides for a refund of income tax paid in previous years by an employee, an unemployed person or an individual who has been made redundant recently and starts their own business. There are certain conditions attached to the investment:

- The activities carried on by the qualifying company must constitute a qualifying new venture
- The money raised must be used to carry on relevant trading activities. Where the company has not commenced trading, it may carry on relevant trading activities or research and development activities
- The shares must be held for a minimum of 3 years
- The use of the money must directly contribute to the creation or maintenance of employment
- Throughout the relevant period the individual must possess at least 15% of the issued ordinary share capital of the company
- The individual must take up a relevant employment with the company within the year in which the investment is made or within 6 months of the date of the last investment.

6.14 Relief from income tax may be claimed in respect of the investment, subject to a maximum investment of €100,000 in any year of assessment. The individual can select the tax year they wish to claim the refund on from any or all of the previous 6 years. The SCS is a relief from income tax, not a tax credit. Therefore relief in respect of any investment must be claimed up to the extent of the individual’s total income in each of the selected years (subject to an overall maximum investment of €100,000 in any one tax year). There is no facility available whereby the investment can be spread over a number of years so as to utilise personal tax credits in each year.

6.15 The scheme is designed for those who are or were in employment which was subject to PAYE. In the tax year immediately before the year in which the investment is made, the individual’s income may come from any source (that is, it may be from self-employment, rental, investment, PAYE or other). In the other three tax years, the non-PAYE income should not exceed the lower of €50,000 or the individual’s total PAYE income.

6.16 The investor must enter into a relevant employment for at least one year with the company as an employee or a director, starting either within the tax year in which the investment is made or if later, within 6 months of the date on which the relevant investment is made.
6.17 The investment in the company may be made in two stages. The second investment must be made within two years following the tax year in which the first investment is made. For example if the first investment was made in 2012 the second investment must be made before the end of 2014. The investor must subscribe for eligible shares in the company and retain those shares for 3 years.

6.18 The company must be a qualifying new venture. Other than in the case of Tourist Traffic Undertakings, there is no requirement for a company to have prior certification by any agency to confirm it is a qualifying new venture. In addition the company must:

- Be incorporated in the State or in an EEA State other than the State
- Throughout the relevant period of 3 years be an unquoted company which is resident:
  - In the State, or
  - In another EEA State with an establishment in the State carrying out qualifying activities
- If located in an assisted area, be a micro or small enterprise, or a medium-sized enterprise. If located in a non-assisted area, then it must be a micro or small enterprise, or a medium-sized enterprise in seed or start-up phase only
- Is engaged in a qualifying trade or whose business consists of holding shares or securities in one or more qualifying subsidiaries
- Must not, in the period commencing 2 years before and 3 years after the date the shares are issued, have any special trading arrangements with their former employer company, or a company which controls or is under the control of that former employer company. Normal business transactions are, however, acceptable, provided these are conducted on an “arm’s length” basis
- Must not, in the period commencing 2 years before and ending 3 years after the date the shares are issued, carry on a trade which is similar to another trade in respect of which the individual has or has had a controlling interest

6.19 In order to claim the relief, a form RINE-C (see Annex 3) must be completed by the company secretary. In addition, a form RINE-I (see Annex 4) must be completed by each individual investor.
7. Take-up and Statistics

7.1 When the EII/SCS was introduced in 2011, it was estimated that the schemes would cost an additional €13 million in a full year. This figure was based on the 2009 cost of the BES (the most recent figures available at the time), the reduction of the initial relief to 30% and an assumed doubling of the amount of investments:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost  €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 cost of BES</td>
<td>€25.6 million</td>
</tr>
<tr>
<td>Reduction of 25% based on 30% relief</td>
<td>€19.2 million</td>
</tr>
<tr>
<td>Assume doubling of investments</td>
<td>€38.4 million</td>
</tr>
<tr>
<td>Increase over 2009 cost</td>
<td>€12.8 million</td>
</tr>
</tbody>
</table>

*Table 1: Calculation of the cost of the EII*

7.2 In a Parliamentary Question of April 2014\(^2\), the Minister outlined the cost of the BES since 2003. This is an updated cost based on claims returned since the introduction of the EII. The following table sets out the cost:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost €m</th>
<th>Number of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>39.6</td>
<td>2,046</td>
</tr>
<tr>
<td>2004</td>
<td>50.1</td>
<td>2,599</td>
</tr>
<tr>
<td>2005</td>
<td>38.2</td>
<td>1,642</td>
</tr>
<tr>
<td>2006</td>
<td>50.9</td>
<td>1,994</td>
</tr>
<tr>
<td>2007</td>
<td>42</td>
<td>1,913</td>
</tr>
<tr>
<td>2008</td>
<td>135.7</td>
<td>3,200</td>
</tr>
<tr>
<td>2009</td>
<td>62.3</td>
<td>1,642</td>
</tr>
<tr>
<td>2010</td>
<td>58.3</td>
<td>1,467</td>
</tr>
<tr>
<td>2011</td>
<td>41</td>
<td>927</td>
</tr>
<tr>
<td>2012</td>
<td>31.5</td>
<td>984</td>
</tr>
</tbody>
</table>

*Table 2: Cost of the BES*

\(^2\) PQ 16419/14
7.3 The tax cost and number of participants in the Seed Capital Scheme from 2003-2013 was also provided in answer to a Parliamentary Question on 8 April 2014. The following table sets out the cost:

### Seed Capital Scheme

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Companies</th>
<th>Estimated Cost of Tax Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>60</td>
<td>2.3</td>
</tr>
<tr>
<td>2004</td>
<td>74</td>
<td>2.6</td>
</tr>
<tr>
<td>2005</td>
<td>42</td>
<td>1.3</td>
</tr>
<tr>
<td>2006</td>
<td>42</td>
<td>1.2</td>
</tr>
<tr>
<td>2007</td>
<td>63</td>
<td>2.3</td>
</tr>
<tr>
<td>2008</td>
<td>56</td>
<td>1.7</td>
</tr>
<tr>
<td>2009</td>
<td>78</td>
<td>2.9</td>
</tr>
<tr>
<td>2010</td>
<td>54</td>
<td>1.8</td>
</tr>
<tr>
<td>2011</td>
<td>65</td>
<td>2.0</td>
</tr>
<tr>
<td>2012</td>
<td>67</td>
<td>1.6</td>
</tr>
<tr>
<td>2013 (provisional)</td>
<td>53</td>
<td>1.3</td>
</tr>
</tbody>
</table>

*Table 3: Cost of the SCS*

7.4 The following table outlines the number of investors and the relative costs of the EII and SCS for the years 2011 - 2013:

<table>
<thead>
<tr>
<th>Year</th>
<th>Scheme</th>
<th>No of Investors/Companies</th>
<th>Amount Invested</th>
<th>Tax Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>EII</td>
<td>0</td>
<td>0</td>
<td>0*</td>
</tr>
<tr>
<td></td>
<td>SCS</td>
<td>65</td>
<td>€5.7 m</td>
<td>€2m</td>
</tr>
<tr>
<td>2012</td>
<td>EII</td>
<td>352</td>
<td>€13.4 m</td>
<td>€4m</td>
</tr>
<tr>
<td></td>
<td>SCS</td>
<td>67</td>
<td>€4.5 m</td>
<td>€1.6m</td>
</tr>
<tr>
<td>2013</td>
<td>EII</td>
<td>1,011</td>
<td>€41.5 m</td>
<td>€12.4m</td>
</tr>
<tr>
<td></td>
<td>SCS</td>
<td>53</td>
<td>€5.5 m</td>
<td>€1.3m</td>
</tr>
</tbody>
</table>

*Table 4: Costs of EII/SCS 2011 - 2013*

* The 0 level of take-up in 2011 is due to the fact that the EII did not commence until 25 November 2011. Due to the timing of the commencement, both the EII and BES ran in tandem until 31 December 2011.

7.5 While the number of investors has been steadily increasing under the EII, there is still a disparity between the numbers of investors in the BES, which averaged 1,800 per year over the last 10 years.

7.6 The numbers availing of the SCS are slightly above the average of 60 investors per year over the last 10 years. In fact, the number of claimants in 2012 of 67 is the highest it has been since 2009 when 74 individuals availed of the scheme. The number of claimants of SCS in 2013 was 65. According to the Companies Registration Office Annual Report for 201323, 15,506 new companies incorporated in 2013. While most of these companies will have been set up by individuals who would not qualify for the SCS, it is still reasonable to assume that the level of take-up of the scheme is very low.

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23 [Companies Registration Office Annual Report 2013](#)
7.7 Stakeholders were almost unanimous in their remarks in relation to the lack of awareness of the SCS among individuals who are considering starting a business. This could be explained by the fact that start-up enterprises don’t tend to use tax advisors, therefore they are not made aware of the schemes’ existence. In addition, some individuals will start their business as a sole trader and move to incorporate once the business is proving successful. Such individuals do not qualify for the SCS.

7.8 Under the terms of the EII, relief in respect of 30% of the amount invested in a qualifying company is granted to the investor in the year of investment. An additional 11% relief may be awarded where it has been proven that employment levels have increased at the company at the end of the holding period (3 years) or where evidence is provided that the company used the capital raised for expenditure on research and development. As the first round of investments will not reach the three year minimum holding period until 2015, data in relation to the number of jobs supported/expenditure on R&D is not yet available.

7.9 Based on the amount of investment in 2012, if all of the companies meet the employment or R&D criteria and the additional 11% is awarded, the estimated cost of this additional relief in 2015 will be approximately €1.5 million.
8. Quantification of Benefits

8.1 As mentioned earlier, when the EII/SCS was introduced in 2011, it was estimated that the schemes would cost approximately €38 million in a full year which would represent investments of €128 million, based on the initial rate of relief of 30%. As can be seen from the figures in paragraph 7.4, €41.5 million was invested in 2013 which is substantially less than anticipated. However, the 2013 figure represents an increase of 209% over 2012, which indicates that the scheme may be growing in popularity as the economy begins to recover.

8.2 The low levels of investment could be attributed to a number of factors:

- The reduced appetite among investors to engage in risky investments;
- The lack of investment capital due to the economic downturn;
- The reduced initial rate of relief;
- The uncertainty as to whether the investor will receive the additional 11% relief at the end of the holding period; and
- Lack of awareness of the EII/SCS among SME owners or investors.

8.3 During the review, a number of stakeholders expressed the view that the reduction in the initial level of relief had discouraged a lot of investors as they perceived the initial 30% relief as being too low when compared to the risk level of their investment. In addition, the possible additional 11% relief was criticised as the lack of certainty surrounding whether investors would receive the 11% at the end of the three year holding period was off-putting. The view was also expressed that companies were reluctant to provide guarantees in relation to the increase of employment or expenditure on R&D in order to provide certainty to investors in relation to the additional 11%.

8.4 In relation to the profile of companies that have received investments, a random sampling of approximately 50% of all applications for both the EII and SCS was undertaken.
EII Data Analysis

8.5 In relation to the EII, 266 investments in 164 companies were analysed. The highest amount invested was €2,490,000 and the lowest amount was €500.

8.6 3% of records analysed are for investments of more than €1 million. This is broken down further in the below table:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Total</th>
<th>Total as %</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than €2,000,000</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>€1,500,000 to €1,999,999</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>€1,000,000 to €1,499,999</td>
<td>3</td>
<td>1%</td>
</tr>
<tr>
<td>€500,000 to €999,999</td>
<td>15</td>
<td>6%</td>
</tr>
<tr>
<td>€250,000 to €499,999</td>
<td>28</td>
<td>11%</td>
</tr>
<tr>
<td>€100,000 to €249,999</td>
<td>67</td>
<td>25%</td>
</tr>
<tr>
<td>Less than €100,000</td>
<td>149</td>
<td>56%</td>
</tr>
</tbody>
</table>

Table 5: Analysis of Investments

8.7 Of these 266 investments, 138 were for €80,000 or less. One of the issues cited by stakeholders was in relation to the high earners’ restriction, which effectively imposed a limit of €80,000 on the amount that could be invested in EII companies before the restriction would apply. However, the EII was removed from the high earners’ restriction for a period of three years in Budget 2014. This should remove the barrier on the amount that individuals are willing to invest.

