European Commission

Appendix 2: Good practice fiches

Final report

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Preface

This appendix has been prepared for the project "Effectiveness of tax incentives for venture capital and business angels to foster the investment of SMEs and start-ups", Specific Contract No. TAXUD/2015/DE/330 implementing the Framework Service Contract No. TAXUD/2015/CC/131 for the provision of economic analysis in the area of taxation.

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1. About the good practice fiches

The good practice fiches listed below aim to explore, in more detail, particular aspects of selected schemes. The impact of the tax incentive scheme in question and the extent to which this case of good practice can be exported to other Member States are also discussed.

Good practice cases have been selected using the following criteria:

1. Benchmarking score: Tax incentive schemes with high benchmarking scores have been selected.
2. Novel and promising approaches: Tax incentive schemes exhibiting novel and promising design have been selected.
3. Diversity of approaches: Tax incentive schemes displaying a diverse range of approaches have been selected.

The content of the good practice fiches describe the particular features of the tax incentives in question as at 31st October 2016. As such, individual good practice fiches will not capture changes introduced following 31st October 2016.

The conditions of transferability listed in each good practice fiche do not consider the compatibility of the design features in question with European Union state aid regulations.

2. INVEST - Venture Capital Grant, Germany

Benchmarking results	
Scope	3.33
Qualifying criteria	3.56
Organisation	3.00
Total score	3.30
Rank	5
Generosity (Average B-Index)	0.836

Background of the measure

The "INVEST" incentive provides an investment subsidy in relation to the cost of the initial investment in qualifying companies and the tax liability incurred on disposals of qualifying investments. The incentive is administered by the Federal Office of Economics and Export Control (BAFA).

The program was evaluated in 2016 to look at options for improvement and on this basis has now been substantially expanded. Some highlights include doubling of the eligible investment sums and introduction of the subsidy for disposals of qualifying investments (Exitzuschuss).

Description of good practice case

The INVEST incentive provides two forms of investment subsidy to individual investors. A tax-free acquisition grant of 20% of the investment sum (minimum €10,000 per investor) on the acquisition of shares up to a maximum of €500,000 per investor per year. In addition to the acquisition grant, qualifying investors can receive a tax rebate of 25% of the profit generated on the disposal of qualifying investments.

The scheme targets innovative companies that are less than seven years old, have fewer than 50 employees, have a registered office in Germany and are headquartered within the European Economic Area.

Impact

Since May 2013, INVEST has promoted the provision of more than €210m in start-up capital to innovative start-ups through business angels or investors. As at 31.12.2016, almost 2,800 investment grants had been granted to investors, amounting to investment of over €42m.[i]

Reasons for highlighting this measure

This scheme was highlighted because of its benchmarking score and the novelty of its use of an upfront grant, rather than a tax credit.

In terms of the benchmarking, INVEST scores well across the scope benchmark variables. It provides upfront relief and relief on returns, both of which are important for addressing investor risk aversion.

INVEST also scores well in terms of qualifying criteria due to its use of both business age and size targeting, as well as investment thresholds and minimum holding periods. INVEST scores well in terms of administration due to the disclosure of fiscal cost and impact assessments, as well as the fact that it is administered on a non-discretionary basis.

In terms of novelty of approach, the scheme is the only one in the country sample to

structure upfront relief as a grant, rather than a tax credit. This presents an interesting example of how tax incentive design could address barriers to cross-border investment.

Typically, eligibility to receive a tax credit relies on having existing tax liabilities in the jurisdiction in question with which to absorb the tax relief. This would naturally preclude a new cross-border investor from claiming a tax credit. Therefore, an upfront grant may provide a greater incentive to cross-border investors than an upfront tax credit.

Conditions of transferability

The following conditions of transferability would need to be considered implementing in other Member States:

- Selection of the rate of upfront relief based on analysis of the required level of subsidy to stimulate investment in the country in question.
- Development of supporting anti-abuse provisions.
- Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the combination of different reliefs and the administrative requirements for claiming them.
- Development of a robust monitoring and evaluation framework and supporting information systems to assess the wider economic impact.
- Training and capacity building in the implementing authority may be required to ensure efficient processing of applications for relief.

