Budget Submission on EIIS

Recommendations from the startup ecosystem to better incentivise Angel Investing in Ireland

dogpatch LABS HBAN

Who We Are

Dogpatch Labs

Dogpatch is Ireland's most connected startup and innovation hub. Recognised as one of the world's top incubators, our core mission is to accelerate the development of Ireland's entrepreneurial ecosystem and ensure that great startups can start locally, but grow globally. Through our international connections to more than 100 hubs worldwide, as well as over 250 hubs across Ireland, we act as the primary connector between Ireland's entrepreneurs and the world beyond our shores. Located in the CHQ building in Dublin's docklands, Dogpatch is home of the National Startup Accelerator (NDRC) and TwentyFifty, the National Sustainability Innovation platform. More than 500 startups from over 30 countries call Dogpatch their home, as well as our national network of more than 1,700 startups across the island.

HBAN

HBAN is the All-Island Angel Investment Network funded by Enterprise Ireland and InterTradeIreland and operated by Dogpatch Labs (Dublin), Portershed (Galway), Republic of Work (Cork and Tipperary), RDI Hub (Kerry), and Ormeau Baths (Belfast). HBAN's primary role is to unlock angel investing as a source of funding for new and developing businesses by matching investors with high quality investment opportunities and providing a range of support services for existing members and syndicates. Since 2013 member angels have invested €177m in more than 700 startups on the island of Ireland. HBAN's strategy focuses on a greater adoption of technology to streamline the investment process, an increased participation of women in the angel investment network, and to to cultivate a thriving angel investment ecosystem through data-informed policy recommendations to government.

HBAN Regional Partners

Introduction

Ireland is a small prosperous country with many competitive advantages. **But when it comes to innovation, we must not become complacent.** Many countries - from France to the UK - are doubling down on innovation and new company creation as the next generation of fuel for their economies. Ireland should be doing the same.

Despite our strong pool of multinationals, academia and international capital, **Ireland is at risk of falling behind other European nations when it comes to innovation**. In the most recent Global Startup Ecosystem Index, Ireland fell 1 spot and is no longer ranked in the top 15 countries. Furthermore, Dublin dropped 5 spots out of the top 50 cities to now rank 51st. The National Competitiveness Council in their quarterly bulletin flagged that Ireland has now slipped into the second tier of European nations when it comes to innovation.

It is important to acknowledge the **progress that has been made in our startup and indigenous innovation ecosystem** in the last five years, and note that there are now over 2500+ startups that employ close to 50,000 people. For example; this year, Elkstone closed Ireland's largest early-stage VC fund at €100m, and last year Enterprise Ireland announced its 'Pre-Seed Start Fund' with €100k Convertible Loan Note (CLN) investment intended to convert into equity on a future priced round at a 20% discount.

Yet we must continue to pursue new ways to innovate, and should focus on rebalancing our economy which has significant risk exposure due to over-reliance on multinational companies. **Policy plays a key role here;** we have one of the most attractive policy environments for multinationals in the world, but the same cannot be said for our policies that stimulate investment into early stage startups, and encourage new company formation. Ireland does not compare favourably with the efforts of other countries such as the UK, France and Estonia when it comes to policy development in this area.

High Growth Startups are unique from SMEs in that they are innovation-driven enterprises that move at a rapid pace and face negative cash flows early on as they invest in innovation. These tech companies have enormous growth potential, are globally focused and require significant advance investment to fund their growth. **Policies that enable them to fundraise quickly and processes that speed up timeframes and limit bureaucracy help them to keep momentum and get to "escape velocity" quicker.** Policies that introduce complexity present immediate barriers, because they require upfront investments in legal or tax advice that are out of reach for startups with limited cash flow.

For many early stage startups in need of investment, institutional capital is not appropriate because of the time and resources it takes to access that capital. **High net worth individuals or "Angel Investors" play a critical role** in providing seed capital in return for equity to fund this development and growth, as well as providing business advice and expertise. Despite the significant progress made, there are still not enough people willing to invest in startups at the earlier stages. But in order for angels to make more investments, and in order for more high net worth individuals to begin investing in startups, they must be incentivised.

Investing in startups is inherently riskier than traditional SMEs, because of the high probability (90% according to Startup Genome) that a startup will fail. With High Net Worth individuals making decisions about how to invest their capital based on a risk versus reward analysis, **reducing the risk of angel investing (relative to the potential reward) would have the effect of stimulating the amount of money invested in startups.**

This submission focuses on the Employment Investment Incentive Scheme (EIIS), which aims to encourage investment in early stage companies. **We have consulted extensively with the startup ecosystem, speaking to both founders qualifying for EIIS and angel investors availing of the scheme,** to understand how this scheme is achieving its purpose, how it is stimulating investment into tech startups, and how it compares against global best practices internationally.

We recommend that **the following changes** are made to the EIIS scheme:

1. Simplify the application process with less restrictive conditions, and simplify the 108 page Revenue guidance document.
2. Increase certainty for companies that they are eligible for EIIS and simplify the process through the provision of a final confirmation that the company is eligible for EIIS investment where the information provided to the Revenue Commissioners is correct and complete.
3. The creation of an investment instrument, similar to the UK's Advance Subscription Agreement (ASA), that would allow for investments similar to the increasingly popular Convertible Loan Notes (CLN) and SAFE notes under EIIS.
4. Enable loss relief on investments under EIIS against Capital Gains Tax (CGT) on failed or loss-making EIIS investments.
5. The creation of an SEIIS scheme similar to the UK's SEIS scheme that provides for a higher relief rate for the first €200,000 invested in a company, reflecting the increased risk taken by investors.
6. Seek an increase in investment limits under EIIS to €1m per person per tax year in a company.
7. Standardise the investment period to 3 years for all qualifying investments.

Our recommendations **are fully aligned with those of Scale Ireland**, the independent not-for-profit organisation with a mission to support, represent and advocate on behalf of Irish tech start-up and scale-up companies. We welcome any opportunity to discuss these recommendations in detail with the Government.

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Executive Summary

Representing the views of the startup ecosystem

This submission draws on multiple voices across the startup and angel ecosystems to provide an in depth account of the experience of startups and angel investors in availing of the EIIS scheme. This includes multiple 1:1 interviews with startup founders and angel investors from the below companies (and a number who gave feedback anonymously) as well as a survey of 90+ HBAN angel investors across the island of Ireland.

The people we spoke to also share accounts of their experiences investing in different jurisdictions, such as the US and the UK, and how Ireland compares in terms of policy. It is our hope that by providing the international context of our performance on the world stage, our Government will move quickly and bravely to align with competitive nations internationally - particularly the UK, whose EIS/SEIS policies are considered best practice.

This paper notes the incremental changes made by the Government to date to simplify EIIS and make it more effective, and puts forward additional recommendations. These are aligned with Scale Ireland and made on behalf of Dogpatch Labs and HBAN. It also notes the EU Commission's amendments to the General Block Exemption Regulation (GBER), and makes a number of additional recommendations.

1. Analysing the performance of EIIS

Tax incentives such as EIIS are important to stimulate investment into startups, particularly in Ireland where the risk averse mindset is a significant challenge for early stage investing. It should be stated that while tax incentives should not be the primary motivator to invest in startups (angels can provide important guidance in addition to capital to startups), they can provide an entry point for high net worth individuals to begin angel investing in startups.

