TSG 06/26

Discussion Paper on the Business Expansion Scheme (BES)/ Seed Capital Scheme (SCS)

Introduction

1. The Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) are due to expire on 31 December 2006. The two schemes have been under review by the Department of Finance in conjunction with the Department of Enterprise, Trade and Employment and the Revenue Commissioners in advance of Budget 2007. As part of this review, companies availing of the schemes were surveyed. The majority of companies which responded regard the schemes very positively and are strongly in favour of extending them. As the schemes are State aids, any such extension would require the approval of the European Commission.

2. Should a decision be taken to extend the schemes beyond 31 December 2006, a number of questions arise:

(i) For how long should the schemes be extended?
(ii) Should the overall company limit of €1m per company be increased?
(iii) Should the individual annual investor limit of €31,750 be increased?

3. In addition, the scope of qualifying activities and other technical issues have also been raised. These are listed in paragraph 34.

The Business Expansion Scheme (BES)

4. The Business Expansion Scheme was introduced in 1984 as an incentive to private investors to invest in long-term equity capital in companies (particularly new and smaller ones), operating in certain sectors of the economy, which would otherwise find it difficult to raise such funding.

5. The aggregate amount that a company can raise under the BES is €1 million. (In the case of advance factories the figure is €1.27 million.) Provided that an investor holds his investment for a minimum period of 5 years, the BES provides

individual investors with tax relief, at their marginal tax rate, in respect of investments of up to €31,750 per annum (minimum €250) in certain qualifying companies. Qualifying companies include certain manufacturing and services activities, certain tourism activities, research and development, companies constructing and leasing advance factories, and certain music recording activities.

BES: Investment raised and Exchequer Cost

6. The latest statistics available on investment raised under the BES and the cost to the Exchequer of the associated tax relief for the tax years 1997/1998 to 2005 are summarised in the table below[1]:

Year	Investment Raised	Estimated Exchequer Cost
1997/1998	€117.7 m	€56.5 m
1998/1999	€68.3 m	€31.5 m
1999/2000	€65.5 m	€30.2 m
2000/2001	€36.8 m	€16.8 m
2001 (short tax year)	€34.2 m	€15.1 m
2002	€47.6 m	€20.2 m
2003	€39.7 m	€16.7 m
2004	€50.1 m	€21.1 m
2005	€38.3 m	€16.1 m

The Seed Capital Scheme (SCS)

7. The Seed Capital Scheme was introduced in 1993 as an incentive to encourage individuals to start up new businesses. The scheme provides a refund of tax paid in the previous six years to employees who leave employment and start their own business. In order to qualify for the refund, the individual must comply with certain conditions and the company must be carrying on a qualifying trade (i.e. manufacturing, certain tourism activities etc). There is an upper limit in any one year of the tax paid on €31,750 and the investment is subject to an overall maximum refund of the tax paid on €182,240. The BES may also be availed of by companies to which the SCS applies.

[1] Source: Revenue Commissioners. A more detailed breakdown is provided at Appendix 2.

SCS: Investment raised and Exchequer Cost (SCS)

8. The latest figures for investment raised under the BES are as follows:

Year	Investment Raised	Exchequer Cost
1997/1998	€3.9m	€1.4m
1998/1999	€4.9m	€2.0m
1999/2000	€2.5m	€1.0m
2000/2001	€2.5m	€1.0m
2001 (short tax year)	€2.8m	€1.2m
2002	€3.4m	€1.4m
2003	€5.5m	€2.3m
2004	€7.7m	€2.7m
2005	€3.4m	€1.3m

Review of the BES

9. The BES has been reviewed by the Department of Finance in conjunction with the Department of Enterprise, Trade & Employment and the Office of the Revenue Commissioners. As part of this review, over 1,300 companies availing of the scheme have been surveyed. Revenue records data have also been analysed and studies carried out by Enterprise Ireland. Full details of the results of the Department of survey are set out in Appendix 1 to this paper.

10. Of the 1,391 companies surveyed, 491 (35% of those to whom the survey was sent) responded: of these 58% were categorised as engaged in manufacturing, 12% in tourism, 22% in international services and 8% as other.