8.8 Of the 164 companies analysed 38% of companies are in assisted areas and 62% are in non-assisted areas. The terms of the European Commission guidelines under which the EII received approval states that medium-sized enterprises which are in expansion stage and are located in the following non-assisted areas are excluded from qualifying for EII:

- Dublin
- Wicklow
- Meath
- Kildare
- Cork City (excluding the docklands)
- Cork County

8.9 Companies are asked what they propose to use the funds raised for. They can use the funds for the following purposes:

- A = Relevant Trading Activities;
- B = R&D Activities; or
- C = Creation or maintenance of employment in the company

24 The high earners’ restriction limits the amount of reliefs that can be claimed in any one year to €80,000 where income is greater than €125,000.
The following table illustrates the proposed use of funds by the companies analysed:

<table>
<thead>
<tr>
<th>Use</th>
<th>No. of Companies</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>A &amp; C</td>
<td>146</td>
<td>89.01%</td>
</tr>
<tr>
<td>A, B &amp; C</td>
<td>14</td>
<td>8.53%</td>
</tr>
<tr>
<td>B &amp; C</td>
<td>4</td>
<td>2.43%</td>
</tr>
</tbody>
</table>

*Table 6: Proposed use of funds*

8.10 Companies are required to specify which NACE code their business activity comes under. NACE is a pan-European classification system which groups organisations according to their business activities. It assigns a unique 5 or 6 digit code to each industry sector, for example, C1051 represents the operation of dairies and cheese making. A full list of NACE codes are available on the CSO website.

8.11 Of the 164 companies analysed, the following table shows the number of companies in each business activity by NACE code:

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>No. of Companies</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and Communication</td>
<td>34</td>
<td>20.73%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29</td>
<td>17.68%</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Activities</td>
<td>25</td>
<td>15.24%</td>
</tr>
<tr>
<td>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles</td>
<td>19</td>
<td>11.59%</td>
</tr>
<tr>
<td>Financial and Insurance Activities</td>
<td>11</td>
<td>6.71%</td>
</tr>
<tr>
<td>Electricity, Gas, Steam and Air Conditioning Supply</td>
<td>9</td>
<td>5.49%</td>
</tr>
<tr>
<td>Construction</td>
<td>8</td>
<td>4.88%</td>
</tr>
<tr>
<td>Accommodation and Food Service Activities</td>
<td>6</td>
<td>3.66%</td>
</tr>
<tr>
<td>Administration and Support Service Activities</td>
<td>6</td>
<td>3.66%</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td>6</td>
<td>3.66%</td>
</tr>
<tr>
<td>Transportation and Storage</td>
<td>4</td>
<td>2.44%</td>
</tr>
</tbody>
</table>

*Table 7: Activity by NACE Code*

8.12 All of the companies analysed were incorporated in Ireland. 2% are Tourist Traffic Undertakings, 10% carry on green energy activities and 20% are associated with another company.

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25 CSO NACE Codes
SCS Data Analysis

8.13 In relation to the SCS, 111 investments in 85 companies were analysed. The highest amount invested was €550,000 and the lowest amount was €500.

8.14 13% of records analysed are for investments of more than €100,000. This is broken down further in the below table:

<table>
<thead>
<tr>
<th>Amount of Investment</th>
<th>Total as %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to €49,999</td>
<td>57%</td>
</tr>
<tr>
<td>€50,000 to €99,999</td>
<td>30%</td>
</tr>
<tr>
<td>€100,000 to €149,999</td>
<td>9%</td>
</tr>
<tr>
<td>€150,000 to €199,999</td>
<td>1%</td>
</tr>
<tr>
<td>€200,000 or greater</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Table 8: Analysis of Investments*

8.15 Companies were asked the level of expected employment generation after 3 years. The below table illustrates the responses:

<table>
<thead>
<tr>
<th>Expected rise in number of employees after 3 yrs</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 0 and 5</td>
<td>40%</td>
</tr>
<tr>
<td>Between 6 and 10</td>
<td>39%</td>
</tr>
<tr>
<td>Between 11 and 15</td>
<td>9%</td>
</tr>
<tr>
<td>Between 16 and 20</td>
<td>2%</td>
</tr>
<tr>
<td>More than 20</td>
<td>4%</td>
</tr>
<tr>
<td>Not disclosed</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Table 9: Expected employment levels*

8.16 The companies were also asked how many of the companies are owned by the investors. The below table illustrates the responses:

<table>
<thead>
<tr>
<th>% of Company owned by Investor</th>
<th>Amount of Investors as a %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 0% and 24%</td>
<td>13%</td>
</tr>
<tr>
<td>Between 25% and 49%</td>
<td>17%</td>
</tr>
<tr>
<td>Between 50% and 74%</td>
<td>27%</td>
</tr>
<tr>
<td>Between 75% and 99%</td>
<td>20%</td>
</tr>
<tr>
<td>100%</td>
<td>23%</td>
</tr>
</tbody>
</table>

*Table 10: Company Ownership*
8.17 Of the 85 companies analysed, the following table shows the number of companies in each business activity by NACE code:

<table>
<thead>
<tr>
<th>Industry area</th>
<th>No of Companies</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and Communication</td>
<td>26</td>
<td>30.59%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18</td>
<td>21.18%</td>
</tr>
<tr>
<td>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles</td>
<td>12</td>
<td>14.12%</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Trades</td>
<td>11</td>
<td>12.94%</td>
</tr>
<tr>
<td>Financial and Insurance Activities</td>
<td>5</td>
<td>5.88%</td>
</tr>
<tr>
<td>Administration and Support Service Activities</td>
<td>4</td>
<td>4.71%</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
<td>2.35%</td>
</tr>
<tr>
<td>Other Service Activities</td>
<td>2</td>
<td>2.35%</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>1</td>
<td>1.18%</td>
</tr>
<tr>
<td>Accommodation and Food Service Activities</td>
<td>1</td>
<td>1.18%</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>1</td>
<td>1.18%</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>1.18%</td>
</tr>
<tr>
<td>Activities of Extra Territorial Organisations and Bodies</td>
<td>1</td>
<td>1.18%</td>
</tr>
</tbody>
</table>

*Table 11: Activity by NACE Code*

1% of the companies surveyed state that they carry on tourist activities.
9. International Comparisons

9.1 The following is a summary of the research carried out into schemes which provide tax relief for investments in companies and seed enterprises in other European jurisdictions. The overall results of the research show that there is no one-size-fits-all scheme to suit all countries and companies, and that each country has tried to tailor their schemes to meet the needs of individual countries in relation to access to finance for SMEs.

9.2 As mentioned earlier in the report, companies are finding it difficult to access finance through traditional routes such as banks and are relying more than ever on alternative sources of finance such as equity finance. It is important, therefore, that Ireland maintains and builds on the schemes such as the EII and SCS that encourage the provision of these alternative sources of finance.

9.3 It is clear from discussions with stakeholders that more could be done to improve access to equity finance and that the EII and SCS could play an important part of the overall package of measures available to the SME community. Almost all of the stakeholders pointed to the schemes available in the UK which, in their view, provide a more attractive source of finance for SMEs and a more attractive rate of relief for investors.

UK

9.4 The UK has three venture capital schemes targeting risk capital finance:

**Enterprise Investment Scheme (EIS)**

9.5 Similar to the EII, the EIS is designed to assist SMEs raise finance by providing tax reliefs to investors who purchase shares in these companies.

9.6 Investors receive tax relief of 30% on investments of up to £1 million. CGT relief is provided on the profits from the sale of shares that have been held for the qualifying period. In addition, if the gains from a previous investment are re-invested, they are also exempt from CGT. Loss relief is also provided.

9.7 Qualifying companies are SMEs which fall within the EU Commission SME definition. These companies can raise a maximum of £5 million in a year.

**Seed Enterprise Investment Scheme (SEIS)**

9.8 The SEIS is designed to help small, early stage companies to raise finance. This scheme offers a range of tax reliefs to encourage individual investors to invest in qualifying companies.

9.9 Investors receive tax relief of 50% on investments of up to £100,000 per year and relief of 50% against CGT is also provided where previous investments are rolled over into new investments.

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26 [Enterprise Investment Scheme](#)
27 [EU Commission Definition of an SME](#)
28 [Seed Enterprise Investment Scheme](#)
9.10 Qualifying companies must have less than 25 employees and assets of less than £200,000. The companies can receive a maximum of £150,000 under the SEIS.

**Venture Capital Trusts**

9.11 This scheme encourages individuals to invest in small companies through the acquisition of shares in a venture capital trust.

9.12 The maximum investment in a trust by an individual is £200,000 which qualifies for 30% tax relief. An exemption from CGT is also provided when the shares are sold, and dividends are similarly exempt from tax.

9.13 Qualifying companies must have less than 250 employees with assets of less than £15 million.

9.14 Companies can raise £5 million in a year from the three schemes mentioned above.

**Sweden**

9.15 Sweden provides a scheme called “Tax Deduction for Investments by Natural Persons in Small Enterprises”\(^{30}\). This scheme provides a deduction for individuals equal to 50% of an investment made in certain small enterprises. This deduction can be offset against capital income from other sources e.g., rental income, dividends, capital gains etc. The maximum amount that can be invested is equivalent to €151,000 per year. As capital income is currently taxed at 30%, this tax relief corresponds to a maximum 15% of the investment.

9.16 In order to be considered an eligible investment, the investment must provide seed, start-up or expansion capital to qualifying enterprises and must be made exclusively in the form of equity. Shares must be held for 5 years.

9.17 A company can raise a maximum of €2 million in a year and must have a salary base of at least €34,900 during the year in which the investment is made or the following year.

**Finland**

9.18 Finland provides a scheme called “Tax Deferral of Taxable Capital Income for Business Angels Scheme”\(^{31}\). This scheme provides a tax incentive to private individuals who invest equity directly into companies. The measure is designed to support new innovative businesses. The scheme provides a deduction equal to 50% of the amount invested. This deduction can be offset against income from other sources, e.g., rental income, dividends, interest etc. The minimum amount that can be invested is €10,000 and the maximum is €150,000, resulting in a minimum deduction of €5,000 and a maximum of €75,000. Investments can be made in a number of companies, but the annual amount must not exceed €150,000.

9.19 Qualifying companies are SMEs which fall within the EU Commission SME definition and the company must have been established less than 6 years before the investment.

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\(^{29}\) Venture Capital Trust Scheme

\(^{30}\) Swedish scheme “Tax Deduction for Investments by natural Persons in Small Enterprises”

\(^{31}\) Finnish scheme “Tax Deferral of Taxable Capital Income for business Angels Scheme”
9.20 A company can raise up to €2.5 million per year. The scheme is limited to three years, therefore an effective lifetime limit per company of €7.5 million applies.

**Denmark**

9.21 Denmark provides a scheme called “Share Scheme for Firms Providing Employment”\(^{32}\). This scheme is only available to companies and investment funds and provides an exemption from corporation tax (currently 22%\(^{33}\)) on any capital gains or dividends received from shares purchased in qualifying companies. Loss relief if also provided, but can only be deducted from other share profits.

9.22 Qualifying companies are SMEs which fall within the EU Commission SME definition and is broadly available to all sectors, with a small number of exclusions such as property development.

9.23 A company can raise up to €2.5 million per year and the scheme is scheduled to run until 2021.

**Italy**

9.24 Italy provides a scheme called “Measures to Encourage Risk Capital Investments in Newly Created Enterprises”\(^{34}\). This scheme provides an exemption from withholding tax of 20% for investors who invest in venture capital trusts. This exemption applies to both dividends and capital gains.

9.25 Qualifying companies are SMEs which fall within the EU Commission SME definition, have been established less than 3 years before the investment and have registered capital of not more than €50 million. A company can raise up to €2.5 million in a year.