References

[i] **BMWi,** 2017. Available URL: http://www.bmwi.de/Redaktion/DE/Dossier/invest.html [Online] [Accessed 26 February 2017]

3. Employment & Investment Incentive, Ireland

Benchmarking results	
Scope	2.00
Qualifying criteria	3.30
Organisation	3.00
Total score	2.77
Rank	33
Generosity (Average B-Index): Basic relief	0.870
Generosity (Average B-Index): For R&D and/or job creation	0.827

Background of the measure

The introduction of the Employment & Investment Incentive (EII) was announced in 2011. The EII was designed to replace the Business Expansion Scheme (BES), which was criticized for not targeting job creation and was abolished following a government review.[i]

In 2013, it was announced that the EII and the SCS would be extended until 2020 as part of a range of measures aimed at assisting SMEs to access development capital, stimulating investment, inspiring entrepreneurship and supporting employment.

Description of good practice case

The EII provides tax relief in respect of investments in medium-term equity capital in companies that would ordinarily find it difficult to raise such funding.[ii]

In order to address the criticisms of the BES, the design of EII included an additional tax credit where the recipient of the investment has met specific performance requirements.

The EII provides individual investors with tax relief of 30% in respect of investments of between €250 and €150,000 per annum. However, where it has been established that additional jobs were created or that the company used the capital raised for expenditure on research and development, an additional 11% relief is available at the end of the three year holding period.

Impact

The fiscal cost of the EII for the period 2011-13 was €16.5m.

The actual fiscal cost of the additional tax credit is not available. However, it was estimated that if all companies receiving EII investment in 2012 met the job creation or R&D criteria, the fiscal cost of the additional tax credit would be €1.5m in 2015.

Although an assessment of the impact of the EII is not available, the availability of the additional tax credit would, a priori, create incentives for the investment to be channeled into job creation or R&D. However, this may result in a certain amount of deadweight cost if investment is used for unproductive R&D activities or leads to overemployment.

Reasons for highlighting this measure

This scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases.

The EII's additional tax credit is a novel and promising approach for creating explicit incentives for investment to be used for the achievement of specific outcomes (e.g. job creation and R&D expenditure). The use of performance-related tax relief should, in theory, support the achievement of specific policy objectives by providing greater incentives for the investment to be used for specific reasons.

It is unique in the country sample in this regard and is a novel approach for embedding the overarching policy objectives of the tax incentive in its design. For this reason, the scheme has been highlighted to provide diversity to the selection of good practice cases.

Conditions of transferability

The concept of an additional tax credit can be applied in other Member States wishing to create incentives for meeting specific policy objectives, such as job creation.

The following conditions of transferability would need to be considered implementing in other Member States:

- Careful consideration of the specific performance target would be required to ensure that a target is chosen that is measurable at the firm-level while contributing to the achievement of the policy objective in question.
- An appropriate reporting and monitoring framework would have to be developed in order to evidence whether the specific performance target has been met by the recipient of investment. This would need to be as simple as possible, while maintain integrity of the framework, in order to limit compliance costs for the taxpayer and administrative burdens for the implementing authority.
- Training and capacity building in the implementing authority may be required to ensure efficient operation of the additional tax credit.
- Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the additional tax credit and the administrative requirements for claiming it.
- Development of a robust monitoring and evaluation framework and supporting information systems to assess the performance of the performance-related tax relief.

References

[i] **Department of Finance**, 2014. Review of the Employment and Investment Incentive and Seed Capital Scheme. Department of Finance [online]. Available URL: http://www.budget.gov.ie/Budgets/2015/Documents/EII_Report_pub.pdf [Accessed on 31 October 2016].

[ii] **PricewaterhouseCoopers**, 2014. The Employment and Investment Incentive and Seed Capital Scheme: Tax relief for investing in Irish SMEs. PricewaterhouseCoopers [online]. Available URL: http://download.pwc.com/ie/pubs/2014_employment_investment_incentive_seed_capital_scheme.pdf [Accessed on 31 October 2016].

4. Tax treatment of crowdfunding loans, Belgium

Benchmarking results	
Scope	2.33
Qualifying criteria	3.30
Organisation	3.00
Total score	2.88
Rank	25
Generosity (Average B-Index)	n/a

Background of the measure

The tax treatment of crowdfunding loans scheme was announced in 2015. Its aim was to incentivise qualifying crowdfunding loans to start-up businesses.

The scheme was introduced as part of the Belgian Government's Startup Plan to Stimulate Growth for Newly-Formed Companies, a package of policy measures designed to promote young and new entrepreneurs to set up new businesses in innovative sectors.[i]

Description of good practice case

The scheme grants investors a tax exemption from the final withholding tax on interest income received from a qualifying loan. The annual deduction is capped for loans with a value up to €15,000.

In order to participate in the scheme, investors are required to be natural persons acting in their private capacity. Entrepreneurs, executive managers and key personnel can also benefit from the exemption for loans granted to the company.