11. Some 95% of companies who responded had raised finance/equity under BES in the past ten years. At the upper end of the scale, 25% required between €500,000 and €1m under BES, with 22% actually raising an amount in that range, while 7% sought to raise over €1m, with 6% being successful.

12. Almost all companies indicated that the scheme should be extended and that both the overall company limit and individual annual investor limit be increased. A large number of respondents saw a requirement for additional equity capital under the

BES for their company in the next three years. 19% of these felt that they would need between €1million and €2 million, while an additional 10% would want in excess of €2 million.

Should the schemes be extended beyond 31 December 2006?

13. A number of factors need to be taken into account when considering whether or not the schemes should be extended beyond their expiry date of 31 December 2006:

(i) The importance of the SME sector in Ireland to the overall success and continuing growth of the Irish economy in terms of output, competitiveness, employment, etc. For example, in 2005 there were approximately 187,000 non-construction small businesses in Ireland; in addition, 664,000 people worked in small businesses, which is 46% of the total private sector non-agricultural workforce.[2]

(ii) Commitments in the *Towards 2016* partnership agreement, in relation to Enterprise, Innovation and Productivity, Science, Technology and Innovation and other areas, particularly the Manufacturing Sector. In this regard, the Government, employers and trade unions acknowledged the critical role played by manufacturing in the development of the Irish economy and, recognising the challenges facing the sector at present and that all three parties have a role to play in meeting these challenges, committed themselves to taking the measures required to ensure that manufacturing continues to play a central role in the Irish economy in the future.

(iii) The Small Business Forum recommended, *inter alia*, that the schemes be extended to 2013. This was viewed as essential by the Forum.

(iv) The European Commission's policy in encouraging Member States to develop policies to encourage investment in risk capital for SMEs as set out in the European Commission's *Guidelines on State Aid and Risk Capital* and the

[2] Source: *The SME Sector in Ireland* (Tax Strategy Group Paper, 26 September 2006)

philosophy underlying the strategy for developing the EU risk capital market which attributes primary importance to an environment that is favourable to creating and sustaining new and innovative business. The existing schemes accord with that policy.

(v) Evidence highlighting market failure in the provision of equity capital available to SMEs. SMEs continue to report difficulty in accessing venture capital at start-up and development stage:

- Feedback from the recent survey carried out by the Department of Finance of 1,391 companies that have availed of the scheme since 1997 indicates that many companies believe that the BES and SCS have proved vital in providing the necessary risk capital required to establish small and medium-sized companies and developing such companies already established in Ireland. Many companies assert that they would not have been able to raise the equity capital elsewhere and consequently would have failed without access to BES and SCS funding. This is indicative of a market failure in equity investment for smaller businesses.

- The 2006 *Survey of SME Finance/Equity* carried out by Forfás indicates that the climate for raising finance/equity has improved. However it also shows that it is still more difficult to raise finance/equity for smaller companies than larger ones and for start-up and development phase companies than companies in other stages of development. The Survey also indicated that the BES/SCS as a source of finance/equity has increased and is expected to increase further in the next three years (assuming the schemes are extended).

- The findings of the PWC Report *Strategic Advisory Services – Enterprise Ireland Seed and Venture Capital Funds Programme 2006* which recognises the equity gap for SMEs at the very early stage as a problem for small businesses. The report argued that such a gap might become more pronounced should the State cease to intervene. It said that raising finance is a difficult and time consuming business for many young firms with an insufficient commercial track record or status, and noted that evidence suggests that access to finance remains a frequently cited issue for small business.

- The findings of the survey conducted by the Small Business Forum that "small business managers identified the difficulty of accessing adequate levels of finance as the single greatest barrier to the growth of their business."

(vi) Findings from a recent Enterprise Ireland review of a number of High Potential Start-Ups indicates that higher levels of growth in employment, exports and turnover are evident where companies have raised BES compared with companies that have not raised BES funding.

