

Business Expansion Scheme

Clarification

In his Budget Statement on 6 December 2006 the Minister for Finance announced that the Business Expansion Scheme (BES) and the associated Seed Capital Scheme (SCS) are being renewed from 1 January 2007 for a seven year period to 31 December 2013, subject to the approval of the European Commission.

Arising from queries addressed to the Department of Finance and the Office of the Revenue Commissioners, as well as media coverage of the issue, the Department of Finance wishes to clarify a number of matters relating to the renewal of the schemes.

Timetable for Introducing the New Schemes

As always, the renewal of the Schemes is subject to the approval of the Oireachtas in the Finance Act. It is expected that the Finance Bill will be published at the beginning of February.

In addition, and as indicated by the Minister in his Budget Statement, the Schemes are approved State Aids and their continuation and the changes proposed will require the approval of the European Commission in line with the Community Guidelines on State Aid to Promote Risk Capital Investments in Small and Medium-Sized Enterprises¹. The Department of Finance has already engaged with the Commission on this matter and it is expected that the formal application for approval will be made in the New Year. It is not certain when the European Commission will make its decision.

Assuming a favourable decision by the European Commission, the relevant sections of the Finance Bill will, when enacted, be commenced by Ministerial Order.

Changes to Schemes

It is proposed that the BES company limit be increased from its current level of €1 million to €2 million, subject to a maximum of €1.5 million to be raised in a twelve month period. It is also proposed that the investor limit be increased from its current level of €31,750 to €150,000.

It is proposed that the new BES limit of €2 million will also apply to the SCS, subject to a maximum of €1.5 million to be raised in a twelve month period. The SCS investor limit is being increased from its current level of €31,750 to €100,000.

The new investor and company limits for the BES and the SCS will apply as respects the tax year 2007 and subsequent years, once the relevant provisions of the Finance Act have come into operation and Commission approval has been received.

¹ Official Journal of the European Union – C194 – 18 August 2006

Other Changes

As indicated in the Summary of Budget 2007 Measures, further technical amendments to the schemes will be brought forward in the Finance Bill.

Transitional Arrangements

Because of the late announcement of the renewal of the BES, it is recognised that it would be difficult for the BES Designated Funds to raise money between Budget Day and the end of the year with a view to investing them in the following year. In order to provide sufficient time for such funds to raise finance from investors, in relation to the 2006 cycle, the funds will – in line with previous practice – have an extra month in which to raise funds. Accordingly, where any amount raised by a Designated Fund up to 31 January 2007 is invested in qualifying companies before 31 December 2007, the individual investors who subscribed to the funds will have the option of claiming tax relief on their investment for either the 2006 or 2007 tax years. Similarly, in the case of direct investment by investors in qualifying BES companies, where eligible shares are issued before 31 January 2007, the investor will have the option of claiming tax relief on their investment for either 2006 or 2007.

In this connection, it is emphasised that where the investor chooses to take relief for the tax year 2006, the relief given will be by reference to the existing investor limit of €31,750 and company limit of €1 million. The new investor and company limits announced in the Budget are intended to apply only as respects relief granted for the tax year 2007 and subsequent years.

As with the extension of the Schemes, these transitional arrangements require the approval of the Oireachtas in the Finance Act as well as the approval of the European Commission.