The investment must be a new interest-bearing loan made through a qualifying crowdfunding platform recognised by the Financial Services and Market Authority (FSMA). The loan must have a minimum term of four years, with interest paid annually.

Impact

The estimated fiscal cost of this measure is €1.875m for the 2016 tax year.[ii]

An estimate of the projected or actual wider impacts of the scheme is not available.

Reasons for highlighting this measure

This scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases.

Belgium's tax treatment of crowdfunding loans is the only tax incentive in the country sample that is specifically targeted to investors in SMEs through crowdfunding platforms.

Crowdfunding and fintech is changing the nature of investment in SMEs and start-ups and is providing market access to new profiles of investor. A tax exemption of this nature reduces the tax compliance costs of crowdfunding, which can promote greater investment. It could also reduce the administrative burden related to investigating cases of small-scale tax evasion, such as non-declaration of interest income from crowdfunding investments.

As such, this scheme has been highlighted as a novel and promising approach to recognizing the emergence of new trends in SME financing. In addition, it has been highlighted to provide diversity to the selection of good practice cases as it is the only scheme to explicitly target crowdfunding.
Conditions of transferability
The concept of a withholding tax exemption of this nature can be applied in Member States wishing to promote crowdfunding investment in SMEs and start-ups by reducing tax compliance costs. The following conditions of transferability would need to be considered implementing in Member States: • Development of a framework for approving and registering crowdfunding platforms. • Development of a system of information exchange between the implementing authority and approved crowdfunding platforms to monitor compliance with the conditions of the tax relief. • Training and capacity building in the implementing authority may be required to ensure efficient operation of the tax relief. • Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors and crowdfunding platforms are aware of the tax relief and the associated administrative requirements. • Development of a robust monitoring and evaluation framework and supporting information systems to assess the impact of the tax relief on crowdfunding investment in start-ups and SMEs.

References

[i] **European Digital Forum**, 2016. Startup Manifesto Policy Tracker. European Digital Forum [online]. Available URL: http://www.europeandigitalforum.eu/startup-manifest-policy-tracker/country/BE-31 [Accessed on 27 October 2016].

[ii] **Deloitte**, 2015. Budget control 2015: The tax measures. Deloitte [online]. Available URL: http://www2.deloitte.com/be/en/pages/tax/articles/Belgium-Tax-Reforms-Deloitte-Belgium-Tax/2015-Budget-Control-Measures-Deloitte-Belgium-Tax.html [Accessed on 27 October 2016].

5. "Madelin" tax reductions, France

Benchmarking results	
Scope	4.00
Qualifying criteria	4.00
Organisation	2.67
Total score	3.56
Rank	3
Generosity (Average B-Index)	0.905

Background of the measure

The initial introduction of the "Madelin" tax reductions Incentive was announced in 1994.

Since its introduction, the "Avantage Madelin" has been subject to a number of reforms. The changes include granting a tax credit, changing the age of companies that qualify and limits on size of investments. However, the basic structure remains that of an upfront incentive for individuals investing in SMEs.

Description of good practice case

In order to be eligible for the incentive, the investee company must meet certain requirements when an investment is made. These relate to business employee levels, financial size, business age, sector of trade and the business cannot be listed in the EU.

"Madelin" provides qualifying investors with a personal income tax credit equal to 18% of the investment value, with a maximum value of €50,000 (or €100,000) per year attracting the relief.

Additionally, tax relief is available for gains realised on disposal of qualifying investments. For the purposes of calculating the taxable gain, the acquisition price is treated as price paid less personal income tax reduction received. The gain is then taxed as income with an allowance of up to 65% for shares held for at least eight years, up to 85% with additional conditions.[i]

Impact

An estimate of the projected or actual fiscal costs or wider impacts of the scheme is not available.

Reasons for highlighting this measure

This scheme was highlighted because of its benchmarking score.

The scheme scored well overall, being ranked third in the country sample, but achieved one of the highest scores in terms of the qualifying criteria benchmarking variables.

In particular, the scheme uses partial targeting of business size and age, which corresponds to good practice. This loose framework of business targeting criteria adheres to Autio *et al*.'s (2007) suggestion for overcoming the problem of 'picking winners'.[ii] Governments rarely, if ever, have the necessary resources and information to successfully target support to specific firms, sectors or technologies. Instead, tax incentive design should target entrepreneurial firms based on a number of criteria, such as age and size (financial and headcount).