(vii) The annual cost of both schemes to the Exchequer (the cost of both schemes combined was in the region of €17.4 million in 2005) is not hugely significant given the potential return to the Irish economy from the companies involved.

(viii) There is considerable support for the continuation of the schemes, including from:

- the Department of Enterprise, Trade and Employment
- the Small Business Forum
- Enterprise Ireland
- the Department of Arts, Sport and Tourism
- the Irish Software Association
- IBEC
- the Wind Energy Association
- the majority of respondents to the Department of Finance's survey on the BES.

14. It must be recognised that extending the schemes will give rise to a cost to the Exchequer. Moreover, it could be argued that, notwithstanding the high risk nature of the schemes, extending them should be resisted on grounds of equity, as it will chiefly

be of benefit to those on high incomes seeking to reduce their tax liability. On balance, however, taking account of the arguments and findings put forward in paragraph 13 above, and also the benefit to the Exchequer in supporting the establishment and development of indigenous companies it is clear that there is a strong case that the schemes should be extended beyond 31 December 2006.

For how long should the schemes be extended?

15. Should the decision be to continue the schemes beyond 31 December 2006, for how long should they be continued?

16. In the past, when both schemes have been renewed, extensions have generally been for periods of two or three years. However, it has been argued that three years is too short a timeframe and that allowing a longer extension of the schemes would help provide more certainty as to the future of the schemes and make them more attractive to investors, companies and those seeking to set up designated BES funds. The schemes have been regularly reviewed and each time the conclusion has been the same – a significant market failure exists due to the high risk associated with start-up business and this results in persistent difficulties in securing early stage capital; this market failure justifies continuing fiscal support. The Department of Enterprise, Trade and Employment, Enterprise Ireland, the Small Business Forum and a number of other representative organisations and individual companies favour extending the schemes by seven years. This would be in line with the European Commission's *Guidelines on State Aid and Risk Capital* due to come into operation on 1 January 2007 and which run for seven years until 31 December 2013. The additional years would give increased certainty.

17. An extension of five years to the end of 2011 would also give improved certainty to all those involved without the need for the Exchequer to enter into a seven year commitment. A review could then take place after which an extension of a further two years to 2013 might be warranted.

Should the overall company limit of €1m per company be increased?

18. There are a number of companies which have already raised up to the €1m limit and could benefit from further BES funding. Raising the limit may also

encourage further economic activity and also encourage designated funds to re-enter the field of providing funds for companies. The number of designated funds has been decreasing in recent years to such an extent that there is now only one fund in operation. Designated funds have the advantage of spreading the risk for investors as the fund will be likely to invest in a number of companies. However, there are significant costs involved in establishing and managing such funds; a higher company limit (and longer timeframe for the schemes) may serve to balance these costs, and attract more fund managers back into the market.

19. There are calls to increase the overall company limit from the current €1m from a variety of areas including:

- The Department of Enterprise, Trade & Employment, which is seeking an increase to €1.5m;
- Fund representatives sought a ceiling of about €1.5m;
- The Irish Software Association, which is seeking an increase to €1.5m;
- The Small Business Forum, which is seeking an increase to €2m;
- ISME, which is seeking an increase to €2m;
- The Wind Energy Association, which is seeking an increase to €2m;
- The Irish Exporters' Association, which is seeking an increase to €5m.

20. The purpose of the BES and SCS is to assist SMEs in raising long-term risk capital, particularly companies at the start-up and early development stage. The focus of the schemes may, however, change if the limit is increased significantly. While an increase in the range of €1.5 million to €2 million would not raise significant concerns, any higher increase might incentivise less risk-based trades to find ways of availing of the schemes, particularly if combined with a much higher investor limit. There is then a danger that this could lead to the perverse result that longer and better established firms would use the BES to attract financing that would otherwise go to smaller, less well established businesses.