In order to understand if a policy is performing and achieving its overall purpose, we must look at the levels of uptake. Our analysis of figures provided by Revenue Commissioners show that the scheme remains unattractive. The number of companies availing of the EIIS scheme has been steadily declining, to reach a low of 77 in 2021 (down from 296 in 2014). This is particularly stark when compared to uptake levels of the Enterprise Investment Scheme (EIS) scheme in the UK, which on a per capita basis is four times higher than the EIIS uptake in Ireland.

Worryingly, among those investments made via EIIS, our analysis shows that in 2021 only 10% of the companies invested in via EIIS were tech startups. This has fallen from 40% in 2019 and 20% in 2020.

According to CB Insights, 29% of startups fail due to running out funding. In H1 of this year alone deals below €1m fell by 28% to €6.5m and seed capital dropped 67% to €7.5m. EIIS should be a critical tool to boost investment in early stage startups, yet consultations with a wide-range of stakeholders point to a number of reasons for these low levels of uptake.

Complexity is presenting a barrier to usability

The time and money needed to understand and use the scheme is a large barrier, while the fact that the scheme doesn't support commonly used investment instruments limits the speed that startups can raise capital.

- **Complexity:** EIIS was cited as a very technical and complex piece of legislation which necessitates tax advice to comprehend, which comes at a prohibitive cost to early stage founders.
- **Multiple Rounds:** The complexity of availing of EIIS is not confined to the first round, but rather it can increase in complexity in subsequent rounds. This again drives up costs every time a founder raises capital.
- **Relevance**: Many of the conditions and information sought in an EIIS application are not relevant to how a startup operates, necessitating a level of detail and financial forecasting that can be onerous for startups to complete.
- **Instruments:** The scheme does not support commonly used investment instruments such as Convertible Loan Notes (CLNs) and Simple Agreement for Future Equity (SAFEs), which limits the speed at which startups can raise capital. The use of different investment instruments can disqualify startups for EIIS, adding to the complexity of determining eligibility.

Des Traynor
Angel Investor, & Co-founder & Chief Strategy Officer
Intercom

"It has to be easy and nearly automatic. It should just be an assumption that if you're investing in an Irish tech company that you get EIIS. That's what would make it change my thinking and the level of investment I make habitually in the Irish ecosystem."

2. Administration is onerous and puts the burden on the founder

The onus on the startup to determine whether it is eligible for EIIS requires the support of a tax advisor at a high cost compared to the UK, and the liability for clawback is perceived as a material risk among founders.

- **Cost of Self-Assessment:** Self-certification typically requires support from a specialist tax advisor, at an average market rate of €10,000 which is a considerable barrier to founders.
- **Admin & Compliance:** The complexity of determining eligibility for EIIS can take multiple weeks which slows a founder's ability to raise capital quickly.
- **Clawback:** The liability for any clawback being placed on the startup in the event that a company does not meet EIIS conditions is perceived as material risk among startups.

3. Ireland is behind on loss relief internationally

The lack of loss relief, and the need to hold shares for long periods of time limits the attractiveness of the scheme for angel investors and doesn't offset the risk of investing in startups.

- **Lack of loss relief results in low investment into tech startups:** There is generally no relief for any loss arising on disposals of EIIS shares, so a large amount of EIIS capital is directed to less risky asset-backed companies.
- **Ireland is behind the UK:** In the UK an investor can offset a loss made on an EIS company against either their capital gains tax bill or their income tax bill, depending on which better suits their individual needs.
- **Investment periods are deemed too long:** 4 and 7 year investment periods are a long time in the startup world. Startups can be sold before this time period is up and the relief granted to investors previously can be clawed back. Comparatively the retention period for the UK's EIS and SEIS is 3 years.
- **Low uptake of annual maximum allowable investment:** Our results show limited levels of investment at €500k for 7 years, with only 7% of investors stating they had made investments of that quantity.

Heather Morris
Angel Investor &
Former CSO
Chegg

"I think there needs to be clearer communication about how it works and what qualifies, what doesn't and how you're going to actually get that benefit. Even if it's just a calculator on the website, that says yes, this works and here's the expected benefit based on your income, and here's how much I have left to invest to maximise my benefit. You might nudge people in the right direction."

Our vision for Budget 2024

In order to engage a broader cohort of investors, **the simplification and alignment of incentives are critical**. Our survey of more than 90+ HBAN angels found that 65% of those who make EIIS investments had encountered challenges or issues. 32% of respondents said they would be more likely to invest more via EIIS if the following changes (ranked in order of popularity) were implemented: Loss relief, increased certainty for eligible companies, simplified application process, shorter investment periods, and higher investment limits.

The importance of **alignment between Northern Ireland and the Republic of Ireland** to avoid jurisdictional discrepancies is also noted. In order to encourage more investment we should bring the key policies in line with international best practice.

Summary Recommendations to Government
Simplification: Simplify the application process with less restrictive conditions, and simplify the 108 page Revenue guidance document.
Certainty: Increase certainty for companies that they are eligible for EIIS and simplify the process through the provision of a final confirmation that the company is eligible for EIIS investment where the information provided to the Revenue Commissioners is correct and complete.
Instruments: The creation of an investment instrument, similar to the UK's Advance Subscription Agreement (ASA), that would allow for investments similar to the increasingly popular Convertible Loan Notes (CLN) and SAFE notes under EIIS.
Loss Relief: Introduce Capital Gains Tax (CGT) loss relief on failed or loss-making EIIS investments.
Higher Investment Limits: Seek an increase in investment limits under EIIS to €1m per investor per year.
Creation of an SEIIS scheme: similar to the UK's SEIS scheme that provides for a higher relief rate for the first €200,000 invested in a company, reflecting the increased risk taken by investors.
Lower Investment Periods: Standardise the investment period to 3 years for all qualifying investments up to €500,000.

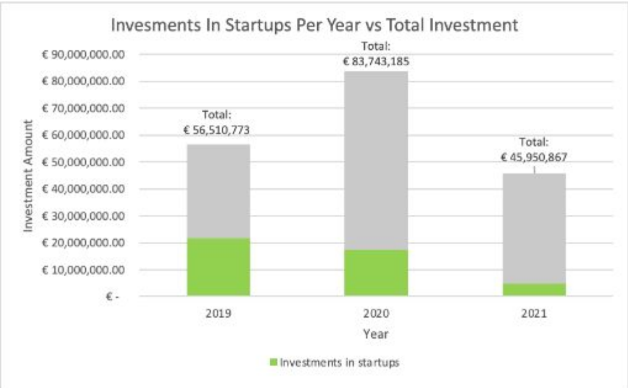
Analysis of Uptake Levels of EIIS in Ireland

EIIS uptake figures are on a downward trend

In recent years, despite the steps taken by the Government to reduce complexity and stimulate investment, **uptake levels of the EIIS scheme remain unattractive**.

Investment levels in EIIS in Ireland have struggled to reach or exceed their peak of €105m in 2016. While annual investments via EIIS rose in 2019 to €56.51m and in 2020 to €83.74m, they dipped again in 2021 at €45m. These drops and climbs were reflected in the number of EIIS Investors per year (from a high of 2,290 in 2016 to 1,137 in 2018.

While overall investment levels in Ireland in 2021 reached new heights with €1.6 billion in 292 companies in 2021 (with €1.38 billion of that going into rounds of more than €5m), only €45.95m was invested via EIIS in 77 companies in 2021. The number of companies availing of the scheme fell from 296 in 2014 to 119 in 2020.



This number is lower still in terms of the startups invested in compared to other types of companies in Ireland. Our analysis shows that 40% of all EIIS investments were made in startups in 2019. This fell to 20% in 2020 and only 10.65% in 2021. To put this into context, of the €1.6 billion total investment levels in Ireland in 2021, €56 million of this capital was raised via EIIS, and only €21 million went into startups.