**Slovenia**

9.26 Slovenia provides a scheme called “Risk Capital Measure in Slovenia”\(^{35}\). This scheme provides 100% tax relief for individual investors and corporate investors who invest in risk capital funds.

9.27 Qualifying companies are SMEs which fall within the EU Commission SME definition. The maximum amount that can be raised by a company is €1.5 million per annum.

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\(^{32}\) **Danish Scheme “Share Scheme for Firms Providing Employment”**

\(^{33}\) **Danish Corporation Tax Rate**

\(^{34}\) **Italian Scheme “Measures to Encourage Risk Capital Investments in Newly Created Enterprises”**

\(^{35}\) **Slovenian Scheme “Risk Capital Measures in Slovenia”**
10. Literature Review

Commission on Taxation

10.1 The report of the Commission on Taxation\textsuperscript{36} was published in 2009, when the BES/SCS was still in force. The report found that “the SME sector is important to the Irish economy in terms of output, competitiveness and employment. We consider that the BES/SCS helps to address the issue of market failure in relation to the availability of equity capital and that it should remain in place up to its 2013 deadline.”

10.2 The Commission also felt that the administrative burden placed on companies seeking to benefit from the schemes was onerous and should be removed.

10.3 Accordingly, the EII/SCS that was introduced sought to address the continued market failure in terms of access to capital for SMEs and also to reduce the administrative burden placed upon SMEs applying for the scheme.

Innovation Taskforce

10.4 The Innovation Taskforce in its 2010 report “Innovation Ireland”\textsuperscript{37} acknowledged the importance of the SCS but noted that the relief requires the taxpayer to have paid a reasonable amount of tax in Ireland in the previous 6 years. They recommended the introduction of an Entrepreneurial Tax Credit as an alternative.

10.5 In relation to the BES, they stated that “the availability of reliefs such as the BES/SCS will be vital to the Irish economy over the next number of years as they provide incentives and support to those entrepreneurs looking to self-finance. These reliefs are needed now more than ever since they will help to provide equity capital which is not otherwise available.”

10.6 The report recommended an increase in the lifetime limit that companies could raise from €2 million to €5 million and that the scheme should be extended to include a broader range of companies, including medium-sized companies in non-assisted areas. They also recommended that mentoring should be encouraged, and that the restriction on the amount of equity that an investor can hold in a company under the scheme (currently 30%) was a barrier to this aim.

10.7 When the EII was introduced in 2011, the range of qualifying trades was significantly broadened and the lifetime limit that companies could raise was increased from €2 million to €10 million.

Entrepreneurship Forum

10.8 The Entrepreneurship Forum in its 2014 report “Entrepreneurship in Ireland – Strengthening the Start-up Community”\textsuperscript{38} identified a number of improvements that could be made to encourage investment, support lending and ease cash flow strain on the start-up community.

\textsuperscript{36} Commission on Taxation, Recommendation 8.53
\textsuperscript{37} Innovation Taskforce Report 2010 Recommendations 9.5 and 9.7
\textsuperscript{38} Entrepreneurship Forum Report Recommendations 6.1.2 and 6.1.4
10.9 In relation to the EII, the Forum recommended the following:

- Enable medium-sized enterprises in non-assisted areas to avail of the EII
- Increase the holding period from three years to five years
- Provide 41% relief up-front
- Remove the annual cap on investors of €150,000/increase the cap to €1 million
- Allow capital gains to be deemed as “special” income for the purposes of the EII

10.10 In relation to the SCS, the Forum recommended the following:

- Rebrand the scheme as SURE – Start-up Refunds for Entrepreneurs
- Increase the investment limit to €250,000
- Provide “capital matching” funds of 50% of the amount invested
- Provide a full CGT exemption as an alternative to an income tax refund where the gains are reinvested in the scheme
11. Public Consultation

11.1 On 31 March 2014, the Minister for Finance, Mr Michael Noonan T.D., announced the commencement of a public consultation process on the EII/SCS in addition to a number of other tax schemes. The public consultation on the EII/SCS ran for six weeks and closed on 9 May 2014. Analysis of the proposals received is set out below. Following the public consultation period, officials from the Department of Finance and the Office of the Revenue Commissioners engaged in a series of meetings with key stakeholders to further discuss their proposals and views on the EII/SCS. It is worth noting that the views and experience on the EII/SCS that the stakeholders have shared with the Department and Revenue during the consultation process has been an important contribution to the review of the EII/SCS.

EII

Analysis of Proposals Received

11.2 A total of 19 submissions containing 51 proposals for amendments to the EII were received from groups including industry representative bodies, government agencies, companies and accountancy firms. In addition, 10 stakeholder meetings were held to discuss their proposals further. The consensus among stakeholders was that the EII is an important source of finance for companies and that the scheme should be enhanced.

11.3 The top 7 proposals are as follows:

- Provide 41% relief up-front
- Allow medium-sized enterprises in non-assisted areas to avail of the scheme
- Remove the restriction on group/subsidiary companies or “connected persons”
- Provide loss relief/roll-over relief at the CGT rate
- Reinstate the 5 year holding period
- Include film production
- Include internationally traded financial services

Proposal 1: Provide 41% relief up-front

11.4 Relief is initially available to an individual at up to 30%. A further 11% relief is available where it has been proven that employment levels have increased at the company at the end of the holding period (3 years) or where evidence is provided that the company used the capital raised for expenditure on research and development.

11.5 A total of 9 of the 18 respondents suggested this amendment, which equates to 50% support for this proposal. Fig. 1 below details the breakdown of the submissions:
11.6 A sample of comments in support of providing 41% relief up-front is below:

“The two tranche phasing was designed to address concerns of a major take up of the programme. However, the results from 2012 demonstrate that such a concern has not materialised. The release of the additional 11% would add to the attractiveness of investing in Irish businesses and support employment growth.”

“The tax benefit of 30% as a reward for high risk investment is inadequate when coupled with the absence of a guarantee that an additional 11% relief will ultimately be available as a result of the company not meeting the requirements necessary to generate the 11% relief or as a result of a change in tax law.”

“Investors currently receive tax relief of 30% in Year 1 and must then wait 4 years for the remaining 11%. This means the investment is less attractive to investors. We suggest increasing the tax relief on year 1 to 41% in order to attract a greater number of Investors.”

“This rule restricts the number of potential companies that promoters will consider bringing to investors. Slightly riskier propositions are ruled out because covering the downside by 30% just isn’t enough to convince investors to take the risk”
Observations on Proposal 1

- There is a risk that providing all the relief up-front may undermine the aim of the scheme to target investments to companies that invest in R&D or generate employment. To re-instate the same level of relief that was available under the BES could be seen as a policy reversal and lead to claims that the scheme is no longer focussed on job creation.

Proposal 2: Allow medium-sized enterprises in non-assisted areas

11.7 Medium-sized enterprises operating in what are known as the "non-assisted areas" of Ireland may only qualify for the EII in their seed/start-up phase of development. For State Aid purposes, Ireland is divided into "assisted" and "non-assisted" areas. The Regional Aid Map for Ireland for 2014 - 2020 details the current assisted areas of Ireland. In general, all areas in the State with the exception of Dublin city and county, Cork city and county (excluding Cork Docklands) and the mid-east generally with the exception of Kells, Athy and Arklow are classed as assisted areas.

11.8 A total of 8 of the 18 respondents supported this amendment, which equates to 44.4% support for this proposal. Fig. 2 below details the breakdown of the submissions:

Fig 2: Breakdown of submissions in relation to Proposal 2
11.9 A sample of comments in support of the inclusion of medium-sized enterprises in non-assisted areas is below:

“This restriction is imposing limitations on businesses in these areas to grow and hire staff. We are aware of companies in our own client base located in these areas that would have been in a position with a cash injection via the EIi scheme to create new jobs.”

“The investment in a potential EIi company is diverted to another often non-job creation rich investment opportunity. Removal of this restriction will require consultation with the European Commission but it is worth the energy necessary to have it removed.”

“Enterprise and employment should be incentivised in all counties and not just a select few.”

“A number of Counties are not included in the EIi Scheme, one of which is Wicklow. I strongly believe that county Wicklow should be included. Large parts of the County are isolated and have difficulties obtaining and maintaining SMEs and are at a strong disadvantage relative to our neighbours.”

<table>
<thead>
<tr>
<th>Observations on Proposal 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The EU have signaled that they may be favourably disposed to the inclusion of medium-sized enterprises in expansion stage who are located in non-assisted areas, however there is no guarantee that an application for such inclusion would succeed.</td>
</tr>
</tbody>
</table>

Proposal 3: Remove the restriction on group/subsidiary companies or “connected persons”

11.10 A qualifying investor is an individual who is not connected with the company. In general, this means that an individual cannot own more than 30% of the company they are investing in.

11.11 The conditions relating to connected parties as qualifying investors do not apply to an investor investing in his/her own company where the amounts subscribed for the issued share capital and the loan capital do not, in aggregate, exceed €500,000.

11.12 A qualifying company can have subsidiaries provided generally that:
  • The subsidiaries are at least 51% owned by the parent company; and
  • The subsidiaries are themselves qualifying companies, or carry out certain services for, or functions on behalf of, the parent company or its subsidiaries.

11.13 A total of 6 of the 18 respondents supported this amendment, which equates to 33% support for this proposal. Fig. 3 below details the breakdown of the submissions:
11.14 A sample of comments in support of the removal of the restriction on group/subsidiary companies or connected persons is below:

“Most small businesses are family run and owned and it is often easier to garner investments from connected persons than from external investors. It is counter-productive for the scheme to contain rules which serve to dissuade people from making investments.”

“Even though the scope of companies which can avail of funding under the EII scheme has been widened, the old legislation – still in place – is very restrictive to companies operating a group structure. In such cases, subsidiary companies must satisfy restrictive criteria in order for the holding company/group to qualify. It is quite common for companies to have a group structure and in reality it is unlikely that all entities will be qualifying companies. Therefore, the current legislation is preventing what would otherwise be eligible companies from availing of EII funding.”

“Greater facilitation of Business Angel investors should be considered, for example by loosening the criteria that currently bar the investor from being connected with the company invested in for tax purposes.”

“It would not be unusual for start-up ventures to incorporate subsidiaries in non-Irish locations to carry out business in those locations (for commercial reasons related to local markets or suppliers). As the law is currently written these non-Irish subsidiaries could disqualify the start-up company from the scope of EII relief. The view that an SME must be a standalone company with no subsidiaries or parent companies is an archaic view and provided the qualifying company meets the SME test, it should be permitted to have as complex a group structure as is commercially necessary.”
**Observations on Proposal 3**

- The removal of this restriction would give rise to concerns regarding abuse of the scheme.
- Significant anti-avoidance measures would be required in order to balance the removal of this restriction.
- The removal of the connected person’s restriction would permit equity investments by business angels. However, it may be more appropriate to give consideration to a separate scheme similar to the UK Venture Capital Trusts for such investments.

**Proposal 4: Provide loss relief at the CGT rate**

11.15 The normal provisions relating to Capital Gains Tax, including those applicable to unquoted companies, apply in regard to investments under the scheme. For the purposes of calculating an individual’s CGT liability, the purchase price of the shares is considered to be the cost before the deduction of the tax relief. In general, losses on the sale of shares do not give rise to an allowable loss for CGT purposes.

11.16 A total of 5 of the 18 respondents supported this amendment, which equates to 28% support for this proposal. Fig. 4 below details the breakdown of the submissions:

![Diagram showing the breakdown of submissions with regard to Proposal 4](image)

**Fig 4: Breakdown of submissions with regard to Proposal 4**

11.17 A sample of comments in support of the provision of loss relief at the CGT rate is below:

“Under the UK Scheme, the capital loss of up to 59% of the investment can be converted into a deductible income tax loss and relieved at the prevailing CGT rate.”