In addition, the scheme prohibits the involvement of certain sectors (finance and real estate). The exclusion of certain sectors (e.g. financial services, real estate, renewable energy) may be used as an anti-abuse provision, limiting the extent to which they can be used in tax planning structures or capital preservation schemes. Such exclusions can also increase the extent to which the tax incentive promotes the generation of income from economic activity, rather than asset ownership.

Conditions of transferability

The concept of partial targeting of business size and age can be applied in other Member States wishing to avoid the problem of picking winners.

The following conditions of transferability would need to be considered implementing in other Member States:

- Identification of business age and size profiles to target based on analysis of the *ex ante* impacts of investment across different profiles of firms.
- An appropriate reporting and monitoring framework would have to be developed in order to evidence whether business meets the qualifying criteria.
- Training and capacity building in the implementing authority may be required to ensure efficient operation of the tax incentive.
- Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the changes to the business targeting criteria.
- Development of a robust monitoring and evaluation framework and supporting information systems to assess the wider economic impacts.

References

[i] **Ministère de l'économie et des finances,** 2014. IR - Réduction d'impôt au titre des souscriptions en numéraire au capital de petites et moyennes entreprises (PME) non cotées (RI Madelin). Ministère de l'économie et des finances [online]. Available URL: http://bofip.impots.gouv.fr/bofip/4374-PGP [Accessed on 27 October 2016].

[ii] **Autio, E. and Rannikko, H.**, 2016. Retaining winners: Can policy boost high-growth entrepreneurship?. Research Policy, 45(1), pp.42-55.

6. Angel Tax System, Japan

Benchmarking results	
Scope	4.00
Qualifying criteria	2.89
Organisation	2.67
Total score	3.19
Rank	9
Generosity (Average B-Index)	n/a

Background of the measure

The Angel Tax System was introduced to promote business angel investment in Japanese start-ups and SMEs.

Description of good practice case

The Angel Tax System scheme grants investors upfront tax credit and loss relief on a more favorable basis than provided for in the baseline tax system. There is no limit or cap on the annual deduction that may be allowable.

The scheme allows investors to deduct a proportion of the value of the investment from their income tax base at the time of investment and to carry forward capital losses realised on the disposal of qualifying investments for a period of three years.

Under the baseline tax system, losses realised on the disposal of unlisted shares are offset against gains from the disposal of unlisted shares in the same year. Therefore, the loss carry forward provisions in the Angel Tax System introduce a certain degree of flexibility, which may be more favourable to the investor.

In order to participate in the Angel Tax System scheme, investors are required to be individual investors. The investee company must be either a specific small investee company or start-up investee company as defined under the Act on Special Measures concerning Taxation.[i]

Impact

An estimate of the projected or actual fiscal costs or wider impacts of The Angel Tax System is not available.

It has been reported that investments in 48 businesses were made through the Angel Tax System in 2013.[ii]

Reasons for highlighting this measure

This scheme was highlighted because of its benchmarking score.

The Angel Tax System scored especially well in terms of the scope benchmarking variables. This is because the scope of the tax relief corresponds to the principles of good practice in that it offers an upfront incentive, relief on gains realized on disposal and loss relief on more favorable terms than the baseline tax system.

The literature on the role of tax incentives in reducing investor risk aversion highlights the role of upfront tax relief and loss relief. Tax relief on investment, in effect, subsidises the cost of the investment, which increases the amount that value of the investment would have to fall by before a loss was made. Whereas, the provision of loss relief on disposal can compensate the investor for excess downside risk associated

with investments in SMEs and start-ups.[iii]

However, there are concerns that the combination of an upfront tax credit and favorable tax treatment of losses may not generate sufficient alignment of interests between investor and investee. Therefore, an implementing authority would need to introduce supporting anti-avoidance provisions and design features that would promote active ownership.

Conditions of transferability

The concept of an upfront tax credit and the provision of loss relief on a more favorable basis can be applied in other Member States wishing to increase the extent to which investment risk is addressed.

The following conditions of transferability would need to be considered implementing in other Member States:

- Selection of the rate of tax credit and loss relief provisions based on analysis of the required level of subsidy to stimulate investment in the country in question.
- Development of supporting anti-abuse provisions.
- Training and capacity building in the implementing authority may be required to ensure efficient operation of the scheme.
- Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the combination of different reliefs and the administrative requirements for claiming them.
- Development of a robust monitoring and evaluation framework and supporting information systems to assess the wider economic impact.

References

[i] **Practical Law**, 2016. Private Equity and Venture Capital Global Guide. Practical law [online]. Available URL: http://uk.practicallaw.com/resources/global-guides/privateequity-guide# [Accessed on 17 November 2016].