21. To date the Commission has not insisted on Ireland meeting the cumulation of aid rules set down in the *Communication on State Aid to Risk Capital* (SARC). The only limit is that a company cannot raise more than €750,000 of the €1m in a six

month period. The revised *Guidelines on State Aid and Risk Capital* allow for a company to raise up to €1.5 in a twelve month period. However, XXXXXXXX XXXXXXXXXXXXXXXXX if we are to continue the schemes, even without any changes, they will be seeking the application of the cumulation rules. This will affect companies raising funds under the BES which also receive funding from Enterprise Ireland and other sources. Rules to allow for cumulation will be required. This will have a significant limiting effect on the schemes compared to what has been available to companies to date and will reduce somewhat any other enhancements proposed. Cumulation will have the impact of restricting the amount of Exchequer resources that a company may avail of, be it grant or direct tax benefit. As companies eligible for grant assistance are likely to continue to avail of such grants in the first instance, cumulation restrictions are most likely to make the BES/SCS less attractive. It will also reduce the cost of the schemes to the Exchequer (compared to one without cumulation).

22. In addition, XXXXXXXXXXXXXXXXXXXXXXXXXX, while the schemes could apply to both small and medium size firms in the start-up phase, they may insist that the rules apply in the development phase to medium size firms in the "assisted areas" only. If, however, market failure in relation to equity financing of medium size firms in non-assisted areas can be demonstrated, to its satisfaction, the Commission may not insist on this.

23. Statistics available from Revenue continue to show that the majority of companies raised well below the €1m limit. Nevertheless, the survey shows that 28% of investments are for amounts in excess of €500,000 and, as mentioned earlier, 62% of companies surveyed by the Department have indicated they will need access to equity capital in the form of BES in the future (if the scheme continues). Of these, 19% have indicated they wish to raise between €1 million and €2 million, while an additional 10% wish to raise in excess of €2 million.

Special Case for Renewable Energy

24. The Government is committed to supporting the development of renewable energy where possible. The Minister for Communications, Marine & Natural Resources has raised the Government's target of renewable generating capacity to

15% by 2010. One way of helping reach this target would be through the BES/SCS by establishing a separate overall higher company limit for renewable energy companies. (A separate company limit already exists within the scheme for advance factories.) A separate limit may be justified on the grounds that there are significant set up costs for such companies compared with other manufacturing activities or service-type activities. The Irish Wind Energy Association has highlighted the complexity of developing wind energy projects, not just in terms of securing planning permission but also a connection agreement and a power purchase agreement. It has sought a limit of €2m.

25. The evidence points to the need for an increase in the general lifetime company limit to about €1.5 million. (Indeed, there may be justification for a limit of €2 million to accommodate those companies which have expressed an interest in raising up to that amount.) In the case of renewable energy, supporting this sector as discussed above could be done by a special separate company limit of €2 million. However, it is not clear at this stage if the European Commission would be persuaded to grant approval for a separate limit for renewable energy projects unless convincing evidence of market failure in that sector could be provided. The Revenue Commissioners have tentatively estimated that the cost of increasing the lifetime company limit to €1.5 million would be in the region of €8 million in a full year. Increasing the limit for renewable energy companies alone to €2 million would add €1 million to the cost, while increasing the limit for all companies to €2 million would cost about €15 million in a full year.

Should the individual annual investor limit of €31,750 be increased?

26. There is widespread support for increasing the current annual investor limit of €31,750 which has not been increased since the BES was introduced in 1984:

- the Department of Enterprise, Trade & Employment has sought an increase to €124,000;

- the Small Business Forum has sought an increase to €250,000 for the BES and to €100,000 for the SCS;

- a large number of companies, including the current Fund in operation, have asked that the limit be increased. Those requests range from €50,000 to €250,000.

There is currently only one BES-designated Fund manager in the Irish market. The costs involved in operating Funds, together with the series of reductions in the company limit, may have influenced the development of this situation. It is argued by the Enterprise Development Agencies that increases in the investor limit and the company limit will result in an increase in the number of Fund providers; this would be a positive development bringing welcome competition, driving higher risk investments and lowering the cost of delivery of service by the Funds for companies.

27. It has been argued that the introduction of the new restriction on the ability of high earners to reduce their taxable income due to come into effect on 1 January 2007 should mean that the current low limit on the BES and SCS is no longer necessary and that the Exchequer position would be protected even with an investor limit of €250,000 p.a. Against that, it can be argued that such a high investor limit, in conjunction with a higher company limit, could give rise to tax planning.

