Employment and Investment Incentive Scheme (EIIS) 2012

Tax Relief / Investment Opportunity

- The EII Scheme is a Tax Relief incentive scheme, which enables investors to deduct the cost of their qualifying investment from their total income for income tax purposes. It is one of the few sources of total income relief, including for example rental and deposit income.
- The scheme was introduced under the Finance Act 2011 and has replaced the former Business Expansion Scheme (BES).
- Relief is available in two tranches; initially at 30%, with a further 11% tax relief available after 3 years, when additional criteria are met.*

BES v EIIS		
Criteria	BES	EIIS
Investment Term	5 years	3 years
Relief Available	41%	30% + 11%
Qualifying companies	Limited	Unlimited(few exceptions)
Maximum company fund-raise in 12 month period	€1.5million	€2.5million
Share class permitted	Ordinary Shares	Ordinary shares
Maximum Investment	€150,000	€150,000

***The investee company must prove to have increased employment levels, or have met pre-defined R&D expenditure requirements.**
****BES qualifying companies were restricted to an overall maximum fund-raise of €2 million over the life of the company; under EIIS the threshold has been increased to €10 million.**

Key risks

- Medium-to-long term investment in unquoted companies, with no early exit mechanism; investors should not expect to release any investment capital within a 3 year period.
- Investors are exposed to the performance of the investee companies and as such may lose some/all of their invested capital; the value of the investment may go down as well as up.

Investment criteria

- Investments are made in suitable, unquoted qualifying companies.
- Key criteria for investee companies include:
  - Experienced and capable management team
  - Recognised market for products/services
  - Growth potential
  - Clear, defined market strategy
  - Likelihood of realisation of investment after 3 year period

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Investor requirements

- Investors must have an income tax liability to the value of the relief being claimed in a given tax year (maximum investment on which relief can be claimed is €150,000 in a given year).
- Investors falling under the High Earners restriction can claim relief up to the greater of €80,000 or 20% of their adjusted income up to the €150,000 limit.
- Investors should seek competent professional tax advice on the efficiency of investing in EII Schemes.
- Prospective investors should determine the suitability of EIIS investments based on their own personal circumstances.
- The investor is responsible for submitting his/her own individual claim for tax relief to the Revenue Commissioners.
- Investors must not be connected to an investee company at any time during a two year period before, or three year period after issuance of shares qualifying for the relief.

Illustrative example of EIIS investment return

- The following example illustrates the potential return to an EIIS investor on an investment of €100,000, assuming the investment grows by 12% over the investment period.

Investor Cost		Potential Return on investment	
Investment Amount	€100,000	Net cost of investment (note1)	€60,000
Plus once-off commission	€1,000	Less net sale proceeds(note2)	€111,440
Total cost to investor	€101,000	Gross gain	€51,440
First tranche income tax relief- 30%(end of yr 1)	-€30,000	Capital Gains Tax(note 3)	-€2,751
Second tranche income tax relief-11% (end of yr 3)	-€11,000	Net return to investor	€48,689
Net cost of investment (note1)	€60,000	Potential internal rate of return	17.90%

Notes: 1. Net cost of investment calculated as investment of €100,000 plus 1% commission and less income tax reliefs.
2. Net sale proceeds calculated as amount invested plus assumed growth of 12% and less 0.5% exit fee.
3. Capital gains tax based on 30% of net proceeds less total cost of investment and allowing for annual gains tax threshold of €1,270.

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