



Tax and the Entrepreneur – A New Dawn?

Eoin Kennelly, Director
Patrick Kinnane, Director

Thursday 16 May 2019

Tax and the Entrepreneur

- ▶ Entrepreneur relief
- ▶ Holding company exemption
- ▶ Retirement relief
- ▶ Capital loss relief

Entrepreneur relief – The story so far



- ▶ Introduced from 1 January 2016
- ▶ Initially rate of 20% up to EUR1m gain
- ▶ From 1 January 2017 rate reduced to 10% but no change to EUR1m threshold
- ▶ No further changes to rate or threshold since then

Entrepreneur relief – The story so far

What shareholdings qualify?

- ▶ 5% or more of trading company
- ▶ 5% or more of holding company of a trading group
- ▶ “Trading group” – every 51% subsidiary must be trading

Entrepreneur relief – The story so far

Who qualifies?

- ▶ Must own the asset for at least 3 continuous years in the 5 years up to sale
- ▶ Must be a director/employee of the company and spend 50% of working time in the service of the company for 3 continuous years in the 5 years up to sale

Entrepreneur relief – The story so far

Estimate of tax relief claimed

Year	Tax relief EUR	Number of claims
2016	20.4m	406
2017	81.2m	866

A New Dawn

- ▶ Consultation on entrepreneur relief announced
- ▶ Also EII and KEEP
- ▶ Changes on the way?



Optimum structures

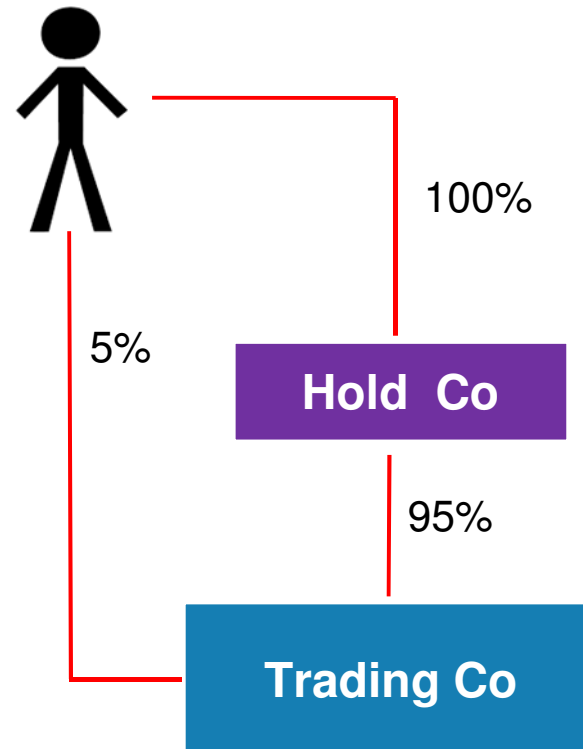
- ▶ What we have seen so far
- ▶ Avoiding pitfalls

Reliefs to optimise

- ▶ Entrepreneur relief
- ▶ Holding company exemption
- ▶ Retirement relief
- ▶ Capital loss relief

Entrepreneur relief

- ▶ Holding company



Entrepreneur relief

- ▶ How to avoid dilution effect
- ▶ Wide definition of ordinary shares
- ▶ Entrepreneur must hold at least 5% of ordinary shares
- ▶ Look closely at share capital

Entrepreneur relief

- ▶ 4 Founders
- ▶ Venture capital
- ▶ State investor

			%	EUR
Founders each hold 15%	100	EUR1 Ords	60%	6m
Venture capital holds 30%	300	EUR1 A Ords	30%	3m
State investor holds	1,000	EUR1 Preference	10%	1m

Entrepreneur relief

How to calculate 5%?

- ▶ This is based on issued shares other than fixed rate preference shares

Founders 100 x 4	400
Venture capital	300
State investor	<u>1,000</u>
	1,700

- ▶ Founders each own $\frac{100}{1,700}$ 5.9%

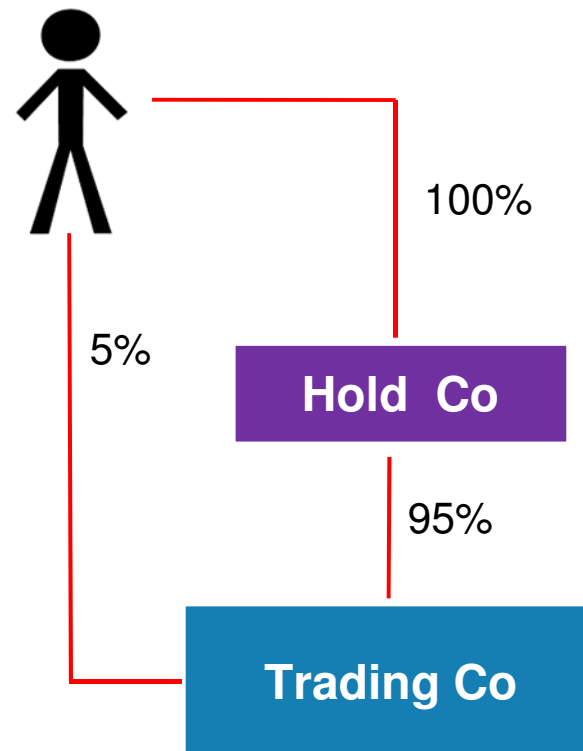
Entrepreneur relief

How to protect 5%

- ▶ Have different share nominal values e.g. EUR1, 1c
- ▶ Use convertible loans
- ▶ Use capital contributions
- ▶ 3 of 5 years