“Non-traditional investors have a different risk profile to the typical cohort of seasoned BES/IEES investors and are currently not sufficiently encouraged to make investments in SMEs due to relatively low value returns and relatively high investment risk. This makes investing in SMEs a relatively risky proposition compared to housing, stocks or general savings.”
“Given the high risk associated with an investment in an SME trading company, consideration should be given to removing this restriction on the available CGT loss arising on the disposal of shares. If this loss could be offset against another CGT gain, it would help to reduce the economic loss suffered on the investment. This would help to mitigate some of the risk for the investor of making a qualifying investment.”

Observations on Proposal 4

- The UK Employment Investment Scheme provides loss relief at the CGT rate, which is calculated less any tax relief already received.
- To provide loss relief would reduce the risk of the overall investment. The EII exists to encourage individuals to make such risky investments. If there is no risk, then there is no need for a tax incentive.
- The UK scheme also provides an exemption from CGT for any gains that are re-invested in EIS companies. Recognising the need to encourage investment, a similar roll-over CGT exemption was introduced in Ireland in Budget 2014 for entrepreneurs who re-invest gains made from a company in another new venture.

Proposal 5: Reinstate the 5 year holding period

11.18 Currently, under the EII, shares must be held for a minimum of 3 years in order to qualify for the tax relief. If shares are disposed of before that time, the relief can be clawed back. Previously, under the BES, the minimum holding period was 5 years.

11.19 A total of 5 of the 18 respondents supported this amendment, which equates to 28% support for this proposal. Fig. 5 below details the breakdown of the submissions:

Fig 5: Breakdown of submissions in relation to Proposal 5
11.20 A sample of comments in support of re-instating the 5 year holding period is below:

“While acknowledging the reduction in the holding period is the minimum holding period, it has become the investor’s benchmark expectation. There is consistent feedback from stakeholders that it is not realistic to expect most SMEs to be able to raise, invest and repay funds within three years to investors and provide a reasonable return. Stakeholders (particularly from manufacturing firms) have consistently raised concerns that this mismatch in expectations risks negative investor perception of the scheme. The impact of this ‘benchmark holding period’ of three years is that investment is pushed towards more established companies with a track record and away from companies at the earlier more risky stage of the life cycle that are often those most in need of equity funding.”

“This period is too short for companies to have accrued a cash flow benefit sufficient to pay back EII investors. This limits the company’s eligible to more likely be at a later stage of the company’s development, which is counter to the aim of the EII’s objectives.”

“In practice, the 3-year investment timeframe is proving quite restrictive. It is difficult for companies to invest funds received through the EII and generate a return sufficient to pay back the investment within a 3-year period. Numerous companies have cited this to our members as a drawback of the scheme and a reason for not using EII as a source of finance.”

<table>
<thead>
<tr>
<th>Observations on Proposal 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Comments from companies suggest that the 3 year period is not long enough for them to be able to return the investment. However, when the minimum holding period was 5 years under the BES, investors stated that the holding period was too long.</td>
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<tr>
<td>• There is a balance to be struck in relation to incentivising the investor and enabling the company to utilise the investment. It should be noted, however, that the 3 year holding period is a minimum term. There is no requirement to return the investment after that time.</td>
</tr>
<tr>
<td>• A compromise could be to change the minimum holding period to 4 years.</td>
</tr>
</tbody>
</table>

Proposal 6: Include film production

11.21 Currently, a number of trading activities are not eligible for the scheme. One such trading activity is production of film.

11.22 A total of 4 of the 18 respondents supported this amendment, which equates to 22% support for this proposal. Fig. 6 below details the breakdown of the submissions:
Fig 6: Breakdown of submissions in relation to Proposal 6

11.23 A sample of comments in support of the inclusion of film production is below:

“The UK equivalent of EII specifically includes film production companies. If the Irish scheme is not amended this could have a negative impact on the film industry in Ireland given our proximity to the UK.”

“The industry’s closest competitor, the UK, operates a corporation tax credit for film and television production but also provides tax relief for individual investment in production through the Enterprise Investment Scheme. The lack of a similar incentive here will put Ireland at a distinct competitive disadvantage when competing with the UK for internationally mobile projects by increasing the relative cost of producing in Ireland. This is likely to counteract to some extent the positive impact of the enhanced benefit that the amendments to Section 481 are expected to deliver with negative consequences for employment.”

**Observations on Proposal 6**

- The film relief scheme, provided for in section 481 of the Taxes Consolidation Act, 1997, has been amended such that the relief is no longer provided to the investor but instead is provided to the film production company as an enhanced 32% corporation tax credit.
- The UK operates a similar film relief scheme to the one above.
Proposal 7: Include internationally traded financial services

11.24 Some trades are specifically excluded by the Community Guidelines on state aid to promote risk capital investments in small and medium-sized enterprises. In addition, some trades are excluded on the basis that they are purely speculative in nature and it is unlikely that they will contribute to the job creation objectives of the incentive in a meaningful way. One such trade is internationally traded financial services companies.

11.25 A total of 3 of the 18 respondents supported this amendment, which equates to 17% support for this proposal. Fig. 7 below details the breakdown of the submissions:

Fig 7: Breakdown of submissions in relation to Proposal 7

11.26 A sample comment in support of the inclusion of internationally traded financial services is below:

“We recommend that an anomaly which has arisen in relation to internationally traded financial service companies is addressed by removing/amending the legislative exclusion and/or requiring an Enterprise Ireland certification to enable these companies to access the EI.”
Observations on Proposal 7

- These companies were excluded from the EII as they were considered to be companies that engaged in the trade of “dealing in commodities or futures in shares, securities or other financial assets”. However, a cohort of companies within the definition of international financial services provide a range of services apart from those listed previously.

- It is not unreasonable that these types of companies would be included in the EII as they potentially offer employment prospects and contribute to the overall financial services offering in Ireland. However, the restriction on dealing in commodities or futures in shares, securities or other financial assets should remain. In addition, a requirement to be certified by Enterprise Ireland would be required.

- Their inclusion in the scheme would support the vision outlined in the International Financial Services Industry in Ireland 2011-2016 Strategy\(^3^9\) to increase employment and exports, maximise the number of financial services HPSUs and support indigenous firms to compete in international markets.

Summary of Other Proposals Received

11.27 Other proposals received are set out in table 12 below:

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Observations</th>
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</thead>
<tbody>
<tr>
<td>Permanently remove the EII from the High</td>
<td>The EII was removed from the high earners’ restriction for a period of three years in Budget 2014. This change was made in the hope that</td>
</tr>
<tr>
<td>Earners’ Restriction</td>
<td>investors would be encouraged to invest funds in SMEs. It would be premature to remove it permanently without seeing what effect its temporary removal has had.</td>
</tr>
<tr>
<td>Remove/Increase the annual investor cap of</td>
<td>The UK EIS scheme permits investments of up to £1 million per annum. However, as the scheme was removed from the high earners’ restriction in</td>
</tr>
<tr>
<td>€150,000</td>
<td>Budget 2014 it would be premature to increase the cap without evaluating the impact of this change.</td>
</tr>
<tr>
<td>Allow rollover CGT relief on re-investments</td>
<td>The UK EIS scheme provides CGT rollover relief for funds that are re-invested in qualifying companies. A scheme of entrepreneur relief was</td>
</tr>
<tr>
<td>into the scheme</td>
<td>introduced in Budget 2014 to provide CGT relief for entrepreneurs who re-invest the proceeds of previous asset disposals in new ventures.</td>
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<tr>
<td></td>
<td>The introduction of a similar exemption for individuals who re-invest gains made from an investment in another qualifying EII company could</td>
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<td></td>
<td>increase investment levels. However, more detailed analysis would need to be carried out on the rate of company success in returning investments</td>
</tr>
<tr>
<td></td>
<td>with a gain to investors. This could be evaluated as part of a future review of the EII.</td>
</tr>
<tr>
<td>Allow relief to be carried back providing</td>
<td>This would enable an investor to receive a refund of tax paid in previous years against an EII investment.</td>
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<tr>
<td>relief limit not exceeded</td>
<td></td>
</tr>
<tr>
<td>Allow capital replacement operations. This</td>
<td>This would leave the scheme open to abuse where multiple rounds of investments could be made, all availing of up to 41% relief with no</td>
</tr>
<tr>
<td>would enable investors to exit their</td>
<td>minimum holding period.</td>
</tr>
<tr>
<td>investment before the minimum holding period</td>
<td></td>
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<tr>
<td>was up, providing there was a new cash</td>
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<td>injection into the company.</td>
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<tr>
<td>Remove the employment/R&amp;D criteria</td>
<td>These criteria are in line with stated Government objectives that scarce Government resources should be targeted at increasing employment.</td>
</tr>
<tr>
<td>Proposal</td>
<td>Observations</td>
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<tr>
<td>Remove the anti-avoidance provision in s496(3) or replace with a ban on fixed price Put &amp; Call agreements</td>
<td>This could result in companies agreeing with investors on the maximum return their investment could receive. The conditions of the scheme are such that shares must be ordinary, unencumbered shares.</td>
</tr>
<tr>
<td>Expand the scheme to allow preference shares/remove the requirement for the shares to be the lowest class of share</td>
<td>It has been pointed out that similar funds operated by banking institutions provide investors with a higher ranked class of share, which means they are ranked higher in the order of creditors. However, investors in these funds do not receive tax relief on their investments. The tax relief is provided in recognition that EII investments are risky.</td>
</tr>
<tr>
<td>Provide a CGT exemption for gains made on the sale of shares</td>
<td>The current rate of CGT is 33%. To provide an exemption at this rate on gains, along with tax relief of up to 41% on the original investment would remove most of the risk from the investment.</td>
</tr>
<tr>
<td>Alter preliminary tax rules to allow investors to obtain the relief in the current year when they base their tax on the preceding year</td>
<td>This would result in tax planning, where investors would invest any spare cash they had at the end of a year in order to reduce their tax bill to zero. Combined with the removal of the scheme from the HER, this could be very costly.</td>
</tr>
<tr>
<td>Publicise it better/ Promote more/Re-brand to clarify it’s an investment in SMEs.</td>
<td>A significant amount of work is done by both Revenue and Government Departments to make investors aware of the relevant schemes available to them. In addition, the online SME tool lists all investment opportunities, and the scheme is being widely promoted by the newly established Local Enterprise Offices. The Equity Finance Sub-group has made recommendations in this area which are set out in Annex 6. The group will be pursuing these recommendations further with relevant stakeholders including the Department of Jobs, Enterprise and Innovation.</td>
</tr>
<tr>
<td>Proposal</td>
<td>Observations</td>
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<tr>
<td>Increase the company annual limit to €5m &amp; lifetime limit to €20m</td>
<td>The UK EIS scheme has an annual company limit of £5 million while the current annual limit under the EII is €2.5 million and the lifetime limit is €10 million. While information is not available on the number of companies that have already reached the lifetime limit, it is assumed that a number may have or are nearing this limit. An increase in the limit could, therefore, be justified.</td>
</tr>
<tr>
<td>Remove company lifetime threshold and implement UK thresholds</td>
<td>A company lifetime threshold is required in order to provide a measure of protection to the Exchequer and in order to prevent some companies from “soaking up” available funds to the detriment of other smaller companies. In addition, companies are bound by the EU SME size definitions. If a company were to receive significant funds, they may breach these size definitions.</td>
</tr>
<tr>
<td>Evaluate the cost/benefits of extending to other sectors</td>
<td>This was suggested by one stakeholder, but no specific sectors were identified. The scheme is currently available to the majority of trades. Only a small number of trades are excluded and some of these are prohibited under the EU Guidelines.</td>
</tr>
<tr>
<td>Model on the UK Scheme</td>
<td>There is a perception that the UK scheme is far more generous than the EII. However, the level of relief available under the UK scheme is less than the EII and the holding period is the same. The main advantage of the UK scheme appears to be the availability of CGT relief.</td>
</tr>
<tr>
<td>“Use of funds” requirement to receive EII if not yet trading needs to be clarified/simplified</td>
<td>This use of funds if a company is not yet trading is clear. The company must expend at least 30% of the funds raised under the scheme on R&amp;D activities which are connected with and undertaken with a view to carrying on relevant trading activities.</td>
</tr>
<tr>
<td>Give extra 11% relief to companies who retain employment not just increase employment</td>
<td>The scheme is designed to incentivise companies to increase employment or increase R&amp;D spend.</td>
</tr>
<tr>
<td>Revise rules re measuring employment created to allow increases in sub-contracted companies</td>
<td>Sub-contracting companies are separate to the company receiving the investment and are generally not full-time, permanent jobs. The sub-contracting company is free to avail of the EII themselves, provided they meet the subsidiary/connected person requirements.</td>
</tr>
<tr>
<td>Proposal</td>
<td>Observations</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Include deeming conditions such as being an EI client to qualify</td>
<td>When introduced, the EII was intended to be much simpler to avail of than the BES. The approval process with the Revenue Commissioners has been greatly simplified. However, there are certain checks that need to be carried out by Revenue in order to comply with EU Guidelines.</td>
</tr>
<tr>
<td>Simplify cumulation rules</td>
<td>Rules in relation to the cumulation of State Aid are laid down by the EU Commission. We have no scope to amend these rules.</td>
</tr>
<tr>
<td>Allow for investment by owners by way of a loan to qualify by extending the definition of a relevant investment to include loan capital. Link the holding period to the amount of loan capital. Include a claw back if the loan is repaid before the end of holding period</td>
<td>This type of investment would be better suited to a separate, standalone scheme as a company owner could be considered a connected person for the purposes of the EII.</td>
</tr>
<tr>
<td>Reduce the amount of relief that is withdrawn pro-rata with the amount of time left to run on the holding period</td>
<td>This would enable investors to exit the scheme before the minimum holding period was up and to retain an element of their relief. This would serve to undermine the minimum holding period and create uncertainty for companies.</td>
</tr>
<tr>
<td>Grant additional tax relief if a fund is used</td>
<td>The tax relief is provided to the investor, regardless of the method they use for their investments. It is arguable that the level of risk is reduced when a fund is used, as the individual’s investment is spread across a portfolio of companies. It would also militate against individual companies raising investment in their own right.</td>
</tr>
<tr>
<td>Assess whether the broadening of the eligible sectors has moved investment towards lower risk investment</td>
<td>This kind of analysis is not possible at the present time due to the lack of available data on the scheme. Once a full cycle of investments has been completed, there will be more data available to enable such analysis.</td>
</tr>
<tr>
<td>Research the broadening of the scheme beyond equity financing and the merits of providing additional seed capital interventions</td>
<td>This type of analysis is beyond the scope of this review.</td>
</tr>
<tr>
<td>Clarify and/or amend the current “received value” rules</td>
<td>The received value rules are an anti-avoidance measure which seeks to ensure that the company and the investor do not enter into arrangements merely to avail of the tax relief. The conditions surrounding this measure are clearly detailed in the Revenue explanatory leaflet on the EII: IT55.</td>
</tr>
<tr>
<td>Proposal</td>
<td>Observations</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
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</tr>
<tr>
<td>Remove the SME limitation</td>
<td>The SME limitation is laid down by the EU Commission. It is not possible to remove this restriction.</td>
</tr>
<tr>
<td>Allow loan investment in dairy processors rather than share capital</td>
<td>This proposal would be better suited to a separate scheme as dairy processors would be in breach of the SME size guidelines.</td>
</tr>
<tr>
<td>Include Nursing Homes</td>
<td>There appears to be a misunderstanding that access to EII funding would permit the construction of new nursing homes. This is not the case. The EII is intended to facilitate the acquisition of working capital used for the carrying-on of a trade or the expansion of an existing trade. However, if hotels remain eligible for the EII it would be difficult to defend the exclusion of managing and operating nursing homes.</td>
</tr>
</tbody>
</table>

