Overhaul of Irish entrepreneurs' tax relief will generate jobs

There has been a renewed call for the Irish Government to overhaul tax rules to incentivise entrepreneurs to create jobs.

The Halo Business Angel Network (HBAN) has submitted a proposal to the Department of Finance, asking for a change to legislation that will allow the tax relief offered in the EII (Employment Investment Incentive) Scheme to be increased.

Currently, the scheme gives investors tax relief of 40pc on investments of up to €250,000 annually. HBAN would like to see this increased to 60pc on up to €1m per annum in order to stimulate jobs and economic revival.

HBAN is also seeking overall administrative changes to the EII Scheme, which can be cumbersome and off-putting for businesses to apply for.

The all-island organisation is a joint initiative of Enterprise Ireland, InterTradeIreland and Invest Northern Ireland.

Stimulating SMEs

HBAN believes that incorporating an increase in tax relief for investors into the 2020 Finance Bill will reflect intentions outlined in the new Programme for Government by stimulating investment in growth-oriented Irish SMEs and start-ups who are struggling due to a lack of finance and negative business impacts caused by Covid-19.

"As the economic impact of Covid-19 continues, investments in early-stage businesses are often being delayed, stalled or abandoned," John Phelan, all-island director, HBAN, said.

"Angel investors are therefore exercising more caution, as their investments are now less likely to attract follow-on funding from venture capital firms – making first round investee companies less likely to succeed. The Programme for Government explicitly states that it will review the current taxation environment for SMEs and entrepreneurs, and that it will review existing supports for entrepreneurs and investors in high-risk innovative start-ups, in order to stimulate business sustainability and growth in light of Covid-19. HBAN encourages the Government to incentivise investors – and therefore economic recovery – by raising EII tax relief from 40pc to 60pc."

With unemployment now standing at more than 22pc, HBAN's proposal also details the role the EII can play in creating more jobs. HBAN believes that by raising the annual amount eligible for relief from €250k to €1m, investors will be more likely to put forward risk capital and provide the financial support needed for early-stage businesses to scale and create employment opportunities.

As part of HBAN's submission – which has been supported by the chairs of the national angel syndicates – the network is also proposing significant changes to EII processes, arguing that the scheme is not fit for purpose in its current form.

HBAN says that many companies are advised not to use the scheme as a source of finance due to the risk involved as, in most cases, any clawback of the tax relief will have to be paid by the investee company and not the investor who claimed the relief.

Amongst the proposed changes, HBAN is calling for a reduction in the off-putting and often error-laden administration process; greater leniency for companies who make errors in the costly certification and reporting processes, which can lead to a clawback of tax relief; and the introduction of a more simple version of EII for funding rounds of less than €500,000.

Investment opportunities are actually being slowed down because companies cannot commit as to whether they will apply for EII or not, warned Aidan O'Driscoll, co-founder of the HBAN Irrus Syndicate.

"Given the current climate, any hesitancy will definitely affect our members' decision-making. Overall, Covid-19 is causing investment delays and many of our members are refraining from investing. If they had a chance to reduce their exposure and limit their capital gains tax, I believe we would get a surge in new investment."

Laura Lynch, tax advisor with Laura Lynch & Associates pointed out that the increased complexity of EII increased complexity of EII rules, and the associated risk to companies and advisors, has led to several companies deciding not to proceed with raising EII funds.

"As a result, they have to seek alternative, more expensive sources of finance from a greater number of investors, which is difficult, time consuming and costly. The changes being proposed will remove some of the concerns of companies and investors, increase take-up of the scheme and therefore encourage greater investment in start-ups and the Irish economy with a clear return on investment for the Exchequer in the form of PAYE, VAT and corporation tax."

HBAN's John Phelan said that even in normal times, there is a market failure in Ireland to ensure that there is enough seed and venture capital funding available to start-ups.

“Early-stage businesses are therefore hugely reliant on the angel investor community to support them through their infancy. However, investment in early-stage businesses is high risk and potential investors need to be incentivised – especially as their funding is now less likely to attract follow-up investment.

“As the impact of Covid-19 continues, we expect the funding being made available to start-ups to decrease. That will have a detrimental impact on our economy as high-potential companies will fail due to a lack of funding. It is imperative that the Government does everything it can to stimulate investment in jobs and the economy. We believe that significant changes to the EII Scheme could be a positive step towards achieving this.”

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