ALL EYES ON THE EMPLOYMENT & INVESTMENT INCENTIVE SCHEME

In the current restricted lending environment, the Employment and Investment Incentive Scheme is seen as a vital source of funding for SME growth strategies, explains **Andrew Bourg**.

In a climate where access to funding for SMEs remains difficult, it is worth considering the advantages of raising funding through the Employment and Investment Incentive (EII) Scheme. In summary, the main advantages are:

- The EII offers an alternative source of funding for companies at a time when there is limited funding available from traditional sources of finance;
- The investment constitutes an equity investment rather than debt funding and therefore helps to strengthen the balance sheet, which in turn may help trigger additional funding from banks, Enterprise Ireland and or other financial institutions;
- The investment period is three years and there is no repayment until the end of the three year period;
- It offers the company a fixed source of finance for three years; and
- Investors can take a different class of share which allows the promoters to retain control of the company.

HOW TO SECURE EII SCHEME FUNDING?

There are two options available for companies who are interested in raising EII scheme funding. They can raise funds by way of private placing or through a Designated Investment Fund (DIF).

Private placing

Private placings are attractive for companies seeking to gain access to equity finance by fundraising, for example among family and friends who in return can receive up to 41% tax relief.

The key items a company should complete regarding an EII scheme private placing are:

- An *Information Memorandum* which provides details on the company, summary of EII scheme legislation and details on the proposed investment for the investor;
- EII outline approval from the Revenue Commissioners;
- Tax advice regarding the structure of the proposed EII scheme investment; legal advice regarding the agreements of the investment;
- Tax and legal advice regarding the exit of the proposed EII scheme investment after the three year investment period;
- Filing of the relevant company secretarial documents; and
- EII 1, 2 & 3 approvals from the Revenue Commissioners following the investment.

Designated Investment Fund

There are currently two EII scheme fund managers involved in raising funds from qualifying individuals and investing the EII scheme funds in qualifying companies.

The main difference between raising EII scheme funding by way of a private placing and a DIF is that the DIF will have monies raised in advance of targeting potential investee companies, thereby reducing the uncertainty for investee companies of raising funding.

From an investors' point of view, private investors often prefer the security of investing through a DIF as they spread the investment over a number of qualifying companies in a range of industries, thus reducing exposure in any one company or sector.

Furthermore, private investors can avail of a professional and experienced investment team who will make investments on their behalf as well as their ongoing management and performance.

Andrew Bourg, FCA is Director – Corporate Investment & Business Advisory with BDO and Director of BES Management Limited.