*Table 12: Other Proposals Received*
SCS

Analysis of Proposals Received

11.28 A total of 9 submissions containing 25 proposals for the SCS were received from groups including industry representative bodies, government agencies, companies and accountancy firms. In addition, 10 stakeholder meetings were held to discuss their proposals further. The consensus among stakeholders was that the SCS is an important source of finance for entrepreneurs and that the scheme should be enhanced.

11.29 The top 5 proposals are as follows:

- Introduce a scheme similar to the UK SEIS
- Promote the scheme more widely
- Set timelines for processing claims
- Remove the restriction on income from self-employment
- Rename the scheme as “Start Up Relief for Entrepreneurs (SURE)”

Proposal 1: Introduce a scheme similar to the UK SEIS

11.30 The UK Seed Enterprise Investment Scheme (SEIS) provides tax relief on 50% of investments of up to £100,000 per year. CGT relief on 50% of the investment is also provided where previous investments are rolled over into new investments. The company must have less than 25 employees and assets of less than £200,000. The maximum relief a company can receive under the SEIS is £150,000.

11.31 A total of 4 of the 9 respondents supported this amendment, which equates to 44% support for this proposal. Fig. 8 below details the breakdown of the submissions:

![Introduce a scheme similar to the UK SEIS](image-url)

Fig 8: Breakdown of submissions in relation to Proposal 1
11.32 A sample of comments in support of the introduction of a scheme similar to the UK SEIS is below:

“The UK has recently recognised the differential risk profiles between micro and medium-sized enterprises by introducing the SEIS scheme which provides more generous incentives for individuals investing in start-up firms... This scheme acts as a compliment for the EII in recognising the different risk profiles at different stages of company investment.”

“A tax incentive for investment in smaller start-up companies should be introduced similar to the SEIS launched in the UK in 2012.”

### Observations on Proposal 1

- The SEIS is designed for investors to invest in start-up companies. It is not the same as the SCS which is intended to provide a refund of tax already paid to individuals who start their own companies.
- Individuals who have availed of the SCS to start their own companies can also avail of the EII, subject to meeting the qualifying conditions.

### Proposal 2: Promote the scheme more widely

11.33 A total of 4 of the 9 respondents supported this recommendation, which equates to 44% support for this recommendation. Fig. 9 below details the breakdown of the submissions:
11.34 A sample of comments in support of the proposal to promote the scheme more widely is below:

“Take-up of the scheme has been relatively steady over the past decade. Despite this, existing take-up should be considerably higher in volume terms given that over 11,000 new firms are created a year. This suggests that information on their entitlements under the new scheme is not reaching individuals starting a new company. This must be prioritised through the new LEO system.”

“Enhance publicity and promotion, e.g., through LEOs, Companies Registration Office, Revenue Commissioners – should be automatically sent information on this once you register the business either with the CRO or Revenue.”

<table>
<thead>
<tr>
<th>Observations on Proposal 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The scheme is already widely publicised through various Government Departments, the Revenue Commissioners, the online SME tool and Local Enterprise Offices.</td>
</tr>
<tr>
<td>• The Equity Finance Sub-group has made recommendations in this area which are set out in Annex 6. The group will be pursuing these recommendations further with relevant stakeholders including the Department of Jobs, Enterprise and Innovation.</td>
</tr>
</tbody>
</table>

**Proposal 3: Set timelines for processing claims**

11.35 The SCS requires an individual to apply to the Revenue Commissioners for the tax refund. Supporting documentation must be provided, as highlighted on forms RINE-C and RINE-I (Annexes 3 & 4).

11.36 A total of 4 of the 9 respondents supported this recommendation, which equates to 44% support for this recommendation. Fig. 10 below details the breakdown of the submissions:

**Fig 10: Breakdown of submissions in relation to Proposal 3**
11.37 A sample of comments in support of the proposal to set timelines for processing claims is below:

“Revenue should commit to processing income tax refunds quickly to aid start-up firms with cash flow.”

“We recommend that Revenue give an administrative undertaking that approved SCS income tax refunds will be processed quickly and in an agreed timeframe once Revenue have received the required documentation.”

**Observations on Proposal 3**

- The Revenue Commissioners process all claims for SCS relief in a timely manner.
- Delays can occur when individuals do not include all of the necessary supporting documentation, such as bank statements and business plans.
- While necessary, the supporting documentation and procedures for claiming the relief may be confusing for individuals who, up until now, were engaged in PAYE employment.

**Proposal 4: Remove the restriction on income from self-employment**

11.38 The SCS was designed to assist individuals who are in PAYE employment or were recently made redundant and who wish to start their own, incorporated business. The individual’s sources of income over the previous 4 years are examined. In the tax year immediately before the year in which the investment is made, the individual may have income from any source, including self-employment. In the other 3 years, the amount of non-PAYE income (e.g. rental, investment, self-employment income) may not exceed the lower of €50,000 or the total amount of PAYE income.

11.39 A total of 4 of the 9 respondents supported this recommendation, which equates to 44% support for this recommendation. Fig. 11 below details the breakdown of the submissions:
11.40 A sample of comments in support of the proposal to remove the restriction on income from self-employment is below:

“It is timely to review the underpinning justifications for such restrictive criteria to identify the underlying concerns and determine whether they could be mitigated in a more equitable manner.”

“The condition that states that the investor must have been in employment apart from one year prior to investing in the business is too restrictive... This timeframe should be doubled.”

“Government should consider options for making the scheme more attractive to the self-employed.”
Observations on Proposal 4

- There are other tax incentives already in place to support self-employed entrepreneurs such as Entrepreneur Relief, Start Your Own Business and 3 Year Corporation Tax Relief. In addition, state agencies such as Enterprise Ireland provide grant schemes and supports.
- The SCS is specifically targeted at the PAYE sector.
- This condition was introduced to prevent abuses of the scheme where a self-employed individual would set up a business in order to claim the tax refund and fold it shortly afterwards. In such circumstances, it would be very difficult to prove that legitimate efforts were not made to make the business a success.
- The requirement to incorporate removes some of this uncertainty, as such individuals would most likely not incur the expenses associated with incorporation if their intent was to fold the business.

Proposal 5: Rename the scheme as “Start-Up Relief for Entrepreneurs” (SURE)

11.41 The scheme was called the Seed Capital Scheme, as it was intended to make it clear that the aim of the scheme was to provide seed capital to individuals who start their own business.

11.42 A total of 3 of the 9 respondents supported this recommendation, which equates to 33% support for this recommendation. Fig. 12 below details the breakdown of the submissions:

Fig 12: Breakdown of submissions in relation to Proposal 5

11.43 A sample comment in support of the proposal to rename the scheme as Start Up Relief for Entrepreneurs is below:
“The Entrepreneurship Forum Report recommends rebranding the SCS to convey in the name what the scheme does... We support the recommendation for the rebranding of the SCS to “Start Up Relief for Entrepreneurs (SURE)” in conjunction with a centrally co-ordinated communication and marketing plan, with appropriate briefing for those engaging directly with the potential entrepreneurs.”

<table>
<thead>
<tr>
<th>Observations on Proposal 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There is no difficulty in changing name of the scheme if it will communicate more clearly what the intent behind the scheme is.</td>
</tr>
<tr>
<td>• It may provide impetus to the scheme if it is re-branded and accompanied by a comprehensive publicity campaign.</td>
</tr>
</tbody>
</table>
Summary of Other Proposals Received

11.44 Other proposals received are set out in table 13 below:

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allow the investment to be paid in three tranches, not two</td>
<td>Investors can make an unlimited number of investments in any two tax years over a three year period. At the end of the year, all investments that have been made are aggregated into one for the purposes of calculating the tax refund due.</td>
</tr>
<tr>
<td>Provide a full CGT exemption as an alternative to a tax refund where sale proceeds are reinvested in an SCS company</td>
<td>In Budget 2014, a new scheme of entrepreneur relief was introduced which provides relief on CGT for entrepreneurs who re-invest sale proceeds in a new company.</td>
</tr>
<tr>
<td>Increase the maximum investment limit to €250,000 and provide relief at 50%</td>
<td>The statistical analysis of the SCS shows that very few individuals exceeded the current annual limit of €100,000. In order to avail of the full amount of relief if €250,000 were invested, an individual would have to have paid tax of €102,500 in a year.</td>
</tr>
<tr>
<td>Grant the tax relief upfront</td>
<td>This would result in the tax refund being used as part of the investment. There would be no guarantee that the refund would be invested in the business.</td>
</tr>
<tr>
<td>Extend the scheme to include individuals who have left employment up to two years</td>
<td>There is no restriction on how long an individual can have been unemployed in advance of investing in a business.</td>
</tr>
<tr>
<td>Allow the tax relief to cover part of the investment</td>
<td>There would be no guarantee that the refund would be invested in the business.</td>
</tr>
<tr>
<td>Remove the exclusion on people who have previously held 15% or more of a trading company</td>
<td>This is an anti-avoidance measure. There are exemptions from this requirement in certain circumstances.</td>
</tr>
</tbody>
</table>

*Table 13: Other proposals received*
12. Options Analysis

EII
12.1 Three options have been considered:

1. To allow the schemes to run their course until 2020 – do nothing
2. To allow the schemes to run for another two years and then review
3. To amend the schemes and allow them to run until 2020

Option 1 – To allow the schemes to run their course until 2020 – do nothing
12.2 This would involve doing nothing and letting the current schemes run as-is until the end of 2020. The consensus among stakeholders is that the EII and SCS have not lived up to expectations and are not providing a real alternative source of finance for SMEs. While the levels of investment in the EII have improved in 2013, they are still far below what was achieved under the BES.

