

# DUBLIN COMMISSIONER FOR STARTUPS

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## Response to Public Consultation Process by the Department of Finance

Presented by the Dublin Startup Leaders Group

July 10th 2015

### Summary:

The Dublin Startup Leaders Group is glad to have the opportunity to respond to Minister Noonan's call for consultation on how to encourage greater entrepreneurial activity in Ireland.

While many areas of policy require urgent redress - Capital Gains Tax and Stock Option policy included - we have decided in this submission to focus on the urgent requirement for early stage (angel) funding for startup companies to boost job creation.

Therefore, the Dublin Startup Leaders Group has **one request** for the government:

**Unlock early stage, private funding for high growth companies in Ireland** by announcing the introduction of a UK Seed Enterprise Investment Scheme (SEIS) equivalent in the 2016 budget.

## **Who is the Dublin Startup Leaders Group?**

The Dublin Startup Leaders group was formed in February 2015 by the Dublin Commissioner for Startups, Niamh Bushnell.

**We are 40+ individuals** who know, work with and represent over 2,000 startups here in Dublin.

**Our organizations are:** Dublin BIC, Dublin Chamber of Commerce, HBAN, the Irish Software Association (ISA), Digital Hub, Irish Internet Association, Startup Ireland, and all of the region's universities, third level colleges, incubators, accelerators and coworking spaces.

The views expressed in this document are shared by all members of the Group. A list of individual members is on page 9 of this document.

PWC and KPMG have both worked with us on this submission and have independently verified our views and findings, as well as solidly supporting our recommendation.

### Let's start with some simple facts:

- High growth companies create the most jobs. 6% of high-growth companies created 50% of the UK's job growth between 2002 and 2008 ([Citie](#)).
- In Ireland, firms with fewer than twenty employees make up over 98% of the enterprise base and employ 44% of the workforce. Young firms in particular, account for the majority of employment growth. (Irish Software Association)
- Young companies need funding at the early stages to grow fast and large.
- Job creation is not a tax issue, it's a funding issue.
- There is a global war on talent. The best-funded companies will win this war.

The Dublin Startup Leaders Group has identified many areas in urgent need of policy change. However, in our discussions, we quickly honed in on one key issue - early stage, private funding for companies, otherwise known as "angel" funding. Some insights from our members explain why:

*"The most challenging investment for an Irish entrepreneur to raise is that first €100-€200K,-. Smart, angel investment is where to look. And today there's very little incentive for Irish angel investors to invest at that early (and highly risky) stage."* **Gary Leyden, NDRC**

*"Angel investors are pivotal to the success of many startups and the introduction of a UK style SEIS would bring about a step change in terms of unlocking this important additional risk capital for startups".* **Michael Culligan, HBAN.**

We researched how other economies in Europe and the US were encouraging angel funding to promote entrepreneurship, and build a pipeline of companies and jobs, in line with Minister Bruton's stated aspiration in the Action Plan for Jobs. The Seed Enterprise Investment Scheme (SEIS) in the UK is the most impactful and straightforward strategy for job creation that exists today.

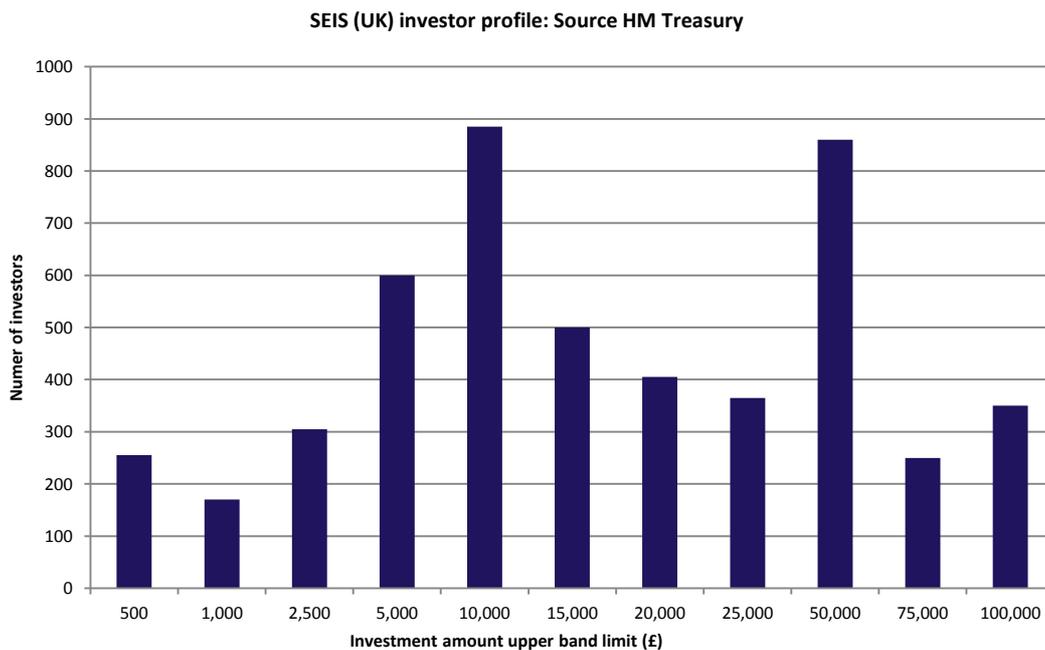
### How does SEIS work?