[ii] **Thomson Reuters**, 2014. Japan considers tax breaks to promote investment, help companies. Thomson Reuters [online]. Available URL: http://ca.reuters.com/article/businessNews/idCABREA4201N20140503 [Accessed on 17 November 2016].

[iii] **Palazzi, P.** (2011), "Taxation and Innovation", OECD Taxation Working Papers, No. 9, OECD Publishing.

7. Venture Capital Trust, United Kingdom

Benchmarking results	
Scope	3.33
Qualifying criteria	3.56
Organisation	3.00
Total score	3.30
Rank	5
Generosity (Average B-Index)	0.820

Background of the measure

The Venture Capital Trust (VCT) tax relief was introduced in 1995. Designed to promote investment into SMEs, the scheme provides tax relief to investors in VCTs, professionally managed investment funds that invest in a range of small unlisted companies.

Description of good practice case

The VCT incentive provides investors with a 30% tax credit, capped at investments up to the value of £200,000. Dividend income arising from shares in the VCT is exempt from Income Tax. Gains arising from the disposal of shares in the VCT are exempt from Capital Gains Tax for the individual investor.

The VCT itself is exempt from Corporate Tax in respect of chargeable gains realised on disposal of investments.

The VCT is required to invest in businesses that meet the following criteria:

- The business must carry on a qualifying trade.
- The business must have a permanent establishment in the UK.
- The business must have fewer than 250 full-time employees (fewer than 500 employees for knowledge-intensive companies).
- The business must have gross assets of not more than £15m before investment and not more than £16m after investment, and must not be in financial difficulty.

Impact

VCT relief is forecast to generate a fiscal cost of £80m in 2015-16, down from £135m in 2014-15.[i]

A 2008 study commissioned by HMRC found that both EIS and VCT generated a positive, but small, impact on capacity building in recipient companies. It was found that businesses receiving investment through EIS or VCT benefited from higher rates of fixed asset formation and job creation. However, the effect on profitability and productivity was unclear and a negative association with survival was found.[ii]

More recently a 2016 study conducted by Ipsos MORI's Social Research Institute on behalf of HMRC seems to confirm that EIS and VCT do have a significant impact on investment decisions and investee outcomes. The availability of income tax relief was a key driver in the investment decision in 79% of cases. EIS and VCT investment was linked to sales growth, job creation, productivity gains and greater innovation in products and services. Almost two-thirds of respondents reported that their investment would either probably or definitely not have taken place but for the availability of tax relief, indicating investment additionality. Furthermore, it was found that VCT and EIS are typically used by different profiles of enterprise, suggesting a

low risk of crowding out between schemes.[iii]
Reasons for highlighting this measure
This scheme was highlighted because of its benchmarking score. The VCT scheme scored well across all categories of benchmark variable and was ranked joint fifth in the country sample. In terms of scope benchmark variables, the VCT scheme performs well against the principles of good practice. It offers upfront relief and relief on gains for investors, which contribute to derisking the investment. The scheme scores well in terms of qualifying criteria as it employs a relatively sophisticated investor, investment, business and duration targeting framework. The scheme prohibits investment in certain sectors, which should reduce the deadweight costs generated by investors using the scheme as part of a capital preservation strategy. It targets new investment, which minimizes the deadweight costs generated by creating windfall gains for existing investors. It also restricts the value of the investment attracting tax relief, which will help to contain the fiscal cost of the scheme, and stipulates a minimum holding period, which will maximise the opportunities for the generation and capture of knowledge spillovers. It also scores relatively well in terms of administration as its fiscal cost is monitored and publically disclosed on an annual basis, which helps promote transparency, efficiency, and fiscal control.
Conditions of transferability
The implementation of a tax incentive resembling VCT in other Member States would need to consider the following conditions of transferability: • Development of the concept of a tax-incentivised investment vehicle and supporting legislation. • Development of an appropriate regulatory framework, or extension of existing frameworks. • Training and capacity building in the implementing authority may be required to ensure efficient operation. • Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the tax relief and the administrative requirements for claiming it. • Development of a robust monitoring and evaluation framework and supporting information systems to assess the impact of utilising different forms of tax relief within a single scheme.

References

[i] **Her Majesty's Treasury (HMT)**, 2015. Estimated costs of minor tax allowances and reliefs. HMT, [online]. Available URL: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487097/Dec15_minorallowances_reliefs_Fi...pdf [Accessed on 13 May 2016].