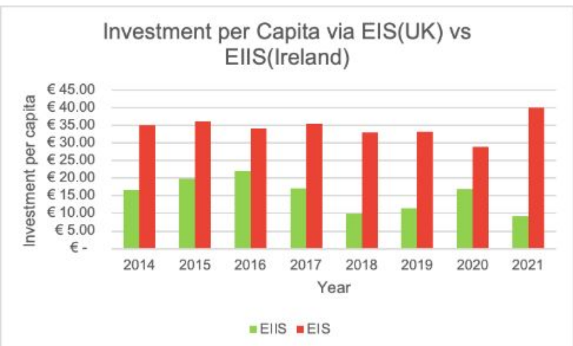
Within a survey of 90 HBAN Angels the median reported that 51% to 75% of their EIIS investments were in tech startups. However 66% responded that they were making non-EIIS investments at a more frequent rate than EIIS investments.

Brian Caulfield
Angel Investor & Chair
Scale Ireland

"The irony of it is that if you look at savings levels and the amount of capital that people have been storing up in Ireland there's huge amounts of deposits earning very little interest. But nonetheless, very, very little of that capital has flowed into startups."

Ireland is behind internationally

Compare this to the UK where investment levels via EIS remained stronger between 2016 and 2019, only dropping in 2020 before recovering sharply in 2021 to the highest year on record. The annual number of EIS investors reached more than 45k in the UK in 2021/2022, compared to 38k in 2019/2020.



On a per capita basis the uptake levels of EIS in the UK were four times higher than the uptake levels of EIIS in Ireland in 2021. The number of companies invested in via EIS in the UK is also approximately four times higher in 2021, up from three times in 2020.

In a survey of HBAN angels 41% of those surveyed made investments outside of the Republic of Ireland. When we asked how the tax incentives in the Republic compare with those in other jurisdictions the feedback stated that Irish tax incentives are worse, poorly, complex and not attractive.

HBAN Survey Respondent

"They are not attractive. Unless ROI match UK EIS then I would not make any significant angel investments in Irish domiciled companies. I only do so when they have UK subsidiaries with EIS status. This is a shame."

Reasons for Low Uptake of EIIS

Challenges around EIIS are preventing uptake

In our wide-ranging conversations with startups and angels, a number of key challenges were raised around the EIIS scheme. Our survey of HBAN angels found that **34% had encountered challenges or issues using EIIS**, with 28% admitting that the policy has played a factor in their decision-making to invest or not invest in startups. Critically, 34% said they would be **more likely to invest more via EIIS** if changes were implemented.

John Riordan
Angel Investor & Chairman
Grow Remote

"I'm surprised that more entrepreneurs don't use EIIS as a lure because it's incredibly beneficial. If it was easier to use, if it was easier for startups to use, and if there was a higher allowable investment I would 100% use it more."

1. Usability & cost implications limit startup velocity

The Scale Ireland State of Startups Survey 2023 found that **73% of those who availed or looked at availing of the EIIS found the process difficult or not easy**. This was reflected in the engagement we had with the startup ecosystem, with 25% of the HBAN angels we surveyed reporting that the startups they had invested in had encountered challenges using the scheme, with bureaucracy, complexity and admin cited as key factors. Of the HBAN angels that make EIIS investments, 43% need support from a tax advisor every time they invest in an EIIS eligible company, with 80% of those agreeing that the admin cost is an unwelcome burden.

A number of very specific challenges with the scheme were highlighted:

- **Complexity and Cost:** EIIS was cited as a very technical and complex piece of legislation which is difficult for startup founders to understand. This complexity means that startups must pay for tax advice of up to €10,000 which can be prohibitive as often early stage companies lack the cash flow as well as the time to invest in developing this understanding. The resources provided by Revenue were also referenced as complex, in particular the length of Revenue notes for guidance and difficulty in engaging with Revenue directly to query conditions.
- **Multiple Rounds:** This complexity also extends to startups raising multiple rounds, with the scheme not getting any easier with subsequent use. Startups that we spoke to cited examples of the cost of tax advice growing the second or third time money is raised, because of added complexity of the business. For example, if the business has changed there may be certain circumstances where it may no longer qualify for EIIS.
- **Relevance to startups:** Conditions such as *"Forsee in sufficient detail"* and the requirement for detailed business plans and financial models were stated as misaligned to early stage startups, who in practice at early stages are focused on finding product market fit and may not have the ability to provide detailed business plans. Other EIIS conditions such as *"undertaking in difficulty"* which states that if a company's balance sheet has depleted to a certain level then it disqualifies for EIIS, are misaligned with innovation-driven early stage startups that spend a number of years operating at a loss to prove their market fit.
- **Instruments:** EIIS is incompatible with many modern instruments that are used frequently by startups to raise capital, such as CLNs and SAFEs. The use of these instruments in a new round with existing investors is not only disqualified from EIIS relief, but also results in any prior EIIS relief being clawed back. This presents a challenge for startups who need to raise bridge financing from existing angels in between rounds, as they are forced to undertake a priced equity round under EIIS which limits the speed at which they can raise and increases dilution.

The resulting challenges in EIIS make the cost of capital high for startups, and limit the velocity at which they can scale. Velocity is key for startups at the early stages because they have limited runway (period before their funding runs out) to prove the market, find product-market fit, and find customers.

Cost is also a significant factor. Compared to countries like the UK, where a tax advisor typically charges between £500 and £3,000 to complete an EIS application, and the US, where it is possible for founders to raise $1 million from angel investors over a single weekend using a CLN or a SAFE, Ireland is far behind. The impact of this is that startups at the early stages run the risk of suffering excessive dilution and pain associated with fundraising, leading to fears about raising subsequent capital and potential premature exits.

Recommendations to Government:

- A simplified application process with less restrictive conditions, and a simplification of the 108 page Revenue guidance document is recommended.
- Allow Convertible Loan Notes and SAFE notes under EIIS.

Founder Testimonial

"It's possible to get but it's tough. If I didn't have a tax background I probably wouldn't have bothered, which would have been a pity as it would have been harder to raise without it. I definitely have friends that just said they won't bother, which is a shame, because I think that investors who are putting money into early stage startups should be rewarded and incentivised."

2. Administration places an undue burden on startups

Our engagement with the startup ecosystem has also uncovered issues around **the liability of the startup to pay back relief if EIIS eligibility is lost**. In our survey of HBAN angel investors, 17% of angels investing via EIIS reported that relief they had claimed had been clawed back with regards to an issue with self-certification. 25% reported that the startups they invest in had issues with EIIS, with certification issues and uncertainty around qualification representing the primary challenge.

Patrick Walsh
Angel Investor & CEO
Dogpatch Labs

"Entrepreneurs in the UK are at a considerable advantage because upon first meeting an angel they can present themselves as an investment opportunity that qualifies for EIS. Whereas in Ireland, they have to make a €10,000 decision in advance to do that. Often it takes a number of weeks or months in order to be in the same position, which means that a huge number of startups simply do not avail of relief."