- Provides income tax relief @ 50% on amounts subscribed up to a maximum of £100,000 in a tax year;
- Allows exemption from capital gains tax on gains where the sale proceeds are reinvested in SEIS companies for up to half the amount invested;
- Facilitates capital gains tax free disposal;
- Provides income tax or capital gains tax loss relief for losses on disposal.

SEIS took the UK government 8 weeks to implement from start to finish. To keep within EU rules, it was categorised as "state aid" and limited to a maximum of £150K per company per 3 year period.

## Who invests in SEIS in the UK?

The profile of SEIS investors is private professionals or "angels", many of whom are investing small amounts of between £5K and £10K. We urgently need to create this category of investor in Ireland.



## The stats prove how well SEIS is working:

- SEIS is helping to fuel a hiring spree among tech startups. Job vacancies are up 40% since the start of 2015 and 80% year on year ([Thisismoney.co.uk](http://Thisismoney.co.uk), June 13th 2015).
- Since its inception in 2012, over 2,800 UK startups have used SEIS to raise over £240M in crucial, early stage funding - **UK Gov HMRC report, March 2015**.
- £85M was raised in 2012/2013. £155M in 2013/2014.
- 58% of investors said they would have invested less or not at all if incentives like SEIS were not available. **Deloitte survey of UK Angel Investors**

SEIS has been deemed so successful in the UK that in George Osborne's December 2014 budget statement it was made permanent.

**Comparison between UK SEIS and the current EIS Irish Relief:**

The table below compares UK and Irish schemes for a comparable €100K investment. As can be seen, the UK reliefs are much more efficient in incentivising the investor to deploy cash in entrepreneurial investments without fully derisking them.

	<b>EIS (IRE)<sup>1</sup></b>	<b>SEIS (UK)<sup>2</sup></b>
Total Invested	100,000	100,000
First Tranche Income Relief @30%	(30,000)	(50,000)
Second Tranche @10%/28%	(10,000)	(14,000)
<b>Net Cost of Investment</b>	<b>60,000</b>	<b>36,000</b>

1. Department of Finance, Review of the Employment and Investment Incentive and Seed Capital Scheme. October 2014.
2. HMRC, Enterprise Investment Scheme and Seed Enterprise Investment Scheme, Commentary Note. December 2014.

*"The UK has recognised the differential risk profiles between micro and medium sized enterprises by introducing SEIS which provides more generous incentives for individuals investing in startup firms less than two years old with less than 25 employees and gross assets of less than €200,000"* **The Irish Software Association.**

## **Who should invest in high growth startups in Ireland?**

*"Governments should be the enablers of an environment where talented people want to come and work. They should not be trying to pick winners"* **Fred Wilson, US/European VC, Union Square Ventures.**

The Irish government understands the importance of investing in infrastructure. For many years, we've used incentives to encourage private investors to enter Public Private Partnerships to build our roads for example.

It's time for Public Private Partnerships that encourage a culture of entrepreneurship in Ireland. The government cannot and should not fund job creation on its own. Individual "angels" must be encouraged to invest in the potential of high growth companies. This is the infrastructure we need to power job creation across the country. This is the environment we are asking the government to create.

**According to the Irish Central Bank, there is over €98 Billion sitting in household short term deposit accounts in Ireland.** With the right incentives this money could be put to work to create jobs, accelerate the growth of early stage companies, and engender a pervasive culture of entrepreneurship across Ireland.

