

EIIS Opportunities 2018 (Employment Investment Incentive Scheme 2018)

EIIS a handy wellspring for SMEs and start-ups

Companies are still benefiting from the Employment Investment Incentive Scheme, which is scheduled to run until 2020, writes **Joe O'Shea**

SMEs and start-ups across a wide range of sectors are continuing to benefit from the Employment Investment Incentive Scheme (EIIS), due to run until 2020.

More than €50 million was invested through the scheme in 100 or so Irish businesses in 2017, according to estimates by investment managers BVP. The average investment was €20,000 and for most investors, the tax relief allowed was earned upfront.

Minister for Finance Paschal Donohoe used the recent Finance Bill to make changes to the EIIS for the second year running – amending the application procedure for companies so that it would be largely by self-assessment – which he said would increase its “efficiency and effectiveness.”

It was confirmed that the application process for a Qualifying Company will change in 2019, making the company applying for EIIS relief responsible for self-certifying. Investment experts say this should improve the EIIS application process – which

has been hit by delays and bottle-necks in the past – in 2019.

Cantor Fitzgerald's Head of Corporate Finance Conor McKeown said EIIS was “one of the few remaining sources of total income tax relief.”

“We believe EIIS is an attractive alternative investment class and should form part of an individual's asset class allocation,” says McKeown.

“It offers investors an opportunity to invest in high growth potential Irish businesses, as part of a larger overall portfolio, with the benefit of providing an element of tax relief that can be offset against their investment.”

Under EIIS, an individual with income taxable at the 40 per cent rate in the year the EIIS investment is made, can obtain tax relief on PAYE and self-employment earnings, ARF distribution income, as well as on rental income from property held in a personal capacity and foreign income and Irish dividends.

Investors can offset up to 40 per cent of the cost of their investment by being able to claim this back in tax relief up



to a maximum of €150,000 in one tax year and they would also hope to get a return on their investment after – typically – four or five years.

EIIS is open to the majority of small and medium sized enterprises providing they are under seven years old (some older companies, under certain conditions may also qualify).

Enterprise Ireland supports and funds Irish start-ups and regards the EIIS scheme as an important component when it comes (in particular) to supporting High Potential Start Ups (HPSUs).

These can be eligible for

50-50 matched funding with EIIS investment and Enterprise Ireland says the benefits for creating employment and fostering new enterprises are considerable.

“The taxation environment for Irish owned enterprises is important in influencing decisions on starting and scaling companies, where they will be located, and how they will be structured,” an Enterprise Ireland spokesperson told *The Sunday Business Post*.

“It is a key factor in the overall competitiveness of Ireland as a place to do business. The EIIS continues to be an important component

of the funding landscape for Irish enterprises, providing an alternative source of finance to SMEs and start-up enterprises and supporting the creation and retention of employment across the economy.”

An important funding mechanism for new businesses, the scheme also remains attractive to individual investors. But potential investors should carefully weigh up their options and seek sound advice, according to Mary McKeogh of HLB McKeogh Gallagher Ryan.

With long experience in the area of tax-based fundraising,

McKeogh believes those looking to invest in high-potential projects should be looking very closely at EIIS qualified offerings. “It offers taxpayers the opportunity to shelter a portion of their income and get much needed tax relief at a time when there is very little tax relief available,” said McKeogh.

“They also hope to get a return on their investment at the end of the investment period, when combined with the tax relief makes EIIS very attractive. The scheme also provides valuable funding to businesses at an affordable rate.”

The partner at HLB McKeogh Gallagher Ryan, who has structured and advised on projects in excess of €50 million in value through EIIS, said there have been some issues with the scheme in recent years, including delays in getting tax approval and certificates of relief from Revenue.

“There has been a major backlog in the EIIS section so investors have experienced delays this year getting their certificates of tax relief,” said McKeogh.

“However, the scheme has been revamped again this year so that from January 1, 2019, companies can self-certify for tax relief. If Revenue later find they are not eligible they are liable for the clawback of the tax relief granted to investors.

“This is better for the investors and easier for Revenue, but it does mean the promoter is taking on more risk.”

When it comes to the types of businesses that qualify for EIIS, there has been a widespread perception that most are in the Windfarm/Renewable Energy Sector or in whiskey and gin distilling.

But Mary McKeogh says this is “absolutely not” the case. “It's quite wide in scope in terms of what constitutes a qualifying company and a qualifying trade,” she said.

“Of course, there are regulations to meet, but any scheme needs to be rigorous to protect investors. Only a few sectors are restricted like

financial services, professional service companies, dealing in or developing land, forestry, coal, steel and shipbuilding sectors as well as film production.”

HLB McKeogh Gallagher Ryan has, in recent years, advised and assisted on projects in sectors such as windfarms, biomass energy and hospitality as well as nursing homes and – in one case – a crematorium.

Paschal Donohoe did lay out changes in administration and qualifying criteria for EIIS in 2019, and McKeogh believes these should make it a more efficient, streamlined process.

“EIIS provides value to both promoters and investors,” she said.

“The scheme needs to be supported and to continue and that means Revenue and government need to be behind it – deal promptly with queries, issue approvals quickly and process tax relief claims efficiently.”

Conor McKeown of Cantor Fitzgerald agrees that the changes outlined in the Finance Bill will improve the application process going forward.

“We believe EIIS is essential to supporting high-growth Irish companies in what remains a strained credit market, while also providing an alternative investment opportunity for individuals who can avail of certain tax reliefs,” he said.

