EIIS AN ALTERNATIVE SOURCE OF FINANCE?

The Employment and Investment Incentive Scheme (EIIS) offers investors up to 41% tax relief on their total income in return for investing in new ordinary shares in qualifying SMEs for a three year investment period. The EIIS, which reformed and revamped the Business Expansion Scheme (BES), is an alternative source of financing that not all companies may be aware of but in the current restricted banking market is worth considering, explains **Andrew Bourg**.

Finance Bill 2013 introduced two changes to the EIIS (subject to EU approval) extending the deadline to 2020 and the scope to hotels, guest houses, self-catering accommodation and other comparable establishments thereby confirming the importance of the hospitality industry to Ireland, not only in terms of tourism but also in the knock on effect it has on other sectors such as agrifood and transport.

Companies raise EIIS funding in one of two ways:

➤ **Private placing:** A private placing is an attractive source of funding for qualifying companies, particularly early stage or start-up companies, which can raise EIIS funds from family and friends, who in return can receive up to 41% tax relief. There is a revenue approval process to be followed prior to investing and claiming relief.

➤ **Designated Investment Fund:** Designated Investment Funds may be suitable for more established companies with a strong trading track record and a commercial focus. [1]

There are certain restrictions regarding the size and location of companies that qualify for the EIIS. Companies located in a "non-assisted' area, being Dublin, Meath, Kildare, Wicklow and Cork city, must be micro- or small entities. Companies located in an 'assisted' area, being the rest of the country, may be micro, small or medium sized companies.

EIIS Example

An engineering company raised €800,000 under the EIIS in November 2011. The financial information of the Company before and after the investment was:

Pre EII investment (2011)

Turnover	€2.6 million
Profit after tax	€92,000
Employee numbers:	28

The EII investment subsequently unlocked Enterprise Ireland funding of €400,000. It also allowed the company to avail of an opportunity to purchase a new building which provided increased production capacity and in turn led to increased margins as well as generating cash flow savings in rent of c. €80,000 per annum.

Post EII investment (2013)

Turnover	€4.6 million
Profit after tax	€266,000
Employee numbers:	45

As can be seen from the inset example, EIIS funding can have an immediate positive impact on both the financial and trading position of investee companies. In addition to the initial financial cash flow injection and ability to fund the company's growth plans, other benefits to companies raising funds through the EIIS include:

➤ fixed cost of finance for three years;
➤ existing shareholders retain control of the business;
➤ the investment is an equity investment and not debt funding, thereby improving the balance sheet;
➤ no capital repayment for the three year investment period; and
➤ EIIS investment may trigger additional funding from financial institutions and/or Enterprise Ireland.

Note
[1] For more detail on Designated Investment Funds see *Accountancy Ireland*, Vol 44. No 5, 2012. www.accountancyireland.ie/Documents/digital/2012/October/files/62.html

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