This has important implications for uptake with 45% of surveyed HBAN angels who make EIIS investments citing that they had declined to make an investment where the founder did not want to certify for EIIS. Previously, Ireland had an advanced approval system with a roughly 12 month waiting period, which was unworkable. However, the Self-Certification model introduced in January 2019, based on our conversations with the startup ecosystem, is not fit for purpose for a number of reasons:

- **Cost:** In Ireland, the self assessment system is quite complex and typically requires the support of a specialist accountant, of which there are very few of them in the country. The average market rate for that support is approximately €10,000 euros which is a considerable barrier to entrepreneurs.
- **Admin & Compliance:** The self-assessment system can also take a number of weeks to get comfort that a company is EIIS compliant, slowing a founder's progress in terms of being able to raise much-needed capital. Once satisfied that the company is EIIS eligible, the burden of compliance also falls to the company.
- **Clawback:** If a company certifies itself as being compliant and receives investment via EIIS, and possession of that EIIS eligibility or conditions are not met, then the liability for any clawback moves from the investor to the startup. Furthermore, there is a lack of assurance for investors regarding the ability of investee companies to maintain EIIS status, as they are subject to audit in the following years.
- **Certainty:** Because of this clawback risk companies who make use of EIIS feel the need from an internal governance as well as reputational point of view to get an opinion from credible experts to confirm eligibility. This expectation is shared by angel investors who would expect to see certification also. The need to pay for this advice at €10,000 per round erodes a large part of the benefit of the incentive.

In Ireland, EIIS is a very complex piece of legislation with multiple different conditions that can be difficult to understand how they'd be applied in practice. A startup can't get advanced approvals, and rarely has the capital at pre-seed stage or seed stage to pay for tax advice. However if Revenue audits a seed round and finds a condition that wasn't satisfied, it is the company that is liable. This is perceived as material risk among startups and based on our conversations has resulted that a lot of companies are increasingly unwilling to use EIIS.

Comparatively, the UK uses a system called **advanced assurance**, where a company can apply to HMRC in advance of raising a round, and receives a certificate confirming it qualifies for EIS. This is a clear mechanism to obtain certification as an entrepreneur which allows them to approach angel investors quickly, with a relatively small administrative burden and at relatively low cost.

Dee Lyons
Founder, & CEO
Examfly

"If the UK, with a much higher volume of companies going through the scheme, has a process where founders go from application to approval in a month, there's no reason in principle why Ireland couldn't also."

Founder Testimonial

"It just seems like the restrictions and the resources you need to access it aren't in balance with the person that it's for, which is a founder at a very early or early stage."

Recommendations to Government:

- It is our recommendation that the Government increase certainty for companies that they are eligible for EIIS and simplification of process through the Provision of a final confirmation that the company is eligible for EIIS investment where the information provided to the Revenue Commissioners is correct and complete.

3. Relief levels are not internationally competitive

Our survey results have indicated that the existing incentives are **poorly constructed for the purpose of supporting high risk investments**. Currently EIIS investors can claim tax relief of up to 40% in the year that the investment is made. Unlike other shareholdings, there is generally no relief for any loss arising on disposals of EIIS shares, where the investment is not successful. This is different to the UK, where EIS/SEIS schemes offer loss relief in case of investment failures, thereby reducing the overall risk associated with angel investing.

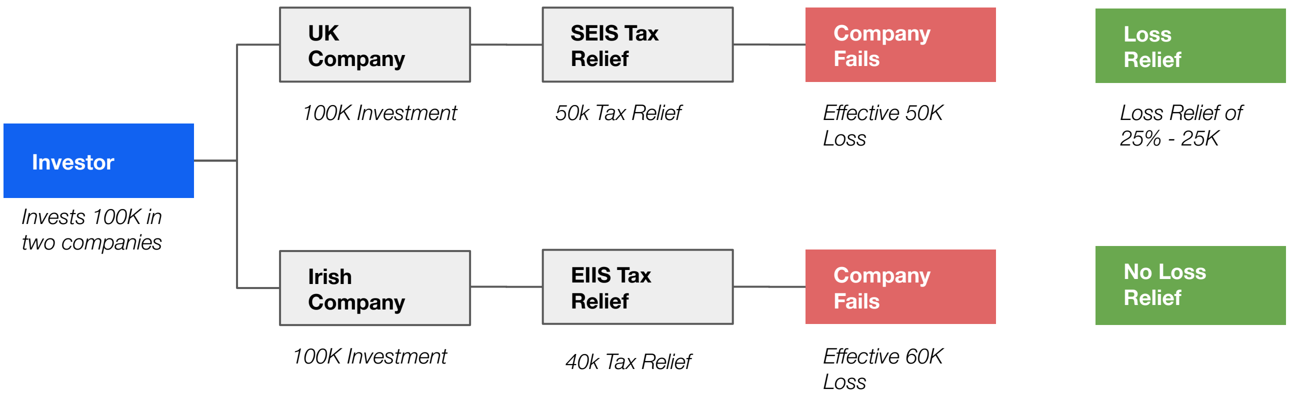
Des Traynor
Co-founder & Chief Strategy Officer
Intercom

The single biggest thing that would make it easy for me, would be to make it a reliable assumption that that if I buy shares or a SAFE note in an Irish tech company that I knew there was a tax benefit for me, especially in the case of a loss. But it's crucial that the startup doesn't have to jump through 28 PDFs to get this, because as an investor I don't want the CEO of a startup doing anything other than growing their business. Every bit of time spent wrangling with lawyers, accountants, or government forms, is time they're not building their startup, and time their international competitors will have in leverage over them.

In an environment where 9 out of 10 investments in early stage startups are likely to fail, this is not an incentive to invest for angels in Ireland. This is further exacerbated by the need to hold shares in companies for 4 years in investments up to €250,000, and a period of 7 years for investments of greater than €500,000. Indeed, 48% of survey respondents who invest in EIIS reported that between 0% to 10% of their EIIS investments have yielded a return.

- **Loss Relief is not aligned with the UK:** With SEIS in the UK investors can benefit from both tax relief as well as loss relief. For example, if an investor writes a cheque for £10,000 with SEIS they will get 50% tax relief against that. If that company then subsequently fails, the investor will also be able to write 50% of the other 50% off as loss relief.
- **Capital Gains is not aligned with the US:** In the US, the qualified small business stock (QSBS) tax benefit ensures that when shareholders sell or exchange their qualified stock, the exclusion can provide a break on capital gains tax—potentially up to 100% exclusion of tax on capital gains, subject to certain conditions.
- **Investment periods are not realistic for startup investment:** The challenge is that the 4 year and 7 years investment periods represent a long time in the startup world. Startups can be sold before this time period is up and as a result of that the relief granted previously can be clawed back. Comparatively the retention period for the UK's EIS and SEIS is 3 years.
- **Investment limit should be higher**: Average cheque sizes amongst these investors is on average €20,000 higher through non-EIIS investments compared to EIIS. Our results show limited levels of investment at €250k for 7 years, with only 12% of EIIS investors surveyed stating they had made investments of that quantity. Our conversations have uncovered that there is little advantage to investors in this condition beyond the fact that they can deploy more capital.

Impact of Loss Relief on Investment



Figures for illustrative purposes only

The impact of the lack of loss relief is that a **large amount of EIIS capital is directed to asset backed or cash flow driven companies** instead of the high risk/reward ratio companies that need EIIS support. Our research shows that of the total €56.5m invested in 2019, only 40% of those investments were made in startups. This fell to 20.61% in 2020, and 10% in 2021. This is quite unlike countries like Estonia, where there was 60 times the level of angel investments per capita than Ireland.

From the investor perspective, the loss relief or tax relief in Ireland is not as close to what one would receive in the UK. This decreases the attractiveness of investing in startups which are high risk assets versus other investment opportunities in Ireland. Our survey of existing EIIS angels reported that would be more likely to invest via EIIS if there was loss relief on investments (46% agreed), as well as shorter investment periods (23% agreed) and higher investment limits (11% agreed).

