

Review of EIS Support for high-growth start-ups and scale-ups: 11 November 2020

By TechIreland

On behalf of the Alliance for an Innovation Driven Recovery

TechIreland - Scale Ireland - IVCA - Euronext - HBAN

Introduction

The Alliance for an Innovation-Driven Recovery is seeking to improve the operation of the **Employment Investment Incentive Scheme (EIS)** to support high-growth start ups and scale ups.

This analysis is based on data from Revenue on investment raised between 2007-2018, under four key schemes¹²: Business Expansion Scheme (**BES**); Employment Investment Incentive Scheme (**EIS**); Seed Capital Scheme (**SCS**); Start Up Relief for Entrepreneurs (**SURE**).

Our focus is on the level and type of investment incentivised under these schemes into “**High-Growth Tech Startups and Scaleups**” which are innovation-driven businesses that are high-risk and require significant upfront investment before breaking-even, thus are very dependent on equity-based finance. These companies present huge potential in terms of employment, exports and innovation. They are distinct from lower-risk asset-backed or service businesses.

Summary of Findings

Significant funding has gone towards investment into Irish firms through the three schemes (BES, EII and SCS) over the ten years (€816 million).

1: The majority of the investment has been focused on lower-risk businesses (71% / €579M) as distinct from higher-risk, high-growth start ups and scale ups (29% / €238M), with the percentage of investment going to startups and scaleups consistently about **30% of the total** each year.

2: Over 74% of early-stage investments under €1 million, have gone into asset-backed or service companies. Whereas, less than 26% of seed capital has been invested in high-growth potential tech startups.

3: Only 92 out of the 335 companies that secured investment from the Halo Business Angel Network (typically high-risk companies with high-potential) were able to avail of state investment incentive schemes.

4: The average cost to companies of hiring a tax advisor to utilise EIS is €10k, deterring many early-stage companies from using the scheme. In contrast, in the UK the process usually costs between £250 and £2,000.

These findings confirm the observation in the **2018 Indecon report commissioned by the Minister for Finance**³

“The evidence on firms assisted shows that some of the companies are in lower risk sectors. There is merit in considering whether the focus of the scheme can be amended in order to target companies most in need of finance and thereby reduce economic deadweight and Exchequer costs”. [p.7]

Conclusion

EIS is a critical investment incentive scheme to foster equity-based risk finance for early-stage high risk companies. In light of the difficulty in accessing funding for high-growth tech startups and scaleups which has been heightened by Covid-19, it is critical that EIS is reformed to ensure these companies can be not only sustained, but scaled through private investment.

Based on our findings, which corroborate previous reports by the Department, the Alliance believes the review of EIS announced in Budget 2021 should be prioritised and acted upon urgently. We recommend five key changes to EIS, as outlined in the Alliance for an Innovation Driven Recovery EIS Submission⁴.

These changes would help augment existing government financial support for startups with investment by private capital; thus reducing the net cost to the exchequer.

1. CGT exemption on all qualifying investments made during H2 2020 to end 2021	4. Allow other investment vehicles to qualify for tax relief on EIS investments
2. Standardise investment period to 4 years	5. Increase certainty for companies that they are eligible for EIS
3. Enhanced relief for investing in micro companies	

¹ Revenue review of BES/EII/SCS shares issued 2007-2018 <https://www.revenue.ie/en/starting-a-business/documents/bes-scs-shares.pdf>

² EIS Statistics 2011 - 2018: <https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/eii-stats.pdf>

³ Indecon Evaluation of EIS and SURE 2018: <https://assets.gov.ie/4045/071218130657-3be4a529ae4999ba8d63bb0c0ff9d9.pdf>

⁴ Alliance for an Innovation Driven Recovery EIS Submission: <https://bit.ly/EIS-Submission-Nov-2020>

Analysis & Key Insights

Finding 1: Under 27% of investments have gone to High Growth Startups and Scaleups⁵

The majority of investment (73%) under the 4 schemes has been focused on lower-risk businesses, as distinct from higher-risk, high-growth startups and scaleups. This statistic is consistent for both the percentage of companies receiving investment and the percentage of money invested.

Breakdown Of Funding Allocations Under The Four Schemes (2007-2018)	
Total number of qualifying companies that received investments	1,899
<i>Number of which were high-growth, Startup & Scaleup companies</i>	521 (27%)
Total value of investments in qualifying companies	€816M
<i>Value of investments in high-growth Start-up & Scale-up companies</i>	€238M (29%)

Finding 2: Under 26% of investments under 1 million have gone to high-growth potential enterprises⁶

Over 74% of investments under €1 million in the four schemes, have gone into asset-backed or service companies. Whereas, less than 26% of seed capital has been invested into high-growth potential tech startups.