Option 2 – Do nothing but accept the schemes need to be reviewed again in 2016 when more data comes available
12.3 One of the biggest issues that has been encountered during the review has been the lack of available data on the schemes. As the first round of investments have not yet reached their minimum holding period of three years, no figures are available on whether any investors will receive the additional 11% that is payable if employment levels have increased at the company or the funds raised have been expended on R&D. As a result, there is merit in letting the schemes run for another two years until 2016 at which point there will be sufficient data available to allow a thorough review to take place. However, given the consensus among stakeholders that the schemes are not successful and the need for finance among SMEs, this option could represent a missed opportunity to enhance the schemes.

Option 3 – To amend the schemes and allow them to run until 2020
12.4 Stakeholders put forward many suggestions for the schemes in their responses to the public consultation and during subsequent meetings. However, as these schemes are approved State Aid schemes, any changes that might be made could not be implemented until the approval of the European Commission was received. The following amendments may provide additional stimulus to investors and assistance to companies in raising funds:

Amendment 1 – Increase the holding period to 4 years
12.5 Comments from companies suggest that the current 3 year holding period is not long enough to enable them to return the investments made. Typically, the companies will raise the funds in year one and invest them in year 2. This leaves them with 1 year in which to implement the changes as a result of the investment and also to achieve sufficient gains to allow them to return the investment to their investors. As a result, they are seeking the reinstatement of the 5 year holding period.

12.6 On the other hand, investors previously stated that the 5 year holding period was too long for them to wait for a return on their investments. In the current economic climate where more companies are competing for less available funds, increasing the holding period to 5 years could serve to further discourage investors.
12.7 There is a balance to be struck in relation to incentivising the investor and enabling the company to utilise the investment. Even though the 3 year holding period is a minimum term and companies are free to negotiate longer holding periods with their investors if they wish, it has become a de facto term. A possible compromise could be to increase the holding period to 4 years.

**Amendment 2 – Increase the company limits**

12.8 The current limits on funds that companies can raise are €2.5 million in a year and €10 million in a lifetime. As the BES and EII have been available since 1984, there are some companies who have reached or will shortly reach the lifetime limit. The UK EIS scheme allows companies to raise £5 million in a year, with no apparent lifetime limit. The newly updated EU risk capital guidelines have removed the cap on the amount of investment that can be raised in a year and have instead imposed a lifetime cap of €15 million.

12.9 While there were not many calls for the company limits to be increased, the increase in the annual limit to €5 million and the lifetime limit to €15 million could enable some companies to raise more funding to allow them to expand and therefore increase employment.

**Amendment 3 – Include medium-sized companies in expansion stage located in non-assisted areas**

12.10 Under the current EU State Aid Risk Capital Guidelines, medium sized companies in non-assisted areas at expansion stage are excluded from the EII scheme. When approval was received for the Business Expansion Scheme in 2007 the European Commission highlighted that “when further information regarding market failure in relation to the expansion stage of medium-sized companies in non-assisted areas becomes available, the Irish authorities may consider notifying modifications to the BES in order to apply the tax relief to the above mentioned companies”.

12.11 Furthermore, the Risk Capital Guidelines state that “The Commission recognises that certain medium-sized enterprises in non-assisted areas may have insufficient access to risk capital even in their expansion stage despite the availability of finance to enterprises having a significant turnover and/or total balance. Therefore, the Commission is prepared to consider declaring measures partly covering the expansion stage of medium-sized enterprises compatible with the common market in certain cases, provided the necessary evidence is submitted”.

12.12 The European Commission mid-term review of the risk capital guidelines highlighted that “whilst this limitation is rooted in the objective of targeting risk capital aid to the firms most in need of such investments (e.g. start-ups and young technology oriented companies), it would be useful to discuss during negotiations of new guidelines post 2013 whether, in the light of market evolution, the investment in the expansion phase of medium-sized enterprises

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40 EU Commission Approval (2007), section 67
41 Community Guidelines on State Aid to Promote Risk Capital investment in Small and Medium-Sized Enterprises (2006/C 194/02)
could also be safe-harboured in non-assisted areas (possibly involving additional safeguards).\textsuperscript{42}

12.13 The European Commission has adopted new risk capital guidelines for the period 2014 - 2020, and the regional aid map for Ireland which defines assisted and non-assisted areas has also been revised. The following areas are now classified as non-assisted:

- Dublin City and County
- Cork City and County
- The Mid-East generally, i.e. Kildare, Meath and Wicklow, with the exception of Kells, Athy and Arklow.

12.14 Given the European Commission’s comments suggesting they are favourably disposed to the inclusion of such companies and the fact that companies in these areas are experiencing the same difficulties in accessing finance as other companies, their inclusion would have some merit.

Amendment 4 – Include Internationally Traded Financial Services

12.15 This cohort of companies were excluded from the EII as they were considered to be companies that engaged in the trade of “dealing in commodities or futures in shares, securities or other financial assets” which is one of the trades excluded from the EII. However, these companies provide services apart from those listed previously.

12.16 These companies could offer employment prospects in a similar manner to other qualifying companies and could also contribute to the overall financial services offering in Ireland. In addition, the inclusion of these companies would support the vision outlined in the “International Financial Services Industry in Ireland 2011 – 2016 Strategy” which seeks to increase employment and exports, maximise the number of financial services HPSUs and support indigenous firms to compete in international markets. However, if these companies were included, the restriction on dealing in commodities or futures in shares, securities or other financial assets should remain.

Amendment 5 – Remove hotels from the scheme

12.17 In Budget 2013 the Minister for Finance announced that the managing and operating of hotels, guest houses and self-catering accommodation would be included in the EII scheme. A commitment was given to review this measure after two years.

12.18 In order to qualify under the scheme, establishments are required to be “tourist traffic undertakings” and as such are required to have had a three year marketing and development plan approved by Fáilte Ireland. Statistics from Fáilte Ireland show that the level of applications have been very low. Table 14 below illustrates the number of certificates issued:

\textsuperscript{42} EU Commission Mid-term review of the Risk Capital Guidelines
<table>
<thead>
<tr>
<th></th>
<th>Hotels</th>
<th>Hostels</th>
<th>Guesthouses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

*Table 14: Number of hotel certificates issued*

12.19 These figures represent applications made to Fáilte Ireland for certification as tourist traffic undertakings, and do not necessarily mean that the companies subsequently raised finance under the EII. The figures clearly show that the inclusion of hotels, guest houses and self-catering accommodation has not proven successful. This could be due to a number of reasons such as the upturn in the economy with occupancy rates rising and therefore profits increasing, the fact that the EII cannot be availed of by firms in difficulty and the reluctance among family owned businesses to dilute their equity.

12.20 As a result of the poor uptake among this sector, their removal from the EII could be justified.

**SCS**

12.21 The Seed Capital Scheme is designed to assist a specific cohort of entrepreneurs, namely those who have been recently made redundant or are PAYE employees who wish to start their own, incorporated business. The scheme provides a refund of tax previously paid to such individuals who invest in their business.

12.22 The scheme is not designed to be a vehicle for other investors to invest in seed companies. Such investors can utilise the EII for these companies once they have commenced trading. As a result, most of the proposed amendments to the scheme proposed by stakeholders are not appropriate, and may be better served by the introduction of a specific scheme for investors in seed companies such as the UK SEIS. Accordingly, the number of options available to amend the scheme are limited. The following amendment, however, may have some merit:

*Rebrand the SCS as “Start Up Relief for Entrepreneurs (SURE)”*

12.23 Stakeholders were agreed that the name of the scheme does not clearly communicate its intended purpose and suggested renaming the scheme as “Start Up Relief for Entrepreneurs (SURE)”\(^\text{1}\). Renaming the scheme may provide some impetus if, as also recommended, it is accompanied by a centrally co-ordinated communication and marketing plan. The Local Enterprise Offices would be best placed to provide this service.
13. Conclusions

13.1 The review has shown that, in the case of the EII, the need for a scheme to provide alternative sources of finance for SMEs is vital. The SCS is equally important for entrepreneurs as it enables them to invest more money in new enterprises. In the absence of an improvement in banking equity provision, such schemes will continue to be important.

13.2 The recent improvement in investor figures signals that the economy may be improving and that investors are more willing to take the risk of investing in expanding businesses. This may mean that the scheme needs more time to establish itself and that it may ultimately prove to be as successful as its predecessor.

13.3 Employment generation remains a Government priority and as such, the availability of additional tax relief where additional jobs have been created or R&D has been engaged in should remain. This element of the scheme ensures that scarce Exchequer resources are targeted at companies that provide the best chances of creating jobs.

13.4 The Seed Capital Scheme is a very specific scheme for a certain cohort of individuals, namely PAYE workers, who wish to start their own incorporated business. While there may be some merit in undertaking an informational campaign, the scheme itself serves the purpose for which it is intended. It is not designed to be available to private investors. Such investors can invest in these companies through the EII once the business has started trading. There is no restriction on a company utilising both schemes.

13.5 The lack of availability of data on the schemes has impacted on the thoroughness of this review. This is mainly due to the fact that the first round of investments are not due to mature until the end of 2014 and therefore there are no figures available on the number of investors who received the additional 11%. It is therefore critical that any amendments to the schemes will need to include the requirement to collect more quantitative data and statistics in order to allow for a more thorough review of the schemes in the future.
Annex 1 – Form EII Outline

Form EII Outline

RELIEF FOR INVESTMENT IN CORPORATE TRades
APPLICATION FOR OUTLINE APPROVAL

Corporation Tax Reference Number

Remember to quote this number in all correspondence or when calling at your Revenue office

This form when completed in full should be sent to:

Office of the Revenue Commissioners
Corporate Business & International Division
Stamping Building
Dublin Castle
Dublin 2.

Alternatively it can be sent by e-mail to: eiiadmin@revenue.ie

Applicants should note that incomplete applications may not be processed but may be returned to the applicant for completion. Applications which do not include the required supporting documentation will be treated as an incomplete application and will be returned.

Please complete in CAPITAL letters

Name of Company

Date of Incorporation

Date of commencement of trade

Employers Registration Number

(Please quote the reference number and name, if different, under which the trading company returns PAYE/PRSI on behalf of its employees)

Name & Address of Registered Office of Company

Company Name & Address where relevant trading activities are, or will be, carried on (if different to above)

Full names of the directors and persons with a controlling interest

Details (e.g. % shareholding, type of trade etc.) of any other companies which the principal shareholder(s) may individually or collectively control

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Shareholding</th>
<th>Type of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTES:

1. The purpose of this form is to enable a company to ascertain whether or not a proposed share issue is likely to attract relief under the scheme of relief for investment in corporate trades. It is stressed however, that entitlement to relief is determined when the share issue has taken place and the fact that a company may obtain outline approval does not guarantee the availability of relief.