Comparison of Ireland's EIIS scheme versus SEIS and EIS schemes in place in Northern Ireland and mainland UK.

	EIIS (Ireland)	SEIS (UK)	EIS (UK)
Annual Limit on Investors	€250,00 or €500,000	£250,000	£1m (or £2m if at least £1m is in KID companies)
Minimum Holding Period	4 years (or 7 years if investing > €250,000)	3 years	3 years
Income Tax Relief	40%	50%	30%
Other Tax Reliefs	N/A (Note Irish CGT is 33% on any gains exceeding the personal allowance)	CGT Free, IHT Free, CGT deferral in some cases	CGT Free, IHT Free, CGT deferral in some cases
Company Limit	€5m per year €15m over their lifetime	£250,000	£5m per year £12m over their lifetime
Assessment Criteria	Self Assessment	Advance Assurance by HMRC	Advance Assurance by HMRC

Internationally, the USA is similar focused on creating an ever-improving policy environment for its angel investors, who make up a very significant part of the USA funding environment for high growth potential startups and provide a real global competitive advantage.

Similar to the UK's loss relief, investors in the USA benefit from a Capital Loss Deduction scheme: if a startup fails, which is a risk with these types of investments, angel investors can deduct the capital loss against their capital gains and a limited amount against their ordinary income.

The Small Business Jobs Act of 2010 and the PATH Act of 2015, provide for if an angel investor holds a qualified small business stock for more than five years, they can exclude up to 100% of the capital gains earned from the sale of that stock from their federal income tax. Angel investors in the United States may also exclude from their taxable income 100% of the gain on the sale of qualified small business stock held for more than five years, subject to certain limitations.

Jon Bradford
Partner
Dynamo Ventures

"From a policy perspective, adopting the UK model is definitely worth considering. Anything that encourages angels to engage is always a positive thing."

HBAN Angel Survey Respondent

"I live in the UK. If the ROI recognised the tax free status of UK EIS then I would move my family back to Ireland, employ people in Ireland and invest in Irish start ups."

Recommendations to Government:

- Introduce Capital Gains Tax (CGT) loss relief on failed or loss-making EIIS investments.
- Seek an increase in investment limits under EIIS to €1m per investor.
- Standardise the investment period to 3 years for all qualifying investments up to €500,000.

General Block Exemption Regulation (GBER)

Potential impact to EIIS from European Commission's GBER

We make our recommendations against the backdrop of changes proposed by the European Commission to the **General Block Exemption Regulation (GBER)**, which governs the framework for state aid measures such as EIIS. The proposed changes could have certain effects on EIIS legislation, and in turn reduce the tax relief available to angel investors in Ireland which could have significant implications for future fundraising efforts by Irish SMEs.

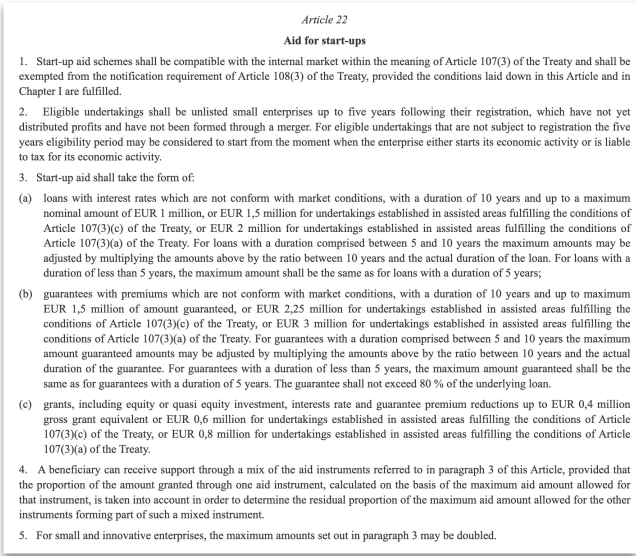
In March 2023, the European Commission announced an update to GBER. The main changes impacting EIIS include:

- The tax relief for "initial" risk finance could be limited to 35%, down from the current 40% in Ireland.
- For investments regarded as "expansion risk finance", the tax relief limit could reduce to 20%.
- Although there is a provision for a maximum limit of 50% tax relief for initial risk finance where the group was not operating in any market, this could be difficult to satisfy in practice.

Potential Implications

- **Reduced Tax Relief:** The proposed changes could discourage angel investors from investing in early-stage companies in Ireland due to the reduced tax relief.
- **Lower Incentives for Expansion Risk Finance:** The reduced tax relief for expansion risk finance could limit investment in companies in their growth phase, potentially impeding their expansion.
- **Impact on SME Fundraising:** Changes to EIIS could reduce the capital available for SMEs, potentially inhibiting their growth and even threatening their viability.

The proposed changes to GBER could have significant implications for angel investing in Ireland. It is important to mitigate potential negative impacts and to explore potential alternatives and strategies for supporting angel investing and SME growth in Ireland, to ensure the sustainability and growth of SMEs and the broader economy in Ireland.



Article 22

Aid for start-ups

1. Start-up aid schemes shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempted from the notification requirement of Article 108(3) of the Treaty, provided the conditions laid down in this Article and in Chapter I are fulfilled.

2. Eligible undertakings shall be unlisted small enterprises up to five years following their registration, which have not yet distributed profits and have not been formed through a merger. For eligible undertakings that are not subject to registration the five years eligibility period may be considered to start from the moment when the enterprise either starts its economic activity or is liable to tax for its economic activity.

3. Start-up aid shall take the form of:

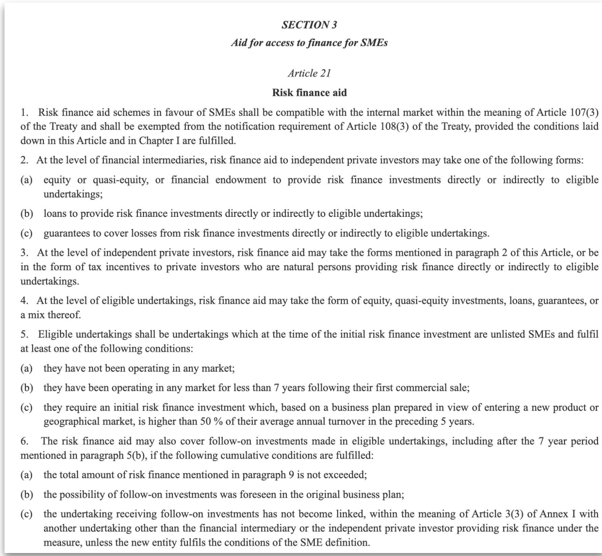
(a) loans with interest rates which are not conform with market conditions, with a duration of 10 years and up to a maximum nominal amount of EUR 1 million, or EUR 1,5 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty, or EUR 2 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(a) of the Treaty. For loans with a duration comprised between 5 and 10 years the maximum amounts may be adjusted by multiplying the amounts above by the ratio between 10 years and the actual duration of the loan. For loans with a duration of less than 5 years, the maximum amount shall be the same as for loans with a duration of 5 years;

(b) guarantees with premiums which are not conform with market conditions, with a duration of 10 years and up to maximum EUR 1,5 million of amount guaranteed, or EUR 2,25 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty, or EUR 3 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(a) of the Treaty. For guarantees with a duration comprised between 5 and 10 years the maximum amount guaranteed amounts may be adjusted by multiplying the amounts above by the ratio between 10 years and the actual duration of the guarantee. For guarantees with a duration of less than 5 years, the maximum amount guaranteed shall be the same as for guarantees with a duration of 5 years. The guarantee shall not exceed 80 % of the underlying loan.