Break down of Early-Stage Investments Under The Four Schemes (2007-2018)			
Amount of funding received	Total Number of companies that received funding	Number of “High Growth Startups & Scaleups” that received funding	Percentage of funding going to High-Growth Startups & Scaleups
€0 - 100k	859	181	21%
€100 - 500k	1,541	380	25%
€500 - 1million	1,771	457	26%

Finding 3: Only 27% of high-growth startups & scaleups that secured investment from the Halo Business Angel Network (HBAN) were able to avail of state investment incentive schemes.⁷

Only 25% of companies (92 out of the 335) that secured investment from HBAN (typical high-risk companies with high-potential) were able to avail of BES or EIS, with most investments involving smaller investments [half of these 92 investments were under €200K].

Finding 4: The cost of tax advisory to access the EIS scheme is prohibitive for companies raising smaller amounts of funding.

Nearly 70% of the investments under the four schemes were under €300k, 60% under €200k and 43% under €100k.

Based on consultation with the investee companies, it was found that the cost to companies of hiring a tax advisor in order to apply for EIS is on average €10k due to the complexities within the scheme, which deters many early-stage companies from using the scheme. In contrast, in the UK the process usually costs between £250 and £2,000.

⁵ Revenue.ie, 2007-2018 [<https://www.revenue.ie/en/starting-a-business/documents/bes-scs-shares.pdf>]

⁶ Ibid

⁷ Halo Business Angel Network, internal analysis 2020

Appendices

Appendix 1.1: Investment by program (Overall):

BES (over 5 years; 2007- 2011)	€308 M
EII (over 8 years 2011 – 2018)	€453 M
Seed Capital Scheme SCS (2007-2015)	€41 M
SURE Scheme (2013-2018)	€13 M

Appendix 1.2: Investment by program (High Growth Tech Companies):

BES (over 5 years; 2007- 2011)	€88 M
EII (over 8 years 2011 – 2018)	€140 M
Seed Capital Scheme SCS (2007-2015)	€9 M
SURE Scheme (2013-2018)	€1.4 M

Appendix 2: Total investment by year for the different programmes (overall):

YEAR	BES	EII	SCS	SURE	TOTAL
2007	€112,000,000		€4,400,000		€117,000,000
2008	€73,963,009		€4,486,109		€78,449,118
2009	€53,083,794		€6,004,371		€59,088,165
2010	€36,831,498		€7,948,065		€44,779,563
2011	€32,095,936	€6,510,346	€3,038,447		€41,644,729
2012		€38,772,541	€4,126,482	€10,000	€42,909,023
2013		€53,763,584	€5,312,727	€542,000	€59,618,311
2014		€76,974,305	€3,739,473	€1,025,613	€81,739,391
2015		€87,794,356	€2,055,370	€2,569,565	€92,419,291
2016		€105,000,000		€5,569,311	€111,000,000
2017		€69,819,946		€3,226,562	€73,046,508
2018		€14,464,583		€957,731	€15,422,314
TOTAL	€308,000,000	€453,000,000	€41,111,043	€13,900,782	€816,000,000

Appendix 3: Total investment by year for the different programmes (high-growth startups & scaleups):

YEAR	BES	EII	SCS	SURE	Total High Tech Growth Investment	High Tech Growth share of Total
2007	€26,553,766		€929,291		€27,483,057	23%
2008	€20,768,240		€1,409,149		€22,177,389	28%
2009	€17,549,051		€1,282,376		€18,831,427	32%
2010	€11,802,705		€1,534,884		€13,337,588	30%
2011	€11,094,781	€1,056,876	€457,500		€12,609,157	30%
2012		€14,648,869	€1,031,000	€10,000	€15,689,869	37%
2013		€14,846,449	€1,414,203		€16,260,652	27%
2014		€27,417,962	€490,948	€183,947	€28,092,857	34%
2015		€26,929,308	€452,219	€226,804	€27,608,331	30%
2016		€31,722,623		€564,004	€32,286,627	29%
2017		€21,016,119		€220,000	€21,236,119	29%
2018		€1,988,064		€230,000	€2,218,064	14%
TOTAL	€87,768,543	€139,626,269	€9,001,570	€1,434,755	€237,831,137	29%

Appendix 4: Number of companies by investment ranges:

INVESTMENT RANGE	ALL COMPANIES	Number of High Tech Growth Companies	% High Tech Growth Companies
€5M+	7	3	43%
€2M+ upto €5M	58	17	29%
€1M+ upto 2M	152	44	29%
€700K+ upto €1M	132	40	30%
€600K+ upto €700K	33	11	33%
€500K+ upto €600K	65	26	40%
€400K+ upto €500K	90	24	27%
€300K+ upto €400K	94	34	36%
€200K+ upto €300K	163	45	28%
€100K+ upto €200K	335	96	29%
€50K+ upto €100K	366	76	21%
€20K+ upto 50K	321	62	19%
€20K or below	172	43	25%