[ii] **Cowling, M., Bates, P., Jagger, N. and Murray, G.**, 2008. Study of the impact of Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) on company performance. Institute for Employment Studies, [online]. Available URL: https://ore.exeter.ac.uk/repository/bitstream/handle/10036/67875/hmrc44.pdf?sequence=1 [Accessed on 13 May 2016].

[iii] **Colahan, M., Highton, J., Joyce, L., Klahr, R., Shah, J. N., Ipsos MORI, and Cowling, M.**, 2016. The use and impact of venture capital schemes. Research Report HMRC 355, HM Revenue & Customs, [online]. Available URL: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/497288/Venture_Capital_Schemes_report_v11_PUBLICATION.pdf [Accessed on 20 September 2016].

8. Social Investment Tax Relief, United Kingdom

Benchmarking results	
Scope	3.67
Qualifying criteria	3.50
Organisation	3.00
Total score	3.39
Rank	4
Generosity (Average B-Index)	0.755

Background of the measure

Social Investment Tax Relief (SITR) was introduced in 2014 to provide tax relief on qualifying investments in social enterprises.

SITR's was introduced to address certain features in the design of existing tax incentives that created barriers to the participation of social enterprises and charities.

Description of good practice case

SITR provides tax relief to individual investing in newly issued unlisted ordinary share capital or debt investments in qualifying social enterprises.

At the time of investment, and for the following three years, the social enterprise must have fewer than 500 full-time equivalent employees, not more than £15m in gross assets immediately before the investment and not more than £16m in gross assets following the investment. The social enterprise must have a defined and regulated social purpose (community interest company, charity or a community benefit society).

Investors receive a tax credit for up to 30% of the value of qualifying investments against their income tax liability for the current or previous tax year up to a maximum of £300,000. Capital Gains Tax deferral is available for reinvestment of gains realised one year before or three years after the investment. Investors also receive full relief of capital gains generated on disposal of qualifying investments.[i]

Impact

An estimate of the projected or actual fiscal costs or wider impacts of SITR is not available.

Reasons for highlighting this measure

This scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases. SITR is the only scheme in the country sample to specifically target social enterprises and, as such, displays a novel and diverse approach.

Its design recognises that certain design features of tax incentives may not reflect the realities of social entrepreneurship, a growing part of the SME sector.

Firstly, the business criteria lists a qualifying business as being a social enterprise, rather than an entity that is managed on a commercial basis with a view to the realisation of profits. Secondly, it permits investment in debt, as well as equity instruments, which allows social enterprises that cannot issue share capital due to their legal form (e.g. companies limited by guarantee) to participate in the scheme.

These provisions have the effect of addressing issues in the design of other tax

incentives that may prohibit social enterprises from participating.
Conditions of transferability
The concept of targeting social enterprises can be applied in other Member States wishing to encourage investment in charities and social enterprises. The following conditions of transferability would need to be considered implementing in other Member States: • Development of an appropriate definition of a social enterprise. • Information and awareness raising campaigns would be required to educate social entrepreneurs about the tax relief and the obligations of securing external investment. • Training and capacity building in the implementing authority may be required to ensure efficient operation. • Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the availability of tax relief for investment in social enterprises and the administrative requirements for claiming it. • Development of a robust monitoring and evaluation framework and supporting information systems to assess the impact of offering tax relief for investment in social enterprises.

References

[i] **Her Majesty's Treasury (HMT)**, 2016. Social Investment Tax Relief. HMT, [online]. Available URL: https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief [Accessed on 13 May 2016].

9. Venture Capital Limited Partnership Program, Australia

Benchmarking results	
Scope	1.67
Qualifying criteria	3.67
Organisation	2.67
Total score	2.67
Rank	38
Generosity (Average B-Index)	n/a

Background of the measure

The Venture Capital Limited Partnership (VCLP) program is designed to increase the amount of foreign investment by providing tax incentives to certain foreign VCLP investors.

The Program was introduced under Venture Capital Act 2002 and Taxation Laws Amendment (Venture Capital) Act 2002 and subsequently reformed in 2012.

The objective of the VCLP is "*To facilitate non-resident investment in the Australian venture capital industry by providing incentives for increased investment which will support patient equity capital investments in relatively high-risk start-up and expanding businesses that would otherwise have difficulty in attracting investment through normal commercial means*."[i]

Description of good practice case

The VCLP Program provides tax relief on investments made by the VCLP in early stage Australian business with no more than AU$250m assets and with at least 50% of their employees or assets must be located in Australia.[ii]

Eligible investors in VCLPs are entitled to flow-through tax treatment on income received from portfolio companies. Eligible foreign venture capital partners are exempt from income tax on profits (capital or revenue) from the disposal of eligible investments held by the VCLP.