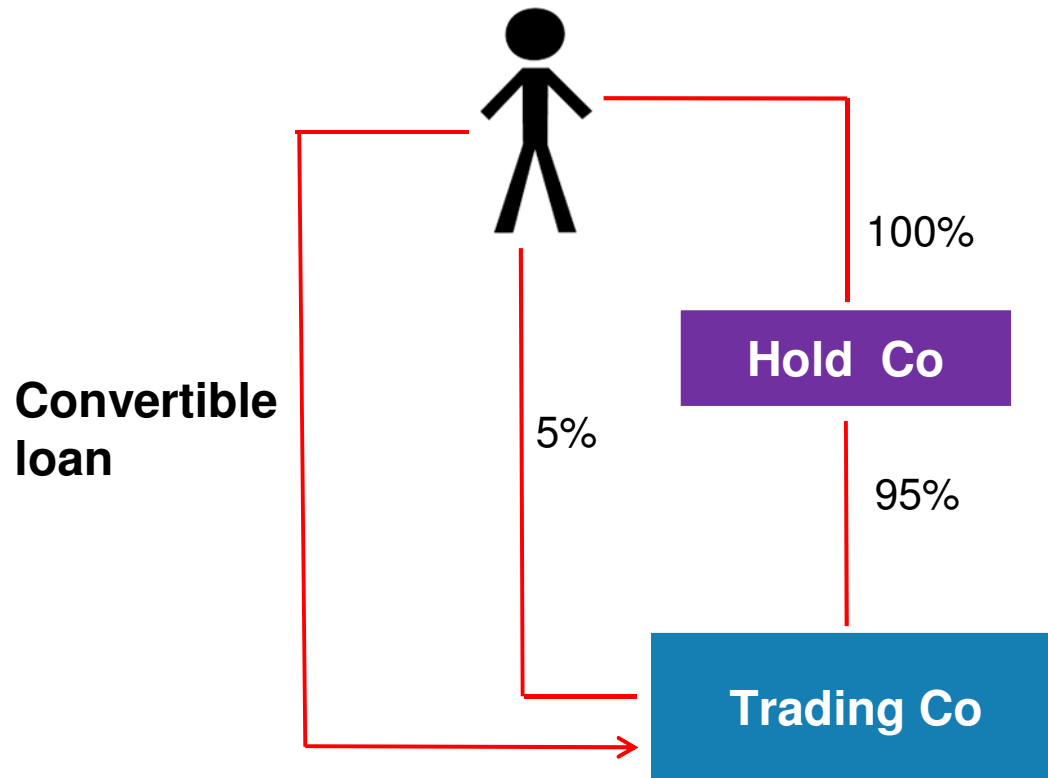
Entrepreneur relief

- ▶ Holding company



Entrepreneur relief

- ▶ Holding company
- ▶ More investment needed



Interaction with retirement relief

- ▶ Retirement relief from age 55
- ▶ After age 55 retirement relief will reduce entrepreneur relief
- ▶ Optimum position EUR750,000 tax free retirement relief, EUR1m at 10% for entrepreneur relief

Can it be achieved?

- ▶ Avail of entrepreneur relief pre-age 55
- ▶ Some retirement relief gains may not qualify for entrepreneur relief
- ▶ Voting shares, dormant company

How to achieve - post 55

- ▶ Sale of shares for EUR2m
- ▶ Valueless dormant company in group
- ▶ Sell first tranche for EUR750,000
- ▶ Qualifies in full for retirement relief

How to achieve - post 55 (cont)

- ▶ Convert remaining shares to non-voting
- ▶ Founder acquires the dormant company for EUR1
- ▶ Sell second tranche for EUR1.25m
- ▶ First EUR1m qualifies for 10%

Future developments

- ▶ Consultation process announced by Minister
- ▶ Written consultations can be made up until 24 May 2019

Possible changes

- ▶ Increase current limit of EUR1m
- ▶ Allow passive investors
- ▶ Create 2 tier relief e.g. higher limit for high potential start-ups

Other possible changes

- ▶ Abolish retirement relief
- ▶ Link to specific economic/sectoral proposals
- ▶ Link to term of ownership

Other developments

- ▶ EII and KEEP also being considered
- ▶ Consultation on all 3 tax incentives to be held on 6 June 2019
- ▶ Changes then announced in Budget 2020/Finance Act 2019
- ▶ Implementation date?

Questions