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EIIS a good source of start-up funding

The EII scheme builds on the BES and has broader parameters,

Elaine O'Regan

The Employment and Investment Incentive Scheme (EIIS) can offer healthy start-ups a viable route to early-stage funding.

The scheme is essentially a revamped version of the Business Expansion Scheme, which was introduced in 2007 to allow investors in certain sectors to obtain income tax relief on their investments.

Announced in the 2010 budget, the EIIS secured EU approval last November and came into effect the following month on budget day.

According to Elliott Griffin, managing director of Simple.ie, an EIIS fund for clean-tech investments, the scheme has potential benefits for a greater number of Irish businesses than its predecessor.

"The EIIS 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," said Griffin. "Such companies would instead, usually have to rely on loan finance, which in turn can be difficult to obtain."

The EIIS has shortened the required BES investment period from five to three years. It also guarantees income tax relief of 41 per cent in two stages: 30 per cent in the year of investment; and a further 11 per cent in the year following the three-year investment period.

This is subject to the company either increasing employment numbers or expenditure on research and development (R&D). The new scheme has also broadened the range of companies to which the funding is available.

"The EII scheme is available to the majority of SMEs – some minor exceptions apply – compared to the former BES, which was restricted to manufacturing and internationally traded services companies," said Andrew Bourg, a director with BDO.

The Davy EII Fund (formerly the Davy BES Fund) is managed by BES Management, a limited company owned jointly by BDO and Davy.

"There are also significantly increased company investment limits under the EII scheme. A qualifying company can now raise up to €10 million compared to €2 million under the BES – with an annual investment limit of €2.5 million, compared to €1.5 million under the BES scheme," said Bourg.

The aim of these changes was, he said, to encourage more private investors to provide funding for SMEs, thereby helping to create and retain jobs in small companies around the country.

"Subject to some minor exceptions, the new scheme is available to a much wider range of companies, including, for example, retail, distribution, franchises, agriculture and recycling companies," he said.

"This scheme is available to new and existing companies, and employees and directors of the company may also invest subject to certain rules. Consequently, it is particularly attractive for companies at the start-up stage of development to gain access to equity finance by fundraising, for example, among family and friends, who, in return, receive an immediate income tax break."

The Davy EII Fund and Simple.ie are two of three EII funds operating in Ireland. Quintas Wealth Management also has the Horizon EII fund, which it launched in December.

While investors can use the EII scheme to invest directly in companies (a private placing), the three managed funds each raise investment amounts over a set period – typically in the second half of the year – before investing in a portfolio of selected firms that meet their criteria and standards.

"Many investors prefer the security of investing in a managed fund, as it reduces their risk exposure by spreading their investment over a portfolio of companies, operating across a range of industries," said Bourg.

"From a company's perspective the main difference between raising EII scheme monies by way of a private placing and an EII scheme fund is that an EII scheme fund will have the funds raised in advance of targeting companies it invests in."

The criteria for companies applying for EIIS funding differ depending on their size and location.

In all cases, they must fall into the "micro, small or medium-sized" categories as defined under the EII scheme.

"Companies located in Dublin, Meath, Kildare, Wicklow and Cork city must be micro or small companies and these are companies which have up to 50 employees and turnover less than €10m or a net asset value less than €10 million," said Bourg.

"Companies located in the rest of the country can be micro, small or medium companies and these are companies, which have up to 250 employees and turnover less than €50 million or a net asset value less than €43 million."

For investors, Bourg said the main appeal of the EII scheme was that it offered "total-income tax-relief" including relief on, for example, rental income and deposit income.

"This, coupled with the cap on pension contributions allowable for tax relief purposes, makes the EII scheme a particularly attractive income tax relief investment for individuals wishing to shelter income tax," he said.

"For investors, the EII scheme also offers a more attractive return on an investment with a three-year investment term, whereas previously it was a five-year in-

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vestment term.

"For companies, the EII scheme's wider remit and increased investment limits are a significant benefit at a time when funding from traditional sources is limited."

Andrew Bourg has this advice for companies seeking EIIS funding:

■ The phrase "you only get one chance to make a good impression" is very appropriate when applying for this funding. As part of our initial assessment, we review companies' latest audited accounts, management accounts. We look for a summary business plan supported by three-to-five-year financial projections. What we're looking for is a good understanding of the company's key drivers and the future growth opportunities you are seeking to fund.

■ To get funding, it is crucial that you professionally present your plans for growth. Your business plan must be comprehensive, yet concise, in order to instil confidence that you have the ability to turn your business plan and projections into a reality.

■ I recommend that the financial projections be realistic. In the current market, everything has slowed down – so, for example, your turnover may be down, your debtors may be less regular with their payments and your creditors or suppliers may want more regular payments upfront. Bear all of this in mind when you're planning ahead.

■ The key business drivers of your financial projections should be flexed to demonstrate "what-if" scenarios, so that we can understand how you would alter your business model under less favourable circumstances.

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