Galway games studio on the growth path

BY JOE O'SHEA

Galway-based 9th Impact Studios build multi-platform video games based on globally popular TV shows, in partnership with the studios that produce them.

They work closely with the makers of shows that have millions of fans worldwide, to create games which allow

those fans to interact with their favourite characters and stories on smart phones, tablets, game consoles and social media sites such as Facebook.

The shows they work with may not be instantly recognisable to grown-ups. But as 9th Impact's Finn Krewer says, they have millions of fans around the world.

“We've done the official games for Biker Mice From Mars and Danger Mouse,”

says the game studio's chief technology officer.

“Our latest launch, just this week, is for a show called Sunny Bunnies and it's got a huge audience globally, on the Disney Channels in the US and across Asia on Nickelodeon. This year already in China, it's got 1.2 billion views online. It's a massive audience and they love to play and interact with their favourite shows.” This is the second year

running that 9th Impact will be making an offering under the EIIS scheme. And Finn Krewer says the scheme has allowed them to build on their success to date.

“In 2015 we competed for and won the Competitive Start Fund from Enterprise Ireland. In 2017, we graduated from that and became a High-Potential Start-Up.”

“So we raised €125,000 in 2017 from seven private investors, all EIIS qualifying, and matched that with €125,000 in 50-50 funding from Enterprise Ireland.

“So now we are in 2018, where we are doing the same thing, €125,000 from private individuals, EIIS qualifying, they get their 40 per cent back in tax relief and Enterprise Ireland come in with the matched funds, which are already approved.”

“We only just opened this EIIS round and we've already filled €85,000 of that €125,000 figure.”

9th Impact has taken an uncommon route with its EIIS investors, in terms of their return.

“The people who come in as EIIS investors get their 40 per cent back, but they also get issued ordinary shares in the company. So we don't buy them back in four or five



9th Impact Team, centre: Dr Finn Krewer, head of studio 9th Impact; from left: Guillaume Ravoire, 3D animator, Kevin Daly, senior developer; James Duffy, game artist, Gavin Ward, QA engineer; Liam Krewer, full stack developer; Stefano Vietina, game artist

years' time, there's no caps on returns,” says Finn.

“Most EIIS schemes have a four- or five-year payback and it's a set percentage. Ours doesn't operate like that, you just get equity in the company, so you are going to cash out, whenever the company sells, and that's the plan, to grow this company and exit within five years.”

“The target is to sell this company in five years and as an EIIS investor, you'll cash out at the same rate as everybody else, uncapped.” Finn says EIIS has been “great” for 9th Impact Studio; “What it does is give that private investor that final push. If they are looking at two investments, and yours is EIIS qualifying, it just makes it that more attractive.”

The Galway-based games developers have also used EIIS to tap into the expertise and enthusiasm of their investors.

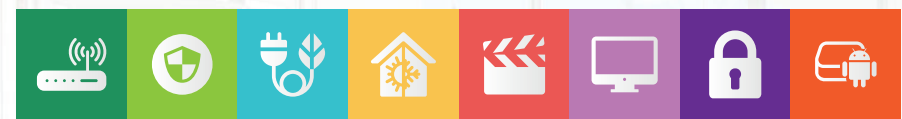
“Our EIIS investors have brought a lot to the business. We have a solicitor, a corporate finance guy, a guy working in Google, all of whom have been really valuable to us in terms of advice and insights. We keep them informed with regular updates and we'll reach out to them when we think they can chip in with advice.”

“One of our first-round investors joined the board, he's in corporate finance, so it's very useful for us to have him on the board and the investors wanted somebody to represent them, it's worked out well for everybody.”



Since its foundation in 2016, Xunison has grown from two colleagues in Dublin to an International Team of over twenty staff with offices in Ireland, China, India and Serbia.

Through its premium product, The X-Brain, Xunison aims to deliver the latest innovative technology in Smart Home Automation and Home Entertainment while providing customers with excellent customer service and a product they can trust.



The Company is currently seeking to raise €2.5m via EIIS Funding, these funds will be used to cover the operational costs of the business.

AVAILABLE TAX RELIEF:	30% in year 1 with an expected further 10% arising in year 4.
MINIMUM INVESTMENT:	€50,000 in €1 "A" Ordinary Shares in the Company.
RETURN ON INVESTMENT:	Predicted Annual Return 8%
INVESTMENT TERM:	A minimum of 4 years from the date the original investment is made.



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EIIS OPPORTUNITY CONSUMER DAIRY PRODUCTS



Dairy Concepts IRL founded in 2012 and based at Moorepark, Fermoy is focused on the development of all-natural, high-protein, hand-held dairy snacks for the global market.

- Innovative world-first products, on-trend globally.
- Huge market opportunity.
- Scalable business model.
- Partnered with Teagasc Dairy Research Centre, Moorepark, Fermoy.
- Strong management team with track record.

The Employment & Investment Incentive Scheme (EIIS) allows you to obtain income tax relief on investments in qualifying SMEs. Investing in EIIS is tax efficient and suitable for individuals with a taxable income liability in the year the EIIS investment is made.

KEY INVESTMENT FEATURES

Fundraise Amount & Purpose: €1m to fund product launch.

Minimum Investment: €10,000.

Investment: Full equity participation, by way of ordinary shares.

Tax Relief: This investment qualifies for EIIS relief. Relief is available in two tranches: 30% in year 1, with a further 10% in year 4 when additional criteria are met.

Term & Exit Strategy: 4 year term, it is envisaged that exit will be by way of re-financing or trade sale.

Timing: October/December 2018.

Register Your Interest: tom.brennan@dairyconcepts.ie
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