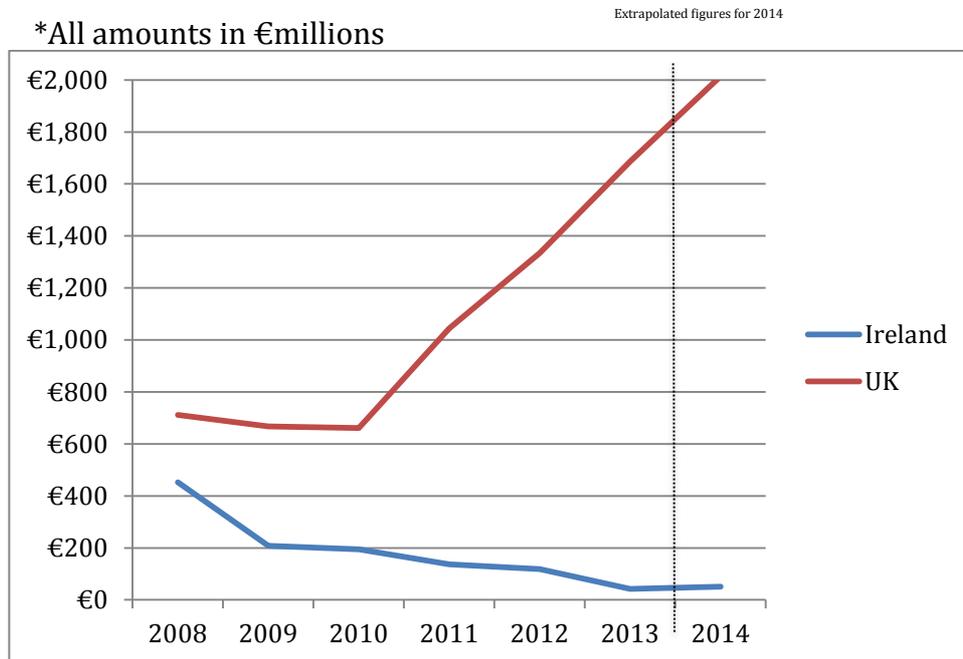
If a SEIS type relief was introduced in Ireland, and encouraged investment of even 0.1% of these funds, €98m of cash would be released for investment into between 600 and 700 startups and create multiple jobs directly and indirectly as a result.

## **Let's speak plainly about the incentives that do currently exist in Ireland:**

- The SURE program is entrepreneur, not investor focused and aims to solve a completely different challenge.
- Our EIIS program is too costly and complex for small companies to avail of, and as we can see in the graph below, it's just not working.

*"Investment schemes exist in Ireland – they are just nowhere near attractive enough to drive the levels of investment that are needed and that are seen in the UK".* **Brian Caulfield, Irish Venture Capitalist at Draper Esprit.**

## Investment Levels in the UK versus Ireland - Level of Uptake



### This graph simply tells us:

- Investment in Irish EIS is declining, particularly in the area of tech startups.
- In stark contrast, the UK has seen a dramatic increase in the level of investment in EIS and SEIS with total investments during the year ended April 5th 2014 at circa £1.5bn.

Dublin based startup accelerators including the NDRC, Wayra and MasterCard Labs all have alumni companies moving to the UK to secure early stage funding through SEIS. Without an equivalent scheme in Ireland, this early trickle may soon become a wave and is being encouraged by smart, opportunistic UK investors like Jensen and E-Synergy.

Schemes like SEIS are creating a gravitational pull for our startups As Dylan Collins writes in the Irish Independent (July 9th 2015): *The best founders will find money, wherever it is. But failing to keep up with the private-market-led US or the tax-incentive-led UK simply means that Ireland is effectively outsourcing its angel investment expertise in the long-term. With many of those angel investment buckets being geographically constrained, the gravitational physics for startups over the next few years seems clear.*

**To conclude:**

The members of the Dublin Startup Leaders Group meet with startups every single day. We also meet with hundreds of potential new investors in Ireland's startup ecosystem every day - at large Irish corporates, multinationals, legal and accounting firms, at Government Buildings and in our own offices.

**We are all potential investors or "angels". We want to fund Ireland's high growth startups and fulfill Ireland's potential as the "best place to start".**

Minister Noonan, the Dublin Startup Leaders Group is calling upon you to act now:

Unlock early stage, private funding for high growth companies in Ireland by announcing the introduction of a UK SEIS equivalent in the 2016 budget.