In order to claim tax relief, investors in the VCLP must be an 'eligible venture capital partner', being a partner in the limited partnership who is a 'tax-exempt foreign resident' or a 'foreign venture capital fund of funds' (FVCFF) with total committed capital in the limited partnership which does not exceed 30% of the total committed capital of the partnership, or a 'widely held foreign venture capital fund of funds' or a taxable foreign resident who is not a general partner of a VCLP or an ESVCLP and is neither a tax-exempt foreign resident nor an FVCFF having committed capital in the partnership of less than 10% of the partnership's committed capital.

Impact

An estimate of the projected or actual fiscal costs of the VCLP Program is not available.

A 2011 review by the Board of Taxation deemed that it was too early to adequately assess the effectiveness of the VCLP Program due to characteristically long holding periods of VC investments.[iii] The Review found that during the period 2009-2010, 11 VCLPs reported investing AU$141m in 59 businesses, with approximately 10% of

capital coming from foreign investors.
Reasons for highlighting this measure
This scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases. The VCLP program was one of the only schemes to target foreign venture capital investors and, as such, displays a novel and diverse approach. Whilst there is little agreement on specific quantitative predictions and estimates, there is a general consensus that taxation rates across countries significantly influence key decisions regarding foreign direct investment (FDI).[iv] In the context of VC and BA specifically, the EC's Expert Group report identified the compliance costs granted by a lack of cohesion between Member States' tax systems as a key reason for the EU VC market working below its potential. This lack of cohesion can lead to double taxation, tax treatment uncertainties and administrative obstacles. As a result, VC was found to generally be restricted to the domestic national market. The VCLP program's tax exemption for foreign investors can reduce the double taxation risks associated with cross-border investment, which may promote greater levels of cross-border VC.
Conditions of transferability
The concept of differentiated tax relief for foreign venture capital investors can be applied in other Member States wishing to attract international investors to either increase investment volumes or to augment the development of a domestic VC industry. The following conditions of transferability would need to be considered implementing in other Member States: • Interaction of the tax exemption for foreign venture capital investors with existing tax legislation, anti-avoidance measures and double tax treaty network. • Training and capacity building in the implementing authority may be required to ensure efficient processing of applications for tax relief. • Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the tax exemption for foreign investors. • Development of a robust monitoring and evaluation framework and supporting information systems to assess the impact of the tax exemption in attracting foreign venture capital and the effect that this has had on the domestic economy.

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10. Business Angel Scheme, Turkey

Benchmarking results	
Scope	2.67
Qualifying criteria	3.30
Organisation	2.67
Total score	2.88
Rank	25
Generosity (Average B-Index): Basic relief	0.689
Generosity (Average B-Index): For approved investments	0.586

Background of the measure

The Business Angel Scheme (BAS) was introduced in 2012 to provide tax incentives to licensed business angel investors making investments in qualifying private venture companies.[i]

The BAS was introduced as part of government plans to promote SME investment in the country, while increasing SME professionalism and building trust in business angel capital.

Description of good practice case

The BAS grants investors a tax deduction of 75% of the value of capital invested against their taxable income in the current year. The annual deduction is capped at TL1m. The rate of deduction is increased to 100% of capital invested in companies with projects are supported by Ministry of Science, Industry and Technology.

In order to participate in the BAS, investors are required to obtain an Angel Investor License, which is valid for five years, from the Ministry of Finance. Investors must meet the following income/wealth and relevant business experience criteria in order to be granted an Angel Investor License:[ii]

- Income/wealth criteria:
  - Annual gross income over TL200,000 or,
  - Net assets over TL1m
- Experience criteria:
  - Minimum two years of experience as fund or portfolio manager in a bank or financial institution or director in the banks or financial institutions in the departments of SMEs financing, project or institutional financing areas, and directors in VCs or,
  - Minimum two years of experience during the last five years as deputy director or higher status in the companies with minimum TL 25m annual turnover or,
  - Minimum one year membership in the local business angel networks and having shares in a minimum of three SMEs or,

Having investments in three technology companies supported by incubators or techno-centres with minimum TL 20,000 investments for each.

Impact

An estimate of the projected or actual fiscal costs or wider impacts of the BAS is not available.