28. The current limit is a common limit on passive investment that is common to many tax schemes, including XXXXXXX and various property based schemes. However, it is accepted that these schemes vary widely in scope and risk profile. Since the common limit was set in December 1997 it has restricted the potential of high earners to reduce effective tax rates on their employment income. Increasing the current annual investor limit for the BES would, in all probability, lead to demands to increase the limit in other schemes, with significant cost implications as a consequence. It has been argued, however, that such demands should be resisted on the grounds that a higher limit for the BES and SCS schemes can be justified because the risk involved for investors is much higher than in the property based, XXXXXXX and other schemes.

29. It is true that the value of the investor limit has been eroded over time and there is a case for significant increase. Increasing the limit would reduce the number of investors that a company must attract to raise their target funding and thereby

reduce the administrative burden on the company in doing so. Companies would be able to concentrate more on their trade than on having to concentrate on raising funds. This in turn should be of overall benefit to the Irish economy.

30. The Enterprise Development Agencies consider that a significant amount of investment is being undertaken by a distinct class of investor in many areas but not the BES scheme. In general they consider that high net worth individuals have a greater appetite for risk, while the current low personal BES/SCS investment limit is arguably more attractive to middle income investors who are much more risk averse and who tend to invest any higher amounts in more asset-backed investments. Increasing the limit will, in the opinion of the Agencies, attract these high worth individuals to the schemes.

31. If the limit were increased by reference to movements in the CPI since 1998, (when a restriction of €31,750 was set for a range of schemes) a limit of approximately €42,000 would result, whereas going back to 1984 (when the scheme started) would double the existing limit.

32. An increased limit would mean that fewer investors would be required to fund a project, thus reducing costs. While there is support for increases to levels approaching €250,000, there is a danger that, in combination with a substantial increase in the company limit, this would give rise to tax planning and potential for abuse.

33. The Revenue Commissioners have tentatively estimated that the cost of increasing the investor limit to €65,000 would be in the region of €5 million in a full year. An increase to €124,000 would cost in the region of €9 million in a full year.

Other issues

34. A number of other changes have been suggested and can be examined. These include:

- Add to qualifying trades (i) software development services and technical services and (ii) recycling companies who have had a grant or financial assistance made available to them by an industrial development agency;

- Change fundraising deadline for the BES Designated Funds to 31 January;

- Replace the feasibility grant payment requirement with a requirement that the relevant County Enterprise Board provide a certificate validating the business proposal;
- Development agencies to be only required to approve an employment grant for internationally traded services as opposed to pay;

- Amend restriction in the BES scheme to allow for the repayment of a debt in the period two years prior to the relevant investment;

- Allow an individual to reduce his/her shareholding under SCS below 15% after one year to facilitate additional equity funding;

- Increase the SCS restriction on the level of non-PAYE income to €50,000 from €25,000;

- Increase the overall aggregate limit on amounts subscribed for share and loan capital of the company from €317,500 to €500,000 for an individual holding over 30% of the share capital of a company to ensure that the individual will not be regarded as connected with the company;

- Ease the definition of connected investors;

- Advance factories to remain as qualifying for BES funding.

<u>EU approval</u>

35. As the schemes are State aids, any extension would require the approval of the Commission.XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX, all proposals will require appropriate evidence and justification. In addition, appropriate rules to allow for cumulation of aid (grants) will be required.

Conclusions

36. There is a strong case that the BES/SCS schemes should be continued given (a) the clear market failure in providing equity capital for small firms in their start up and early development phase, (b) the evidence of how vital the schemes have been in the past for such firms and the continuing needs in this regard, (c) the potential return to the economy from indigenous Irish companies and (d) the clear support for continuation from a large number of representative and other bodies in the public and private sector.

37. It is further suggested that:

- the schemes be extended for at least five years, with provision for a review at that stage;

- the lifetime company limit be increased to about €1.5 million, if possible with specific provision for the renewable energy sector of €2 million;

- the annual investor limit be increased significantly. Any new limit should apply only to the BES/SCS schemes as the risk involved for investors is much higher than in the property based and Film Relief schemes.