2. Everything to be done by a company under the Taxes Acts is to be done through the secretary or person acting as the secretary of the company (See section 1044(2) Taxes Consolidation Act 1997).

3. In completing this form applications should consult with the definitions document on [www.revenue.ie](http://www.revenue.ie) which contains the statutory definition of terms used.

4. Your attention is drawn to the fact that:

   (a) Under EU cumulation of State-aid rules, full details of a beneficiary company of a State-aid in the form of Employment and Investment Incentive (EII) and or Seed Capital (SC) relief:

      • Must be notified to the European Commission;
      • Will be published on the Revenue website and on the European Commission website;
      • May be made available to other State bodies with the responsibility for the administration of other State-aided schemes.

   (b) The granting of SC or EII relief may have affects on future applications by the company for further State-aid schemes.

5. Any queries regarding EU cumulation of State-aid rules will not be dealt with by Revenue. Such queries should be addressed to the State body responsible for administration of the State-aid in question.
Applicants should note that incomplete applications may not be processed but may be returned to the applicant for completion.

Please complete the following checklist in respect of the company making the application by inserting Y or N into the answer box. If the question does not apply DO NOT LEAVE THE ANSWER BOX BLANK. Insert N/A into the answer box.

Where necessary insert notes into the notes column, or in the additional space provided at the back of this form.

**PART 1 Qualifying Company within the meaning of section 494 TCA 1997**

<table>
<thead>
<tr>
<th>Question</th>
<th>Documents to be submitted with application</th>
<th>ANSWER</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Select “Y” or “N” or “N/A” as appropriate</td>
<td></td>
</tr>
<tr>
<td>1. Is the company incorporated in the State?</td>
<td>Attach copy of Certificate of Incorporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Is the company incorporated in an EEA State (other than the State)?</td>
<td>Attach copy of Certificate of Incorporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Is the company an unquoted company within the meaning of section 488 TCA 1997?</td>
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<tr>
<td>4. Is the company resident in the State?</td>
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<tr>
<td>5. Is the company resident in an EEA State (other than the State) and carrying on business in the State through a branch or agency?</td>
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<tr>
<td>6. Which of the following applies?</td>
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</tr>
<tr>
<td>a. The company will, throughout the relevant period, carry on relevant trading activities from a fixed place of business in the State, or</td>
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<td></td>
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<tr>
<td>b. The company’s business consists wholly of:</td>
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<tr>
<td>(i) the holding of shares or securities of, or the making of loans to, one or more qualifying subsidiaries of the company, or</td>
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<td></td>
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</tr>
<tr>
<td>(ii) both the holding of such shares or securities, or the making of such loans and the carrying on of relevant trading activities from a fixed place of business in the State.</td>
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</tr>
<tr>
<td>Question</td>
<td>Documents to be submitted with application</td>
<td>ANSWER</td>
<td>Notes</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
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<tr>
<td>7  Is the company a -</td>
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<td></td>
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</tr>
<tr>
<td>a  A micro or small enterprise?</td>
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<tr>
<td>b  A medium sized enterprise located in an assisted area, or</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c  A medium sized enterprise which is not located in an assisted area,</td>
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<tr>
<td>which is at a stage of development not beyond start up stage?</td>
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<tr>
<td>8  Does the company carry on Tourist Traffic Undertakings?</td>
<td>Attach approval from Failte Ireland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9  Does the company carry on green energy activities?</td>
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<tr>
<td>10 Is the company regarded as a firm in difficulty?</td>
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<tr>
<td>11 Is the company associated with any other company?</td>
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<tr>
<td>12 Is the company controlled by another company?</td>
<td>If Y please provide further details in the</td>
<td></td>
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<td>space provided for at the back of this form.</td>
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<tr>
<td>13 Does the company control another company(ies)?</td>
<td>If Y please provide further details in the</td>
<td></td>
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<td>space provided for at the back of this form.</td>
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</tr>
<tr>
<td>14 Has any person or groups of persons who have control of the EIi</td>
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<tr>
<td>company had control of the trade as it was previously carried on</td>
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<tr>
<td>before the EIi company existed? This is relevant in the period</td>
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<tr>
<td>beginning on the incorporation of the company (or, if the company</td>
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<tr>
<td>was incorporated more than 2 years before the date on which the</td>
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<tr>
<td>shares were issued, beginning 2 years before that date) and</td>
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<td>ending 3 years after the issue of the shares. If yes, an individual</td>
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</tr>
<tr>
<td>involved in this control will not be eligible for relief on his/her</td>
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</tr>
<tr>
<td>investment in the company.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Documents to be submitted with application</td>
<td>ANSWER (Select “Y” or “N” or “N/A” as appropriate)</td>
<td>Notes</td>
</tr>
<tr>
<td>----------</td>
<td>------------------------------------------</td>
<td>----------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>15 Had/has/will the EIi company come to acquire all of the issued share capital of another company at any time in the relevant period? If Yes an individual involved in this control will not be eligible for relief on his/her investment in the company.</td>
<td>If Y please provide further details in the space provided for at the back of this form.</td>
<td>○ ○ ○</td>
<td></td>
</tr>
</tbody>
</table>

**PART 2 Eligible Shares and Use of Funds**

<table>
<thead>
<tr>
<th>Question</th>
<th>Documents to be submitted with application</th>
<th>ANSWER (Select “Y” or “N” or “N/A” as appropriate)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 Will the money raised from the share issue be used:</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>a For the purpose of carrying on relevant trading activities?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>b In the case where the company has not commenced to trade, on research and development activities?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>c To contribute directly to the creation or maintenance of employment in the company?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>17 If the company has not commenced to trade but intends to use funds raised for research and development activities.</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>a Will it expend all of the funds raised on research and development activities within 1 month before the relevant period ends and dispose of any resulting specified intangible asset to another person for the purposes of their trade?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>b Within 2 years after the funds have been raised will it commence relevant trading activities and have expended all the funds raised on relevant trading activities or research and development activities?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>18 Throughout the relevant period will all share capital be fully paid up?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>19 Will all shares to be subscribed for be eligible shares?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>20 Will money raised through the share issue be used by the claimant company for the purposes set out at No. 17?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
<tr>
<td>21 Will money raised through the share issue be used by a subsidiary of the claimant company for the purposes set out at No. 17?</td>
<td></td>
<td>○ ○ ○</td>
<td></td>
</tr>
</tbody>
</table>
### PART 3 Individuals Investing

<table>
<thead>
<tr>
<th>Question</th>
<th>ANSWER</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will all individuals subscribe for shares on their own behalf?</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Will all individuals who subscribe for shares be unconnected with the company?</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Have (or will) any individuals who will subscribe for eligible shares received value from the company?</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Have (or will) any individuals who will not subscribe for eligible shares received value from the company?</td>
<td>Y</td>
<td></td>
</tr>
</tbody>
</table>

### Declaration.

I declare that to the best of my knowledge and belief the information given in this form is correct, and that:

(i) The company and any subsidiary companies will throughout the relevant period continue to comply with sections 494(3), 494(11), 494(12)

(ii) The company is not restricted in raising EII funds by association with another company within the meaning of section 491, Taxes Consolidation Act, 1997

(iii) The shares in respect of which relief will be sought will be issued for bona fide commercial purposes and not as part of a scheme or arrangement, the main purpose, or one of the main purposes, of which was the avoidance of tax.

(iv) The shares in respect of which relief will be sought will, throughout the period of 3 years beginning on the date on which they are issued, carry no present or future preferential rights to dividends or to the company’s assets on its winding up and no present or future preferential right to be redeemed.

Signature ___________________________ Date ____________

Capacity in which signed ___________________________
Annex 2 – Form EII1

Form EII 1
RELIEF FOR INVESTMENT IN CORPORATE TRADES

Company Statement (see NOTE 1)

Relief may be allowed in respect of thirty forty-firsts of the amount subscribed for qualifying investments at this stage.

Relief may be allowed in respect of a further eleven forty-firsts of the amount subscribed for qualifying investments at the end of the relevant period if:

(a) (i) the employment relevant number exceeds the employment threshold number, and
(ii) the average relevant amount is not less than the average threshold amount except to the extent that such difference corresponds with a general reduction in the basic pay rate of qualifying employees in the same period,

or

(b) the amount of expenditure on research and development incurred by the qualifying company in the specified relevant period ending in the year of assessment preceding the year of assessment in which, in relation to the subscription of eligible shares, a relevant period ends, exceeds the amount of expenditure on research and development incurred by the qualifying company in the specified relevant period ending in the year of assessment preceding the year of assessment in which the subscription for eligible shares was made.

Corporation Tax Reference Number

Remember to quote this number in all correspondence or when calling at your Revenue office

This form when completed in full should be sent to:
Office of the Revenue Commissioners
Corporate Business & International Division
Stamping Building
Dublin Castle
Dublin 2.

Alternatively, it can be sent by e-mail to: eliadmin@revenue.ie

Applicants should note that incomplete applications may not be processed but may be returned to the applicant for completion. Applications which do not include the required supporting documentation will be treated as an incomplete application and will be returned.

Please complete in CAPITAL letters

Name of Company

Date of Incorporation

Date of commencement of relevant trading activities

Employer’s Registration Number

(Please quote the reference number and name, if different, under which the trading company returns PAYE/PRSI on behalf of its employees)
NOTES:

1. A claim for relief by an individual in respect of a subscription for eligible shares in a qualifying company cannot be allowed unless a certificate of relief has been issued by the company on form EI3. Such a certificate cannot be issued until the company has been authorised to do so by the Inspector of Taxes on form EI12. To obtain the authority to issue a certificate a company must give the information required by this form (EI1 1), complete the declaration and send it to Revenue Commissioners, Corporate Business & International Division, Stamping Building, Dublin Castle, Dublin 2.

A company is liable to a penalty not exceeding €830 (or, in the case of fraud €1,265) for issuing a form EI3 without the authority of the Inspector on form EI12.

2. Where eligible shares have been issued on different dates, a separate EI1 must be completed in respect of each issue.

3. Everything to be done by a company under the Taxes Acts is to be done through the secretary or person acting as the secretary of the company (See section 1044(2) Taxes Consolidation Act 1997).

4. Where a document, e.g. company’s certificate of incorporation, has been submitted already and the document has not changed, it is not necessary to resubmit it.

5. In completing this form applications should consult with the definitions document on www.revenue.ie which contains guidance on the statutory definition of terms used or consult Part 16, Taxes Consolidation Act 1997.

6. Your attention is drawn to the fact that:

(a) Under EU cumulation of State-aid rules, full details of a beneficiary company of a State-aid in the form of Employment and Investment Incentive (EI) and or Seed Capital (SC) relief

• Must be notified to the European Commission;
• Will be published on the Revenue website and on the European Commission website;
• May be made available to other State bodies with the responsibility for the administration of other State-aided schemes.

(b) The granting of SC or EI relief may have effects on future applications by the company for further State-aided schemes.

7. Any queries regarding EU cumulation of State-aid rules will not be dealt with by Revenue. Such queries should be addressed to the State body responsible for administration of the State-aid in question.
Applicants should note that incomplete applications may not be processed but may be returned to the applicant for completion.

Please complete the following checklist in respect of the company making the application by inserting Y or N into the answer box. If the question does not apply DO NOT LEAVE THE ANSWER BOX BLANK. Insert N/A into the answer box.

Where necessary insert notes into the notes column, or in the additional space provided at the back of this form.