(c) grants, including equity or quasi equity investment, interests rate and guarantee premium reductions up to EUR 0,4 million gross grant equivalent or EUR 0,6 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty, or EUR 0,8 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(a) of the Treaty.

4. A beneficiary can receive support through a mix of the aid instruments referred to in paragraph 3 of this Article, provided that the proportion of the amount granted through one aid instrument, calculated on the basis of the maximum aid amount allowed for that instrument, is taken into account in order to determine the residual proportion of the maximum aid amount allowed for the other instruments forming part of such a mixed instrument.

5. For small and innovative enterprises, the maximum amounts set out in paragraph 3 may be doubled.



SECTION 3

Aid for access to finance for SMEs

Article 21

Risk finance aid

1. Risk finance aid schemes in favour of SMEs shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty and shall be exempted from the notification requirement of Article 108(3) of the Treaty, provided the conditions laid down in this Article and in Chapter I are fulfilled.

2. At the level of financial intermediaries, risk finance aid to independent private investors may take one of the following forms:

(a) equity or quasi-equity, or financial endowment to provide risk finance investments directly or indirectly to eligible undertakings;

(b) loans to provide risk finance investments directly or indirectly to eligible undertakings;

(c) guarantees to cover losses from risk finance investments directly or indirectly to eligible undertakings.

3. At the level of independent private investors, risk finance aid may take the forms mentioned in paragraph 2 of this Article, or be in the form of tax incentives to private investors who are natural persons providing risk finance directly or indirectly to eligible undertakings.

4. At the level of eligible undertakings, risk finance aid may take the form of equity, quasi-equity investments, loans, guarantees, or a mix thereof.

5. Eligible undertakings shall be undertakings which at the time of the initial risk finance investment are unlisted SMEs and fulfil at least one of the following conditions:

(a) they have not been operating in any market;

(b) they have been operating in any market for less than 7 years following their first commercial sale;

(c) they require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50 % of their average annual turnover in the preceding 5 years.

6. The risk finance aid may also cover follow-on investments made in eligible undertakings, including after the 7 year period mentioned in paragraph 5(b), if the following cumulative conditions are fulfilled:

(a) the total amount of risk finance mentioned in paragraph 9 is not exceeded;

(b) the possibility of follow-on investments was foreseen in the original business plan;

(c) the undertaking receiving follow-on investments has not become linked, within the meaning of Article 3(3) of Annex I with another undertaking other than the financial intermediary or the independent private investor providing risk finance under the measure, unless the new entity fulfils the conditions of the SME definition.

Recommended response to GBER

We take this submission as an opportunity to raise awareness about the implications of the proposed changes with the Government and put forward a number of additional recommendations:

Recommendations to Government:

- Explore Retention of Current EIIS Regime: Investigate whether the current EIIS regime could be retained via a separate EU State Aid application.
- Consider Alternative Mechanisms: Look into potential alternative mechanisms to support angel investing in Ireland, should the changes to EIIS go ahead.
- Seek Clarity on Timeline: Engage with the EU to seek clarity on the timeline for the proposed changes, to help investors and companies plan for the future.
- Advocate for SMEs: Engage in advocacy work to ensure the needs and perspectives of SMEs are taken into account in the development and implementation of policy changes.

International Case Studies

Case Study : United Kingdom

In recent years, at the leading startup economy outside the USA, the United Kingdom has implemented policies aimed at fostering angel investments and supporting early-stage businesses. Two key initiatives, the *Seed Enterprise Investment Scheme (SEIS)* and the *Enterprise Investment Scheme (EIS)*, were set up by the UK government to mitigate the risk and incentivise start-up investment for angels who pay tax in the UK. These have played a significant role in incentivising angel investments and driving economic growth.

Usability

There is a fair degree of administration involved in ensuring compliance with SEIS/EIS rules, but HMRC has streamlined much of the process. In the UK, tax advisers typically charge between £500 and £3,000 for completing an EIS application depending on the complexity of the company's circumstances. Most significantly, in a speedy manner, HMRC certifies the eligibility of companies for the programme in advance, which it makes it easier for investors to be confident of securing their tax breaks.

A. Seed Enterprise Investment Scheme (SEIS)

The SEIS, introduced in 2012, offers very attractive tax incentives to investors who provide seed capital to early-stage startups. Under SEIS, investors can claim income tax relief of up to 50% of their investment, subject to certain conditions. There is no capital gains tax and no inheritance tax on earnings. The SEIS gives tax breaks to investors who participate in the first £150k of funding (changes currently being implemented will raise that to £250k from April 2023). Any one individual can invest a maximum of £200,000 under SEIS per tax year.

This has led to a surge in angel investments in startups, providing crucial funding at the earliest stages of their development. As a result, numerous innovative ventures have been able to secure funding and accelerate their growth trajectories.

SEIS Uptake - In 2021 to 2022, 2,270 companies raised a total of £205 million of funds under the SEIS scheme. Funding in 2,270 is at the highest level since the scheme was introduced and increased by 16% from 2020 to 2021 when 2,105 companies raised £176 million.

B. Enterprise Investment Scheme (EIS)

The EIS, established in 1994 and expanded over the years, complements SEIS by incentivising investments in higher-risk growth-oriented companies. According to the HMRC, it is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new full-risk ordinary shares in those companies. EIS offers tax relief of up to 30% on investments, as well as capital gains tax exemptions and loss relief benefits.

The UK's EIS has a maximum allowable investment in an EIS company of €1m, with a shorter retention period. Individual or corporate investors can invest up to £1 million per tax year and the company can accept up to £5 million per tax year and no more than £12 million EIS funding total.

EIS Uptake - Between 2010-11 and 2011-12 there was an 87% increase in the amount of investment raised by companies under EIS, from £545m to £1,017m. This scheme has attracted substantial investment capital into small and medium-sized enterprises (SMEs) and has been a key driver of job creation and economic development across various sectors. In the tax year 2021 to 2022, 4,480 companies raised a total of £2,305 million of funds under the EIS scheme. This is the highest number of companies and total amount raised since the scheme was introduced. Funding has increased by 39% from 2020 to 2021, the previous year, when 3,765 companies raised £1,662 million.

Ciaran Gilsenan
All-Island Director
HBAN

"We are trying to encourage investors from both sides of the border to invest in companies on the island of Ireland however the EIIS scheme is not attractive for investors in Northern Ireland to invest in companies established in ROI.

UK EIS Take Up 2014- 2022			
Years	**Total Invested**	**Number of Companies**	**Average Investment Per Company**
2014-2015	£1.93 billion	3,380	£580,000
2015-2016	£1.97 billion	3,575	£520,000
2016-2017	£1.9 billion	3,655	£490,000
2017-2018	£2 billion	4,080	£485,000
2018-2019	£1.86 billion	4,070	£460,000
2019-2020	£1.89 billion	4,185	£451,136
2020-2021	£1.66 billion	3,765	£441, 571
2021-2022	£2.3 billion	4,480	£514,509

Innovation in Investment Instruments Used:

An **Advance Subscription Agreement (ASA)** is often used as an alternative to a Convertible Loan Note (CLN) when it comes to qualifying for tax advantages under the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS).

The EIS and SEIS schemes offer tax incentives to investors supporting start-up companies, but they have specific requirements that need to be met. One of these requirements is the inclusion of a longstop date within the investment agreement, which must be no more than six months from the date of the ASA.

