



## Response to Consultation on the Employment & Investment Incentive Relief

May 2019

*The Employment and Investment Incentive (EII) is a tax incentive which provides for tax relief of up to 40% in respect of investments made in certain corporate trades. The EII allows an individual investor to obtain income tax relief on investments for shares in certain companies up to a maximum of €150,000 per annum in each tax year up to 2020. Initially relief is allowed on thirty fortieths (30/40) of the EII investment in the year the investment is made. Potentially, this can result in a tax saving for the investor of up to 30% of the investment. Relief in respect of the further ten fortieths (10/40) of the EII investment will be available in the fourth year after EII investment was made providing that certain conditions are met. Potentially, this can result in a further tax saving for the investor up to 10% of the investment.*

Dublin Chamber welcomes this opportunity to make a submission to the Department of Finance as part of the public consultation on the Employment & Investment Incentive (EII) Relief.<sup>1</sup> Our feedback, outlined below, is in response to questions in the Department's public consultation paper seeking opinion on the operation of the Relief.<sup>2</sup> This follows an independent review of the EII Relief by Indecon Economic Consultants, the results of which were published in the Department of Finance 2018 Tax & Expenditures Report.<sup>3</sup>

Tax reliefs must continue to be provided in order to facilitate funding for Irish based start-ups and SMEs. With this in mind, Dublin Chamber welcomes the implementation in the Finance Act 2018 of several proposals recommended by the Indecon Report, i.e. those outlined in Appendix 1.1 of the consultation document.

In relation to the proposals outlined in Appendix 1.2, detailing recommendations that have not yet been acted upon by Government, Dublin Chamber makes the following observations.

---

<sup>1</sup> Revenue, Tax & Duty Manual Part 16-00-10 Employment & Investment Incentive (EII) Relief for Investment in Corporate Trades, <https://www.revenue.ie/en/tax-professionals/tm/income-tax-capital-gains-tax-corporation-tax/part-16/16-00-10.pdf>

<sup>2</sup> Dept. Finance, Public Consultation Paper on Employment & Investment Incentive, Start-Up Funds for Entrepreneurs, Start-Up Capital Initiative, <https://assets.gov.ie/8835/59ed46f173bc449c98251acd8352c072.pdf>

<sup>3</sup> Budget 2019, Report on Tax Expenditures Incorporating outcomes of certain Tax Expenditure & Tax Related Review completed since October 2017, p. 150, [http://www.budget.gov.ie/Budgets/2019/Documents/Tax%20Expenditures%20Report%202018%20FINALE%2017.10.18%20\(002\).pdf#](http://www.budget.gov.ie/Budgets/2019/Documents/Tax%20Expenditures%20Report%202018%20FINALE%2017.10.18%20(002).pdf#)

## **In relation to the proposals in appendix 1.2, which would you prioritise and why?**

The principal issue facing companies in relation to the EII Relief is administrative. It should be noted that self-certification involves an element of risk for taxpayers, and in this context, there should be a particular effort to reduce the administrative burden. As the fundamental premise of the EII Relief is to act as an important incentive for early stage companies, it should not be a requirement for applicants to obtain specialist tax advice to claim the relief. Consequently, proposals 3 and 12 are most relevant and should be prioritised for implementation.

- 3 - *Confirmation that a company is eligible for relief should be final if information provided is correct and complete.*
- 12 - *A simplified process involving less restrictive conditions should apply for start-ups who are raising limited investments.*

## **Proposals for changes to EII/SURE not yet acted upon**

*3 - Confirmation that a company is eligible for relief should be final if information provided is correct and complete.*

This is particularly important as receiving approval provides legitimacy, and the credibility this affords to early stage companies can be critical in enabling them to successfully attract early-stage angel investment.

*5 - The requirement of tourism enterprises to have applications evaluated by Fáilte Ireland should be removed.*

Dublin Chamber agrees with Indecon that this is additional bureaucratic burden is unnecessary.

*6 - EII scheme should prioritise attraction of risk capital in sectors with greatest levels of market failure.*

Dublin Chamber agrees with this recommendation while cautioning that restriction of the existing allowance may be counterproductive, and would welcome further clarification in relation to the following comment from the Indecon Report: "One option would be to restrict the tax allowance to 30% of the investment for short term investors in lower risk sectors which would align with the UK rate, but increase the relief to 45% of the investment as an allowance for investors in higher risk areas."

*8 - The annual investment limit should be increased for longer term EII investors and higher risk sectors and capital losses should be allowable for such investors.*

Dublin Chamber agrees with the aim of this recommendation, while cautioning that any such change should be designed to avoid the effect of creating a 'premium' on the existing four year investment. This could have the effect of dis-incentivising investors preferring not to invest for 10 years and may reduce overall capital to companies in these sectors.

*9 - Eligibility for EII should include an explicit condition that investors face normal commercial risks as shareholders.*

Dublin Chamber agrees with this proposal, which is consistent with the purpose of the relief.

*10 - Full tax relief should be provided in the year in which the investment is made and gains in the value of shares should be subject to capital gains rather than income tax.*

Dublin Chamber agrees that this would remove uncertainty which acts as a disincentive to investors.

*11 - The definition of research and development should be amended to add "innovation".*

Dublin Chamber agrees in principle but advises that it is important how "innovation" will be defined. We suggest that further comment might be relevant in response to the chosen definition.

*12 - A simplified process involving less restrictive conditions should apply for start-ups who are raising limited investments.*

Dublin Chamber strongly agrees that a simplified process is required. For capital raised to the value of €200,000 or less, the current administrative costs are such as to make EII very often not worthwhile pursuing.

### **Do you have any further proposals?**

Dublin Chamber suggests that an amendment to the higher income restriction provisions may be required in order to restore the intended incentive effect of the EII Relief.