**The Dublin Startup Leaders Group:**

**Aebheric McGibney**  
Dublin Chamber

**Anna Scally**  
KPMG

**Andrew Parish**  
Startup Ireland

**Ann O'Dea**  
Silicon Republic

**Bernadette O'Reilly**  
DIT Hothouse

**Brendan Cremen**  
UCD

**Brian Marrinan**  
UCD Smurfit

**Bruce Martin**  
UCD

**Clyde Hutchinson**  
NASC

**Colm Lyon**  
Pay with Fire

**Daniel Ramamoorthy**  
Treehouse

**Daniel Shanahan**  
PWC

**Declan McGonagle**  
NCAD

**Dominic Mullan**  
IADT

**Drew O'Sullivan**  
InterTradeIreland

**Eamonn Sayers**  
GEC

**Eoghan Stack**  
DCU Ryan Academy

**Gary Leyden**  
NDRC

**Gene Murphy**  
Startup Ireland

**Gerry Macken**  
Digital Hub

**Gina Quinn**  
Dublin Chamber

**Joan Mulvihill**  
Irish Internet Assoc

**John Murphy**  
PWC

**Greg Swift**  
Dublin City LEO

**Joanne Hession**  
QED

**John Phelan**  
Dublin BIC

**John Thompson**  
UCD Connect

**John Whelan**  
TCD

**Johnny Parkes**  
Versari

**Karl Aherne**  
Wayra

**Kirk Donohoe**  
MasterCard Startpath

**Martin Kelly**  
HealthXL

**Michael Culligan**  
HBAN

**Michelle McDermott**  
Liffey Trust

**Neill Gernon**  
TCD

**Patrick King**  
Dublin Chamber

**Patrick Walsh**  
Dogpatch

**Paul Sweetman**  
Irish Software Ass.

**Pauline Sargent**  
Digi Women

**Peter Finnegan**  
Dublin City Council

**Stephen Nolan**  
Green IFSC

**Raomal Perera**  
UCD

**Ron Immink**  
Small Business Can

**Ronan Furlong**  
DCU

**Russell Banks**  
Startup Digest

## **Appendices:**

"The Dublin Chamber has noted an increase in the number of businesses seeking to relocate to the UK. While this trend does not automatically imply job losses for Ireland, it does carry a heavy opportunity cost as businesses that might otherwise have started or grown in Ireland are now doing so in the UK. For those looking to exit or re-invest in a new entrepreneurial project, their cash is tied up in the UK. Therefore, it is worth assessing the differences in the two countries' tax systems as they affect startups, small businesses and the people that invest in them" **Patrick King, Dublin Chamber of Commerce**

"To my mind we need a holistic approach to encouraging business in Ireland, therefore policy change should address funding, capital gains tax (including entrepreneurial tax) and share options. When we celebrated the sale of Realex Payments, the people who paid the highest tax were the staff.

Fundamentally government policy has to change so that it supports our indigenous business sector to the fullest extent. In the past we competed with other locations for FDI, now we need to compete to retain our startup and scaling businesses, people and jobs. We need an entrepreneurial investment scheme that actually works ". **Colm Lyon, CEO Pay with Fire, Investor and former CEO Realex Payments**

"As all the companies we invest in are highly mobile in their early days, the risk of not introducing an equivalent scheme to SEIS in Ireland is that the most promising startups will simply move to Newry or London to avail of SEIS. But, as concerning, is the contribution SEIS has had on the UK's ability to build a vibrant startup ecosystem in such a short period of time. The big risk is that Ireland loses its hard earned title as the best place to start." **Gary Leyden, NDRC**

"The UK government has made it clear that incentives like SEIS are not provided for low risk investments which already receive government subsidy. George Osborne has given a strong message of support to the next generation of entrepreneurs within the UK by making the Seed Enterprise Investment Scheme permanent." **Mark Payton, Mercia Fund Management in the UK**

## **Irish Companies talking about SEIS:**

**ShotClip's** Managing Director, Conor McNally, who also founded the company, said: "We restructured to become a UK company just to get investment. Ireland just doesn't have the investment infrastructure to support the strong pipeline of companies coming out of accelerator programs. ShotClip was a HPSU Enterprise Ireland client but we couldn't get the private funding in Ireland. The SEIS schemes in the UK offer much better tax incentives for private investment than is available here in Ireland. That combined with a larger investor pool make it easier to find investment there".

**Way2pay's** Founder, Denise O'Grady, "Not only is the UK a far bigger area, the incentives and tax relief schemes are more favourable and therefore you get a bigger and more active investment community, in the UK. Our last investment round was UK led with Irish investors also involved so we have both sides represented.

## **Why Digital Startups Matter - Guy Levin, Coadec (Startup Policy group in the UK, funded by Google)**

- The UK's internet economy is already a significant and growing part of the broader economy. It already makes up over 8% of GDP, and is forecast to be worth over 12% by 2016.
- We are the fastest growing digital economy in the G20, and in London alone it is forecast to create an additional 46,000 jobs and contribute £12 billion to our economy over the next decade.
- Research has shown that entrepreneurial firms, of which digital startups are a significant subset, are an important source of employment, productivity growth and innovation.
- This isn't just about app developers in Shoreditch, it's a trend affecting every sector of the economy, and every region of the country.

<http://www.coadec.com/wp-content/uploads/2014/09/Startup-Manifesto.pdf>