By utilising an ASA instead of a CLN, investors can comply with the strict requirements of the EIS and SEIS schemes. ASAs allow investors to make an upfront payment for future shares in the company, without generating interest or becoming repayable in cash. This structure aligns with the rules and conditions set forth by the EIS and SEIS.

By using an ASA for EIS/SEIS, investors can benefit from the potential tax advantages provided by these schemes, while start-up companies can secure equity investments without the need for repayment or interest obligations.

Fostering Investor Confidence and Risk Mitigation:

SEIS and EIS not only offer tax incentives but also provide important risk mitigation measures for investors. The schemes offer loss relief in case of investment failures, thereby reducing the overall risk associated with angel investing. This has encouraged individuals to explore angel investments and has attracted a broader pool of investors, including high-net-worth individuals, angel networks, and venture capital firms.

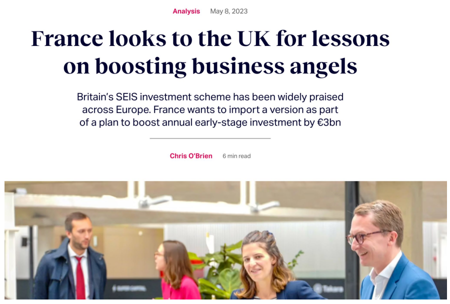
Economic Impact and Job Creation:

The combined impact of SEIS and EIS has been remarkable. These policies have facilitated a significant increase in angel investments, injecting vital funding into startups and SMEs. This funding has fueled innovation, entrepreneurship, and job creation throughout the UK. Startups have been able to scale their operations, develop cutting-edge technologies, and create employment opportunities across various sectors, including technology, healthcare, renewable energy, and more.

Case Study : France

When Emmanuel Macron assumed power in 2017 he vowed to make France a leading global startup nation, setting the target of achieving the creation of 25 French unicorns by 2025. A major contributor to the success of France has come as a result of the implementation of new policy recommendations designed to create a pro-startup economy.

In June 2023, President Macron signaled that in their 2024 budget, France will adopt its own versions of the UK's SEIS and EIS schemes that it hopes will **encourage private investors to pump €3bn annually into startups and create 200,000 jobs by 2027**


Analysis May 8, 2023

France looks to the UK for lessons on boosting business angels

Britain's SEIS investment scheme has been widely praised across Europe. France wants to import a version as part of a plan to boost annual early-stage investment by €3bn

Chris O'Brien 6 min read

Policies Supporting Early-Stage Startups:

President Emmanuel Macron of France has introduced several policies and initiatives to support angel investors and foster entrepreneurship in the country. Here are some notable angel investor policies implemented during his presidency:

- **French Tech Ticket:** Launched in 2015, the French Tech Ticket program aims to attract international entrepreneurs and angel investors to France. This program provides selected startups with financial grants, tax breaks, and other resources to attract angel investors. By offering support to startups in their nascent stages, these policies encourage angel investors to provide crucial funding to fuel innovation and growth.
- **Simplification of Tax Regulations:** President Macron's government has focused on simplifying tax regulations to make it easier for angel investors to participate in early-stage investments. This includes providing tax benefits, such as exemptions and deductions, to incentivise investments in startups.
- **Introduction of the "IFI" Scheme:** The "Impôt sur la Fortune Immobilière" (IFI) tax scheme was introduced by President Macron's government to encourage wealthy individuals to invest in innovative startups. It provides significant tax relief to individuals who invest in qualifying startups, aiming to boost angel investments in the country.
- **Startup Visa:** President Macron has worked to attract international talent to France by introducing the French Tech Visa, which facilitates the entry and residence of foreign entrepreneurs and angel investors. This initiative aims to bring in expertise and investment from around the world.
- **Strengthening Intellectual Property Rights:** President Macron's administration has taken steps to strengthen intellectual property rights in France, providing better protection for innovations and encouraging angel investors to support startups with valuable intellectual property assets.

Results

Angel investor relief policies in France have been instrumental in fostering innovation, supporting startups, and driving economic growth. France has been able to attract high profile investors and venture capital, and funding deals have surpassed that activity in Germany, making it second only to the UK in Europe. From 2016 to 2017, the number of investment deals won by French tech companies grew by almost 45 percent, tech research and data platform CB Insights revealed, with Paris-based tech companies securing a record 347 deals in 2017.

According to a recent report on the French ecosystem by Eurazeo partner Alexandre Dewez, business angels invested €1.1bn in 215 funding rounds in 2022, up from €600m in 134 deals in 2017.

Paul Midy
Member
National Assembly, France

"We must continue to develop our ecosystem of startups, because the best way to create jobs in France is to put the emphasis on young, innovative companies. When you combine innovative startups and new technologies, that's where you have the ability to create the most jobs"

Going Forward

Paul Midy, a National Assembly member, was engaged earlier this year by the Macron government to lead a detailed study to develop these and other startup investment proposals. Since then, he and his team have met with 275 tech and investment experts in France, including VCs, founders and economists, while also visiting with their counterparts in London. They have also launched a consultative website that has drawn more than 1,200 comments, primarily from people in the startup ecosystem.

The proposals being put forward is that France's Young Innovative Companies scheme is remodelled to create two new categories: Young Companies for Innovation and Growth (JEIC) and Young Companies for Innovation and Rupture (JEIR), which would apply to deep tech startups with disruptive technologies – and offer investors tax reductions of 30% to 50% for investments worth up to €500,000 per person per year. They would be allowed to invest at these preferential rates in companies up to eight to twelve years old. Current regulations offer tax breaks worth 18% on investments up to €50,000.

Case Study: Estonia

Estonia, one of the smallest countries in Europe is quickly becoming a global leading startup nation to rival all others. It has become an undisputed leader in Startup creation - number of startups created per year has tripled since 2019.

It leads the whole of Europe when it comes to VC investments per capita. The rate of investment into startups has quadrupled since 2019. It is a leader in unicorns per capita in Europe with 10+ unicorn companies created with 5 times more startups per capita than the European average.

Estonia's capital city, Tallinn, has been called the 'European Silicon Valley', as this city has the highest number of startups per head of the population. With only 1.3 million people, Estonia has the highest level of development in the tech industry in Europe. The success of Estonia as a digitally advanced nation is driven by highly digitised procedures in government, the world class education system, and active government policies towards the promotion of innovation and startups in particular. For example; Estonia ranks 1st overall on the 2022 International Tax Competitiveness Index.

The angel investment landscape in Estonia is growing rapidly. In 2021, over €100 million was invested in Estonian startups by angel investors, a significant increase from the previous year. This growth is being driven by a number of factors, including:

- The strong performance of the Estonian startup ecosystem. Estonia has produced a number of successful startups in recent years, such as TransferWise, Pipedrive, and Bolt. This success has attracted more angel investors to the country.
- The availability of government support. The Estonian government offers a number of tax breaks and other incentives to angel investors who invest in Estonian startups.

As a result of these factors, the angel investment landscape in Estonia is becoming increasingly vibrant. There are now over 1,000 angel investors in Estonia, and the number is expected to continue to grow in the years to come.

Tax Incentives for Angel Investors:

In 2000, Estonia established a unique corporate tax system where undistributed corporate profits are not taxed. This system has remained largely unchanged over the past decade and indirectly benefits angel investors by reducing the tax burden on their investee companies.