During the period February 2013 to June 2015, 308 individuals were granted a business angel license and 16 investment applications were approved.[iii]
Reasons for highlighting this measure
This scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases. The BAS is one of only two schemes in the country sample to require the investor to be a registered business angel in order to participate. As such, it displays a novel and diverse approach. The use of investor certification should, theoretically, maximize the opportunities for the generation of knowledge spillovers, while minimizing deadweight cost associated with investors using the scheme for tax avoidance. This is because the certification process should screen out investors with insufficient business experience and/or those investing as part of a tax planning scheme. However, as there is no requirement for demonstrating whether the investors' experience has been shared, there may still be some deadweight cost associated with tax avoidance.
Conditions of transferability
The concept of experience and income/wealth requirements for investors can be applied in Member States wishing to maximize the potential for the generation of knowledge spillovers from the investor to the recipient of investment. The following conditions of transferability would need to be considered implementing in Member States: • An appropriate reporting and monitoring framework would have to be developed in order to evidence whether prospective investors have met the experience or income/wealth requirements. This would need to be as simple as possible, while maintaining the integrity of the framework, in order to limit compliance costs for the taxpayer and administrative burdens for the implementing authority. • Training and capacity building in the implementing authority may be required to ensure efficient operation of the licensing system. • Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the licensing criteria and the associated administrative requirements. Development of a robust monitoring and evaluation framework and supporting information systems to assess the performance of investor experience and income/wealth targeting.

References

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11. Tax shelter for start-ups, Belgium

Benchmarking results	
Scope	2.67
Qualifying criteria	3.30
Organisation	2.67
Total score	2.88
Rank	25
Generosity (Average B-Index): For SMEs	0.820
Generosity (Average B-Index): For micro-enterprises	0.730

Background of the measure

The tax shelter for start-ups was introduced in the 2015 Budget to incentivise risk investment in start-ups by individual investors.

The scheme was introduced as part of the Belgian Government's Startup Plan to Stimulate Growth for Newly-Formed Companies, a package of policy measures designed to promote young and new entrepreneurs to set up new businesses in innovative sectors.[i]

Description of good practice case

The tax shelter for start-ups provides individual investors with an upfront income tax credit linked to the value of their investment. The scheme grants a 30% tax credit for eligible investors in companies that meet the definition of an SME and a 45% tax credit for eligible investors in companies that meet the definition of a microenterprise.[ii]

The scheme restricts investment to new share capital issued after 1st July 2015 and within the first four years of trading up to a maximum of €250,000 per company. The maximum investment attracting tax relief is €100,000 per person per year.

The definitions of a microenterprise and SME are taken from Belgian legislation. The scheme defines an SME as a company with no more than 100 employees and meeting two of the following criteria:

- Balance sheet total not exceeding €3.65m.
- Annual turnover (exclusive of VAT) of not exceeding €7.3m.
- Average annual employee headcount of no more than 50.

The scheme defines an microenterprise as a company that meets at least two of the following criteria:

- Balance sheet total not exceeding €350,000.
- Annual turnover (exclusive of VAT) of not exceeding €700,000.
- Average annual employee headcount of no more than 10.

Impact

An estimate of the projected or actual fiscal costs or wider impacts of the tax shelter for start-ups is not available.

Reasons for highlighting this measure

This scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases. It is the only scheme to differentiate tax relief based on the size of the business and, as such, displays a novel and diverse

approach.

It is important to recognise that the scale of investment risk (driven by information asymmetries) is often linked to the maturity of a business. By virtue of having been existence for a shorter period of time, early-stage businesses will have less historical performance data than a more developed business. Indeed, research indicates that the funding gap for SMEs is very large in the early stages of the growth cycle.[iii] [iv]

In offering a differentiated rate of tax credit, the scheme recognises the difference in the scale of investment risk between SMEs and microenterprises. This can be argued to create incentives to investment that are responsive to the market failures present at different stages of the SME growth cycle.

Conditions of transferability

The concept of differentiated tax relief for microenterprises and SMEs can be applied in other Member States wishing to create incentives that are responsive to differences in the scale of market failures present at different stages of the SME growth cycle.

The following conditions of transferability would need to be considered implementing in other Member States:

- Adoption of clear and easy to assess definition of microenterprises and SMEs.
- Selection of the differentiated rates of tax credit based on analysis of the required level of subsidy to stimulate investment in the country in question.
- Training and capacity building in the implementing authority may be required to ensure efficient processing of applications for tax relief.
- Prior announcement and ongoing communication from the implementing authority would be required to ensure that prospective investors are aware of the availability of differentiated rates of tax relief and the associated administrative requirements.
- Development of a robust monitoring and evaluation framework and supporting information systems to assess the performance of the performance-related tax relief.

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