IVCA Pre-Budget Submission **2019**

Irish Venture Capital Association

IVCA
Funding Innovation for Ireland

Introduction

I am writing to you ahead of Budget 2019 to offer the perspective venture capital industry. Venture capital investors are key providers of patient and long-term capital to growing businesses in every sector of the economy. Since 2008, in excess of 1,450 Irish SMEs raised venture capital of €3.6bn. These funds were raised almost exclusively from Irish venture capital fund managers who during this period:

- Supported the creation of over 20,000 jobs.
- Attracted over €1.6bn of capital into Ireland.
- Geared up the State's investment through the Seed & Venture Capital Programme by almost 16 times.

A thriving venture capital industry is a pre requisite for exploiting Ireland's rich potential for innovation and entrepreneurship. Venture Capital increases the quality of innovation and has a far-reaching impact on competitiveness. Spin off effects on job creation, patent applications and economic growth have been well documented both internationally and locally in the IVCA Economic Impact Studies.

A Blueprint for SME Creation and Financing

We are currently experiencing a seismic period of global economic realignment. There are potential implications for the Irish economic model from proposed US tax reform, EU tax harmonization measures, and Brexit. Ireland as a small open economy will be disproportionately impacted by decisions made in other countries.

The IVCA believes that now is the time for the Irish Government to make cohesive, innovative and far reaching policy decisions, which will engender the future flow of capital to innovative domestic companies and significantly expand the number and scale of SME's in Ireland. We focus in our submission on funding elements of a 'Blueprint for SME Creation and Funding '. Recognising that other policy supports and interventions in research, education, enterprise and other Government departments should compromise part of this blueprint.

Seed & Start Up

Seed funding in Ireland requires continued Government support. This is an urgent requirement given the number of high potential start ups emerging from the start up ecosystem, and the seed funding gap we have observed since the end of 2014 when existing seed funds closed their first round investment cycles.

The Enterprise Ireland Seed & VC scheme is an essential ingredient in the start up ecosystem in Ireland. Its continuation is critical to the VC industry in Ireland and EI should continue to have a central role in the scheme. The IVCA believes that in order to allow venture capital to further drive indigenous growth, the EI Seed and VC scheme should be continued and paired with measures aimed at mobilizing additional private sector capital for the VC industry.

IVCA figures illustrate that in Ireland a funding gap exists at the seed and early stages. Significant investment in seed funding is required to address this along with measures to stimulate institutional and private investment. Tax based incentives can balance investor risk and ensure that higher risk investments at seed and early stage are more attractive. The IVCA suggests the following measures, which assist in addressing this.

- Extend the SURE relief to non-PAYE taxpayers
- Increase the investment limit in this scheme from €100,000 to €250,000.
- Consider ways to grant tax SURE relief upfront to assist cash flow rather than retrospectively.
- The EIIS scheme currently offers investors tax relief of 30% in year one and a further 10% in year four. In order to encourage investment in newer, riskier companies, we recommend the introduction of a preferential 50% rate of tax-relief for firms under three years old or pre-revenue.
- The entire EIIS relief should be made available to investors in companies less than three years old in the year of the investment. This would make investment in higher-risk startups much more attractive.
- Reconsider the EIIS requirement that funding must have been forseen in the original business plan. This is restrictive, and consideration should be given to alternative metrics in order to allow EIIS participant companies secure follow on investment
- Recent amendments to the EIIS scheme necessitated to ensure compliance with European Commission General Block Exemption Regulations (GBER), mean that only independent private investors, within the meaning of GBER, are eligible for relief under EIIS. In reality, many start-ups within their first two years are in receipt of funding from family and friends. Consideration should be given to an additional alternative scheme, which will allow tax relief for investment from family and friends, and also remain compliant with GBER.

Unlock Private Capital to Finance Growth in Innovative Firms

Policy initiatives have been undertaken in other countries such as Denmark, and more recently the package of measures introduced in the last UK budget, aimed at unlocking over £20bn of private sector investment to finance growth in innovative firms over 10 years. Most Governments, the EU Commission and the EIF favor the creation of a fund of funds by the State, as a vehicle to encourage private sector investment in venture capital.

The IVCA has explored this concept in Ireland and we are certain that, with Government sponsorship, a successful fund of funds can be developed in Ireland.

IVCA research indicates that given successful returns by domestic venture capital funds in recent years, increasing private sector capital should flow into venture capital and private equity in Ireland through the establishment of a fund of funds.

Evidence from other countries illustrates that, at no additional cost to Government, a fund of funds initiative can support significant inflows of private capital to support innovative companies. Government measures to mobilise private sector funding to venture capital, through the development of a State backed fund of funds, offers an unrivalled opportunity to drive economic growth.

- The Government should establish a Working Group bringing together investors, venture capitalists and regulators to identify and make recommendations on how to resolve issues and make a fund of funds a reality in Ireland.

Capital Gains Tax

- Increasing the cap beyond €1m in a lifetime to encourage greater aspiration by entrepreneurs for making more investments and in turn creating a culture of serial entrepreneurship.
- To generate greater liquidity in the ISE and assist in opening up the ISE as a potential source of capital for Irish SMEs, create a CGT exempt pool of capital that can be invested in the Irish Enterprise Securities Market. Sweden has shown how this can be done, last year Sweden, saw 115 IPO's take place across its four exchanges, the highest number of IPO's of any European country. Ireland in the same period had 3 IPO's. Sweden has Special Investment accounts, which are CGT free except for a tax of 0.25% per annum on the market value of the account.

KEEP

- Reconsider the €3million outstanding grant options limit and the requirement for less than 50% of an employees annual emoluments to be share options. These conditions are restrictive and do not support the participation of start-up's in the scheme.
- Share buy backs need to be facilitated to assist with liquidity.

Conclusion

The provision of capital itself is only one element in the success of Venture Capital and it's supply to innovative firms. The availability of investment acumen, the existence of entrepreneurs willing to commercialise new ideas, the pool of investment opportunities available through research and development, and the existence of a supportive regulatory and fiscal environment; are all of equal importance. Now is the time for the Government to develop a cohesive framework of supports, across Government Departments, which will power the indigenous economy to continued success.

The IVCA would welcome the opportunity to meet with Government officials to discuss these recommendations further.

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