### PART 1 Qualifying Company within the meaning of section 494 TCA 1997

<table>
<thead>
<tr>
<th>Question</th>
<th>Documents to be submitted with application</th>
<th>ANSWER Select “Y” or “N” or “N/A” as appropriate</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Is the company incorporated in the State?</td>
<td>Attach copy of Certificate of Incorporation (see Note 4)</td>
<td>Y  N  N/A</td>
<td></td>
</tr>
<tr>
<td>2  Is the company incorporated in an EEA State (other than the State)?</td>
<td>Attach copy of Certificate of Incorporation (see Note 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3  Is the company an unquoted company within the meaning of section 488 TCA 1997?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4  Is the company resident in the State?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5  Is the company resident in an EEA State (other than the State) and carrying on business in the State through a branch or agency?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  Which of the following applies?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a  The company will, throughout the relevant period, carry on relevant trading activities from a fixed place of business in the State, or</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b  The company's business consists wholly of -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) the holding of shares or securities of, or the making of loans to, one or more qualifying subsidiaries of the company, or</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) both the holding of such shares or securities, or the making of such loans and the carrying on of relevant trading activities from a fixed place of business in the State.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Documents to be submitted with application</td>
<td>ANSWER Select “Y” or “N” or “N/A” as appropriate</td>
<td>Notes</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------</td>
<td>-------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>7  Is the company -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a  A micro or small enterprise?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b  A medium sized enterprise located in an assisted area?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c  A medium sized enterprise which is not located in an assisted area, which is at a stage of development not beyond start up stage?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8  Does the company carry on Tourist Traffic Undertakings?</td>
<td>Attach approval from Failte Ireland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9  Does the company carry on green energy activities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Is the company regarded as a firm in difficulty?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Is the company associated with any other company?</td>
<td>If Y please provide further details in the space provided for at the back of this form.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Is the company controlled by another company?</td>
<td>If Y please provide further details in the space provided for at the back of this form.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Does the company control another company(ies)?</td>
<td>If Y please provide further details in the space provided for at the back of this form.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Has any person or groups of persons who have control of the company had control of the trade as it was previously carried on before the company existed? This is relevant in the period beginning on the incorporation of the company (or, if the company was incorporated more than 2 years before the date on which the shares were issued, beginning 2 years before that date) and ending 3 years after the issue of the shares. If yes, an individual involved in this control will not be eligible for relief on his/her investment in the company.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Documents to be submitted with application</td>
<td>ANSWER Select “Y” or “N” or “N/A” as appropriate</td>
<td>Notes</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Hadi has/will the company come to acquire all of the issued share capital of another company at any time in the relevant period? If Yes, an individual involved in this control will not be eligible for relief on his/her investment in the company.</td>
<td>If Y please provide further details in the space provided for at the back of this form.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PART 2 Eligible Shares and Use of Funds**

16 Will the money raised from the share issue be used:

| a | For the purpose of carrying on relevant trading activities? |
| b | In the case where the company has not commenced to carry on relevant trading activities, on research and development activities? |
| c | To contribute directly to the creation or maintenance of employment in the company? |

17 If the company has not commenced to carry on relevant trading activities but intends to use funds raised for research and development activities:

| a | Will it expand all of the funds raised on research and development activities within 1 month before the relevant period ends and dispose of any resulting specified intangible asset to another person for the purposes of their trade? |
| b | Within 2 years after the funds have been raised, will it commence relevant trading activities and have expanded all the funds raised on relevant trading activities or research and development activities? |
| 18 Throughout the relevant period will all share capital be fully paid up? |
| 19 Has the company been carrying on relevant trading activities for a period of at least 4 months? |
### Questionnaire for Application

<table>
<thead>
<tr>
<th>Question</th>
<th>Documents to be submitted with application</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the company has not commenced to carry on relevant trading activities, has it expended not less than 30 per cent of the money subscribed for the shares on research and development activities which are connected with and undertaken with a view to the carrying on of the relevant trading activities?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are all shares issued eligible shares?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will money raised through the share issue be used by the claimant company for the purposes set out at No. 16?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will money raised through the share issue be used by a subsidiary of the claimant company for the purposes set out at No. 16?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Part 3: Individuals Investing

| Question                                                                 | | |
|--------------------------------------------------------------------------| | |
| Are all individuals who have subscribed for shares unconnected with the company? | | |
| Will all individuals who subscribe for shares be unconnected with the company? | | |
| Have all individuals subscribed for shares on their own behalf? | | |
| Have (or will) any individuals who have subscribed for eligible shares received value from the company? | | |
| Have (or will) any individuals who will not subscribe for eligible shares received value from the company? | | |

The company has been asked to issue a certificate or certificates in respect of the following subscription(s) for eligible shares issued on __________ (See Note 2)

<table>
<thead>
<tr>
<th>Full name and address of subscriber</th>
<th>PPS No. of the subscriber</th>
<th>Full description of the Shares subscribed for and their nominal value</th>
<th>Number of shares subscribed for</th>
<th>Total amount subscribed (Euro)</th>
</tr>
</thead>
</table>
Declaration.

I declare that to the best of my knowledge and belief the information given in this form is correct, and that:

(i) The company and any subsidiary companies will throughout the relevant period continue to comply with sections 494(3), 494(11), 494(12)

(ii) The company is not restricted in raising EII funds by association with another company within the meaning of section 491, Taxes Consolidation Act, 1997

(iii) The shares in respect of which relief will be sought will be issued for bona fide commercial purposes and not as part of a scheme or arrangement, the main purpose, or one of the main purposes, of which was the avoidance of tax.

(iv) The shares in respect of which relief will be sought will, throughout the period of 3 years beginning on the date on which they are issued, carry no present or future preferential rights to dividends or to the company’s assets on its winding up and no present or future preferential right to be redeemed.

Signature: ____________________________ Date: __________

Capacity in which signed: ____________________________
Annex 3 – Form RINE-C

SPECIAL TAX REFUND SCHEME FOR INDIVIDUALS
SETTING UP NEW ENTERPRISES
Company Application Form

This form, when completed, should be returned to:
CBI Division,
Business Investment Incentives Branch,
Revenue Commissioners,
Dublin Castle,
Dublin 2.

Your attention is drawn to the fact that:
1. Under EU cumulation of State-aid rules, full details of a beneficiary company of a State-aid in the form of Seed Capital and/or BES relief and/or EII relief,
   - must be notified to the European Commission;
   - will be published on the Revenue website and on the European Commission’s website;
   - and may be made available to other State bodies with responsibility for the administration of other State-aided schemes.

2. The grant of Seed Capital/BES/EII relief may have affects on any future applications by the company for further State-aid schemes e.g. employment grants and/or financial assistance.

N.B. Any queries regarding EU cumulation of State-aid rules should be addressed to the State body responsible for administration of the State-aid in question.

Name of Company

Employer Registration Number
(the reference number under which the company will return PAYE/PRSI on behalf of its employees)

Date of Incorporation

Date of Commencement of Trade

Date of Share Issue

Number of Employees:
At Present
Expected 1 year hence
3 years hence

Details of ALL investors in company:

<table>
<thead>
<tr>
<th>Name</th>
<th>PPS Number</th>
<th>Amount Invested €</th>
<th>Number &amp; classification of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

Total €

Please sign Declaration on page 2.
**NOTES**

- Under the EU "Community Guidelines on State Aid to promote Risk Capital Investments in Small and Medium-sized Enterprises" (OJ L 104, 18.08.2008), Member States are required to collect data on a beneficiary company's stage of development. These Guidelines contain definitions of "seed capital", "start-up capital" and "expansion capital" as follows:
  - "Seed capital" means financing provided to study, assess and develop an initial concept, preceding the start-up phase;
  - "Start-up capital" means financing provided to companies, which have not sold their product or service commercially and are not yet generating a profit, for product development and initial marketing;
  - "Expansion capital" means financing provided for the growth and expansion of a company, which may or may not break even or trade profitably, for the purposes of increasing production capacity, market or product development or the provision of additional working capital.
- The definitions of micro, small or medium-sized enterprises currently in force (i.e. with effect from 1st January 2005) may be seen at Annex 1 to Commission Regulation (EC) no. 364/2004 of 25 February 2004, (OJ L 53 of 28th February 2004) and may be summarised as follows:
  - A medium-sized enterprise has less than 250 employees and has an annual turnover not exceeding €50 million or an annual balance sheet total not exceeding €43 million;
  - A small enterprise has less than 50 employees and has an annual turnover and/or annual balance sheet total not exceeding €10 million;
  - A micro enterprise has less than 10 employees and has an annual turnover and/or annual balance sheet total not exceeding €2 million.

Under EU State-Aid rules, medium-sized enterprises operating in the non-assisted areas are restricted to their seed/start-up stage for the purpose of raising BES and/or EII investments. The "Regional Aid Map 2007-2013 - Ireland" details the non-assisted areas of Ireland as counties Dublin, Kildare, Meath and Wicklow (and with effect from 2009, Cork city and county (except for Cork Docklands)). ([Guidelines on National Regional Aid for 2007-2013, OJ C54, 4.3.2008](#)).

<table>
<thead>
<tr>
<th>Please tick one of the following</th>
<th>State whether the company is a micro, small or medium sized enterprise within the meaning of the Commission Regulation (EC) currently in force - See NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed Capital Stage?</td>
<td>Micro?</td>
</tr>
<tr>
<td>Start-Up Capital Stage?</td>
<td>Small?</td>
</tr>
<tr>
<td>Expansion Capital Stage?</td>
<td>Medium?</td>
</tr>
</tbody>
</table>

This form should also be accompanied with a Form RINE-I for each individual investor together with a certificate from Failte Ireland if the company is seeking to qualify as carrying on qualifying tourist traffic undertakings.

I enclose certificate received from

---

**Declaration**

I declare that to the best of the company's knowledge and belief the information given in this form is correct and in particular that:

- The company is an unquoted company resident in Ireland or is resident in the European Economic Area within an establishment in the State carrying out qualifying activities
- The company is regarded as a micro, small or medium-sized enterprise within the European Commission definition for the relevant period
- The company is not regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for rescuing and restructuring firms in difficulty
- The company has commenced carrying on a qualifying trade on a commercial basis for profit
- The investment in respect of which relief is sought is being used for qualifying purposes
- The company has no subsidiaries other than qualifying subsidiaries which satisfy the conditions of Section 505 of the Taxes Consolidation Act, 1997
- All the share capital of the company is fully paid up
- The company is not and has not been controlled or, by a subsidiary of, any other company
- The company is not involved in any partnership arrangement by means of which an investor in the company is connected with the company as defined in Section 492 (1) or 492(2) (a) of the Taxes Consolidation Act, 1997.

**Signature of Company Secretary**

**Date**
For which tax years of the previous six are you claiming the refund?

How much tax have you paid in each of those years? €

Has any of this tax been refunded and if so how much? Yes [ ] No [ ] €

Name and Address of Employer(s) in the last three years

Employer Name
Address

Employer Name
Address

Names of any companies in which you have (or have had in the previous twelve months) a substantial* interest.

[Brake and continue]

Declaration

I declare that all the information given by me on this form is correctly stated.

Signature of Applicant ____________________________

Date __/__/________
Annex 5 – List of Submissions Received

Grant Thornton
Irish Tax Institute
The Irish Small & Medium Enterprises Association
Dublin Chamber
Chambers Ireland
KPMG
Consultative Committee of Accountancy Bodies – Ireland
Limerick Chamber
Business Venture Partners
Forfás
Billy Timmins
Irish Farmers Association
PricewaterhouseCoopers
IBEC
Screen Producers Ireland
Small Firms Association
Mazars
Irish Music Rights Association
Nursing Homes Ireland
Annex 6 – Equity Finance Sub-group Recommendations

1. The Department of Finance to work with the relevant stakeholders to promote this scheme as a vehicle for stimulating investment to support employment and enterprise growth. This would include providing information on the workings e.g. computational examples and the benefits of the scheme in a clear and user friendly manner and make it easy for companies to use the scheme without having to pay for expensive professional advice.

2. Enhance publicity around the availability of the scheme. Broaden to include non-traditional and household investors, in particular promote the family and friends and private placement options, as well as funds option.

3. Consider how companies eligible for the EII can pro-actively advertise for investment online, potentially through linking to relevant websites.

4. Remove the restriction related to expansion capital for businesses in non-assisted areas. The restriction in place for non-assisted areas (Dublin, Meath, Kildare, Wicklow and Cork) may not be benefitting other regions. Removal of this restriction will require consultation with the European Commission.