Estonia has implemented a range of tax incentives to encourage angel investments. One notable policy is the income tax exemption for investments made in qualifying startups. Angel investors can receive a tax exemption on the capital gains earned from the sale of their investments if they hold the shares for a specific period. This incentive has attracted both local and international investors, channeling much-needed funding into the startup ecosystem.

E-Residency Program:

Estonia's unique e-residency program, launched in 2014, enables foreign entrepreneurs and investors to establish and manage businesses remotely. This program has attracted international angel investors by providing them with a seamless way to invest in Estonian startups and contribute to the country's entrepreneurial ecosystem. The e-residency program has expanded the pool of potential angel investors, fostering cross-border collaboration and knowledge exchange.

Startup Visa

The launch of the Startup Visa in January 2017 has attracted foreign talent by making it more accessible for entrepreneurial non-EU nationals to come and work for Estonian startups, relocate their existing startups, or establish new ones in Estonia on preferential terms.

Funding

In terms of funding, Estonia provides information and financial support for startups, such as the Estonian Development Fund and Enterprise Estonia. The startup community has good relations with the involvement of the state's policy-making and legislation. The government actively supports the ecosystem by hearing their voices to make them thrive.

International Recognition and Collaboration:

Estonia's angel investor relief policies have garnered international recognition, positioning the country as a leader in digital innovation and entrepreneurship. The government actively promotes collaboration between local and international investors, facilitating partnerships and knowledge sharing. This international exposure has attracted additional investments and increased the visibility of Estonian startups on a global scale.

Results

Since 2019, the Startup Ecosystem in Estonia has tripled in size, in terms of numbers of startups and quadrupled in terms of number of investments.

Recommendations

Conclusion

In April 2023 Dogpatch Labs was awarded the contract to manage the operations of HBAN, Ireland's National Angel Investment Network, on behalf of its contracting authorities - Enterprise Ireland in the Republic of Ireland and InterTradeIreland in Northern Ireland. Having spent the last 4 months in deep discussion with hundreds of investors, north and south of the border, we are excited about the level of under activated interest in investment opportunities in Ireland's future high potential companies.

As part of our research for this brief, we engaged with a large number of relevant stakeholders including;

- Survey of Angel investors in the HBAN ecosystem which received more than 70 responses in its first 24 hours.
- Startup Founders who have been through the current process and those who decided not to proceed with EIIS.
- VC's and other members of the funding community in Ireland.
- Exited Startup Founders who have now become investors in their own right.
- Angel Investors in the UK and USA.

We also conducted an extensive review of case studies for other international jurisdictions and examined the effects that their policies had in encouraging their own investment ecosystems.

It's clear that, while welcomed, the current system is overly complex and has its issues. It is clear from our engagements that we are losing Republic of Ireland companies to the UK where UK based EIS investors are benefiting from the success of our indigenous companies because the systems are more straight forward and take the compliance liability from the Founders, allowing them to focus on building successful businesses. The ease at which companies can move from Dublin to Belfast is a significant factor in this. We are actively recruiting more angels into the ecosystem to invest in indigenous companies but the current EIIS process is overly complicated and a barrier to entry for new investors. Moreover, founders are not taking up EIIS because the other founders they speak to in the ecosystem are sharing their poor experience.

Unlike systems in the UK and soon to be implemented in France, the current EIIS system also does not go far enough. Deals are getting done but they fall at the final hurdle when the startup goes through the complicated and expensive process of applying through a system that wasn't designed for fast moving innovative high potential technology businesses. Schemes in other countries have been able to successfully navigate the creation of systems and incentives that encourage and reward individual investors for backing the sort of high risk endeavours that have led to some of Ireland's most successful companies and that struggle to find alternative finance because of their high chance of failure.

Ciaran Gilsenan
All-Island Director
HBAN

"We're seeing more ROI companies set up just across the border in Northern Ireland and in mainland UK and become EIS registered because the tax scheme there is much more attractive for investors and the process is straightforward with no clawback liability based on an upfront approval process. "

Recommendations

All engagements have shown that a number of adjustments to the current system would have a significant effect on the overall scheme and have a large impact on both the use of the scheme and the number of high growth potential startups that could benefit from the related Angel investment. We recommend that the government should look at the following identified factors;

1. **Simplification:** Simplify the application process with less restrictive conditions, and simplify the 108 page Revenue guidance document. The UK model and how information is communicated on the HMRC website could provide much needed guidance in this area,

2. **Certainty:** Increase certainty for companies that they are eligible for EIIS and simplify the process through the provision of a final confirmation that the company is eligible for EIIS investment where the information provided to the Revenue Commissioners is correct and complete.

3. **Instruments:** The creation of an investment instrument, similar to the UK's Advance Subscription Agreement (ASA), that would allow for investments similar to the increasingly popular Convertible Loan Notes (CLN) and SAFE notes under EIIS.
4. **Creation of an SEIIS scheme** similar to the UK's SEIS scheme that provides for a higher relief rate for the first €200,000 invested in a company, reflecting the increased risk taken by investors.

5. **Loss Relief:** Introduce Capital Gains Tax (CGT) loss relief on failed or loss-making EIIS investments.

6. **Higher Investment Limits:** Seek an increase in investment limits under EIIS to €1m per investor per year.

7. **Lower Investment Periods:** Standardise the investment period to 3 years for all qualifying investments up to €500,000.

Appendix

Appendix 1: Scorecard Analysis (EIIS)	
Usability	EIIS has specific criteria for investors and companies involved. Some types of companies, like those dealing in land, shares, securities, or financial activities, are excluded. Investors must understand these criteria to qualify for tax relief. The tax system's complexity and legislative changes can be challenging, especially for new angel investors or those without a finance or tax law background.
Relief	Investors can claim up to 40% tax relief on their investment, with a yearly limit. Starting from October 8, 2019, investors receive the full 40% relief in the year of the investment. However, unlike other shareholdings, there is usually no relief for losses from selling EIIS shares if the investment is not successful.
Cost	In Ireland, the cost to complete an EIIS application is on average €10,000 which is a deterrent to companies.
Admin Burden	Self-certification increases the difficulty of attracting new investors and decreases the likelihood of retaining existing ones. Investors perceive greater uncertainty regarding the potential clawback of claimed relief if issues arise with self-certification. Like any tax incentive, EIIS requires administrative tasks such as record-keeping, form filling, and compliance with scheme rules. This can pose a particular challenge for angel investors with limited resources compared to larger investment firms.
Certainty	The Commission on Taxation has expressed concerns about the complexity of the EIIS, noting that it can deter potential claimants. One area of uncertainty is whether investee companies can maintain their EIIS status during subsequent audits.
Maximum Allowable Investment	Currently, the maximum allowable investment in an EIIS company is €500,000, and it comes with a 7-year retention period. However, this difference in maximum allowable investment levels makes Ireland's regime less competitive and poses challenges for companies seeking to raise substantial funds through the EIIS.
Investment Period	The Finance Act 2019 made amendments to the annual investment limits in the EIIS. Investors can now invest up to €250,000 per annum or €500,000 in total. If the investment is up to €250,000, the qualifying investment period is 4 years. In order to qualify for the full relief, investors must hold the shares for at least 4 years from the date of issue. This requirement presents a risk for investors as it locks their funds for a substantial period, during which they may encounter business downturns or financial difficulties. However, for investments exceeding €250,000, the investor must retain the qualifying shares for a longer period of 7 years. This 7-year retention period can be seen as a significant barrier to investment.

Budget Submission on EIIS

Recommendations from the startup ecosystem to better incentivise Angel Investing in Ireland

dogpatch LABS HBAN