Views of the TSG

38. The views of the TSG on the issues raised above in relation to the BES and SCS would be welcome.

APPENDIX 1

PRELIMINARY RESULTS OF BES SURVEY[3]

Part 1: Profile of the Company

Under which qualifying trade did your company qualify to raise BES investment/funding?

Qualifying trades	Percentage of companies
Manufacturing	58%
Tourism	12%
International Services	22%
Other	8%

If your company qualified under the category of "Manufacturing", which of the following most appropriately describes the activity carried out by your company?

Options	Percentage of companies
Manufacture of non-metallic mineral products	1%
Manufacture of chemicals	4%
Manufacture of metal articles (furniture etc)	8%
Mechanical engineering	5%
Electrical engineering	2%
Instrument engineering	2%
Manufacture of food and drink	16%
Manufacture of textiles	1%
Manufacture and process of wood and timber	9%
Manufacture and process of rubber and plastics	4%
Manufacture of medical devices	4%
Manufacture of other goods	12%
Advance factories	4%
Other	22%
Did not specify	6%

[3] The responses to a number of open questions in the survey are still being analysed. The full results of the survey will be included in the 2006 Review of the Business Expansion Scheme and the Seed Capital Scheme.

If your company qualified under the category of “Tourism”, which of the following most appropriately describes the activity carried out by your company?

Options	**Percentage of companies**
Hostels, camp sites, holiday centres	38%
Tour bus operators	3%
Inland water transport (cruiser hire etc)	3%
Marketing of tourism	2%
Charter of yachts etc.	11%
Sports facilities, leisure centres	16%
Other	25%
Did not specify	2%

If your company qualified under the category of “International service”, which of the following most appropriately describes the activity carried out by your company?

Options	**Percentage of companies**
Computer services, software development	73%
Research and development	9%
International services	14%
Other	4%

How many years has your company been established?

Options	**Percentage of companies**
Less than 1 year	1%
Between 1 and 5 years	28%
Between 6 and 10 years	42%
Between 11 and 15 years	11%
Between 16 and 20 years	10%
Greater than 20 years	7%
Did not specify	1%

How many people were employed in your company as at 31 December 2005?

Options	Percentage of companies
Zero Staff	8%
1 to 5 staff	37%
6 to 15 staff	24%
16 to 30 staff	17%
31 to 50 staff	8%
More than 50 staff	5%
Did not specify	1%

What were the annual sales of your company in 2005?

Range of annual sales	Percentage of companies
€0 - €500k	46%
€500k - €1m	17%
€1m - €2m	16%
€2m - €5m	14%
€5m - €10m	4%
€10m+	3%

What percentage of your annual sales do you export?

Range of exported annual sales	Percentage of companies
O%	44%
Less than 20%	21%
20% - 50%	10%
More than 50%	25%

Describe the current development stage of your business?

Stages	Percentage of companies
Start-ups	12%
Development phase	22%
Steadily growing	32%
Considering expansion	21%
Consistent sales but not growing	13%

Part 2: Financing

What was the total amount of finance/equity required under the BES?

Range of finance/equity	Percentage of companies
€0 - €50k	7%
€50k - €100k	9%
€100k - €250k	21%
€250k - €500k	31%
€500k - €1m	25%
€1m+	7%

What was the total amount actually raised?

Range of finance/equity	Percentage of companies
€0 - €50k	9%
€50k - €100k	10%
€100k - €250k	24%
€250k - €500k	29%
€500k - €1m	22%
€1m+	6%

Part 3: Impact of the Scheme

Which five of the following options in your opinion are the most important in describing the ways in which your company has been changed or affected as a result of raising finance through the BES?

Options	Percentage of companies
Became more ambitious to grow	52%
Launched new /improved products / services	47%
Increased company workforce	40%
Improved quality of products/ services	40%
Increased capital expenditure	39%
Invested more in R&D	34%
Changed /improved marketing activities	27%
Freed up finance for other development	25%
Strengthened management team	21%
Levered in further development finance	21%
Reduce company's debt	19%
Bought in additional expertise	16%
Improved efficiency in other ways	16%
Reduced costs	14%
Innovated in other ways	7%
Other	7%
Improved skills of non-management workforce	5%
Acquired intellectual property to exploit	4%

If you did not raise all of the finance /equity required under the BES, in what way did that impact on the development plans of your firm?

Affects	Percentage of companies
Working capital and cash flow constraints	30%
Became more dependent on bank finance	25%
Had to find replacement financing elsewhere	22%
Unable to hire new employees	15%
Unable to invest in marketing and advertising	14%
Unable to finance R&D	13%
Unable to update technology /equipment	12%
Unable to finance the purchase of land and buildings	7%
Other	2%

<u>If you failed to raise BES finance /equity, which of the following describe the reason you were unable to raise the finance /equity?</u>

Options	**Percentage of companies**
Considered high risk by financial institutions and potential investors	15%
Lack of track record	8%
Amount of finance/ equity not attractive to investors	7%
Lack of network with potential investors	6%
Lack of collateral requirements	5%
Other	2%
Unclear business plan	1%

<u>What other action did your company take?</u>

Options	**Percentage of companies**
Obtained bank overdraft or loan	44%
Used non-BES private investment	21%
Sourced external funds /other investment	16%
Tapped other sources of venture capital	5%
Used business angels	5%
Did not answer question	5%
Other	4%

Part 4: Performance of BES Investments

<u>To the best of your knowledge, are the BES investors in your company satisfied with the performance of their investment?</u>

Options	**Percentage of companies**
Satisfied	45%
Very satisfied	24%
Not satisfied	9%
No basis for judgement	18%
Did not specify	4%

In your view, how well are the BES investments in your company performing compared with other investment opportunities?

Options	Percentage of companies
More favourably	27%
About the same	28%
Less favourably	13%
Don't know	25%
Did not specify	7%

Part 5: Applying for the BES

Did you find applying for approval from the Revenue Commissioners under the BES user-friendly?

Options	Percentage of companies
Yes	84%
No	16%

Part 6: Future Requirements of Companies under the Scheme

Does your company see a requirement for additional equity capital under the BES in the next three years?

Options	Percentage of companies
Yes	62%
No	38%

If "Yes", please indicate the total amount of additional equity you require to raise under the scheme?

Range of finance /equity	Percentage of companies
€0 - €250k	22%
€250k - €500k	24%
€500k - €1m	24%
€1m - €2m	19%
€2m+	10%

APPENDIX 2

BES Investment by Size for the period 1997/98 to 2006 (6 April 2006)

Amount Approved (€)	No. of Companies	% of Total	Value of Investment (€)	% of Total
0-50,000	200	15	5.6	1
50,001 – 100,000	205	15	15.2	4
100,001 – 200,000	213	15	31.2	8
200,001 – 250,000	79	6	17.8	4
250,001 – 500,000	443	32	143.0	35
500,001 – 999,999	161	12	119.4	29
> 1 million	63	5	75.9	19
Total	**1,364**	**100**	**408.1**	**100**

BES Investment by Sector for the period 1997/98 to 2006 (6 April 2006)

Amount Approved (€)	No. of Companies	% of Total	Value of Investment (€)	% of Total
Manufacturing	840	61	248.1	61
Tourism	159	12	62.2	15
International Services	325	24	90.3	22
Other	40	3	7.4	2
Total	**1,364**	**100**	**408**	**100**

BES Investment - Main Features by Year

Tax Year (€)	Total Amount Approved (€)	Total Tax Refund (€)	No. of Approved Investments	No. of Investors
2000/1	36.5	16.7	269	2,035
2001	34.2	15.1	246	2,015
2002	47.6	20.2	340	2,277
2003	39.7	16.7	274	2,052
2004	50.1	21.1	320	2,599
2005	38.4	16.1	255	1,654
Total	**246.5**	**105.9**	**1,704**	**12,632**