



an roinn fiontar, trádála agus fostaíochta  
department of enterprise, trade and employment

**Third Progress Report on  
Implementation of the Recommendations  
of the  
Report of the Small Business Forum**

**10 December 2007**

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## ***Recommendation 1: Access to Finance***

### **For Growth Capital**

***(a) Encourage financial institutions to provide European Investment Fund guaranteed loan finance to small businesses.***

***(b) Enhance the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) as follows:***

- Extend the lifetime of both schemes to 2013;***
- Increase the individual investment ceiling for the BES to €250,000 and for the SCS to €100,000;***
- Increase the BES/SCS investment ceiling to €2 million per company; and***
- Simplify the operation of both schemes, and promote them more actively.***

***(c) Further develop networks of Business Angels in order to encourage investment by private individuals in seed and early-stage businesses.***

### **For Working Capital**

***(d) Amend the Companies Act to require large companies to publish in their annual accounts details of their average creditor days***

***Recommendation 1(a)***

***Encourage financial institutions to provide European Investment Fund guaranteed loan finance to small businesses.***

***Response:***

On 26 September 2007, the European Commission published a Notice in the Official Journal of the European Unions addressed to financial intermediaries for SMEs, such as banks and institutions operating guarantee schemes. It outlines information on a financial instrument, contained in the Competitiveness and Innovation Framework Programme (2007-2013) in relation to the SME Guarantee Facility that aims to improve the financial environment for SMEs by facilitating their access to debt and equity finance.

The text of this Notice is contained at Appendix 1 to this Report.

The SME Guarantee Facility is operated by the European Investment Fund (EIF) on behalf of the European Commission.

The total indicative budgetary appropriations for the financial instruments under the Competitiveness and Innovation Framework Programme are €1.1 billion and about half of this is foreseen for the SME Guarantee Facility for the period 2007-2013 across all eligible countries.

Proposals from financial intermediaries will be examined by the EIF on a continuous basis, within the constraints of the available Community budget allocations. The EIF has indicated that it will endeavour to achieve an overall geographic balance, when considering proposals.

It is understood that a Call for Proposals from interested intermediaries across the EU, EFTA, Accession and Candidate countries is currently underway, with decisions on successful applicants expected before the end of 2007.

The Department has informed the Irish Bankers' Federation of the above developments.

The Federation has been advised that the Department may be contacted by any bank interested in pursuing the possibility of securing funding under the SME Guarantee Facility, with a view to their being put in contact with relevant officials in the European Investment Fund (EIF) and/or the European Commission, for further advice and assistance.

### ***Recommendation 1(b)***

***Enhance the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) as follows:***

- *Extend the lifetime of both schemes to 2013;*
- *Increase the individual investment ceiling for the BES to €250,000 and for the SCS to €100,000;*
- *Increase the BES/SCS investment ceiling to €2 million per company; and*
- *Simplify the operation of both schemes, and promote them more actively.*

### ***Response:***

The Budget Speech by the Minister for Finance on 6 December 2006, proposed a number of welcome enhancements to the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS). The Finance Act 2007 confirmed these and proposed a number of further relaxations, and made some technical changes.

### **Proposals confirmed**

The Act confirms a number of Budget proposals, including:

- doubling the amount which can be raised by a company from €1m to €2m (subject to an overall maximum of €1.5m being raised in a 12-month period);
- increasing the relief to an investor in any year from €31,750 to €150,000 in the case of BES, and €100,000 in the case of SCS;
- allowing investors who invest in qualifying companies or funds prior to 31 January 2007, the opportunity to claim tax relief either in the tax year 2006 or 2007.

### **Further extensions and relaxations**

In the Finance Act 2007, relief was extended to a company that carries out recycling activities which has received a grant or financial assistance from an industrial development agency.

In *Budget 2008*, the Minister for Finance announced on 5 December 2007, the requirement that, recycling companies must have received grant assistance before availing of the Business Expansion Scheme (BES), is to be replaced by a requirement that, their business proposals must be certified by an industrial development agency or County Enterprise Board, before they avail of the Scheme. As the BES is an approved State Aid, it will be necessary to advise the European Commission of this proposed change.

The Finance Act 2007 also provided that companies who carry on internationally traded services will qualify for the Scheme once they have an employment grant approved (rather than when the grant has actually been received). Ordinarily, an individual who holds more than 30% of the capital of the company will not qualify for relief.

However, that restriction does not apply where the aggregate capital of the company is less than a particular amount, and that amount has been increased from €317,500 to €500,000.

### **Technical amendments**

The proposals are subject to a number of administrative provisions:

- The timing when relief can be claimed is extended from 31 December 2006 to 31 December 2013.
- The Finance Act 2007 includes provisions obliging fund managers or companies, where required, to provide the Revenue Commissioners with information necessary to comply with European Commission Report requirements.
- A technical change is made to amend references to the Developing Companies Market with references to the Irish Enterprise Exchange.

### **EU State-Aid Approval**

The European Commission having assessed the Schemes in considerable detail, granted approval for them in late August 2007, subject to certain conditions, mainly a requirement to cumulate the benefits of the Schemes with other State-Aids and the

imposition of certain geographical restrictions. These conditions should not, however, have any significant impact on the overall effectiveness of the Schemes. A Commencement Order in early September this year restarted the Schemes.

The changes provided essentially that as and from 1 January 2007:

- Medium-sized enterprises may qualify if they are located in assisted areas (currently includes all counties except Dublin, Meath, Kildare and Wicklow, as defined under EU State-Aid Guidelines). In non-assisted areas (currently counties Dublin, Meath, Kildare and Wicklow) they may qualify where they are in seed or start-up phase only. From 1 January 2009, Cork City and county will be non-assisted, apart from Cork docklands.
- In order to comply with EU rules on the cumulation of State-Aids, a company that raises finance under the BES and/or the SCS will have the level of other State-Aids affected (with the exception of grants for research and development). The maximum aid levels (for these other State-Aids) will be reduced by 50% for companies located in non-assisted areas and by 20% for companies located in assisted areas (in accordance with the Regional Aid map mentioned above).
- The Regulations also provide powers for the Revenue Commissioners to publish on their website a list of companies that have raised finance under the BES and SCS Schemes together with details of the amounts raised. This information will also be made available to State Agencies with responsibility for the administration of other State-Aided Schemes, and will be reported to the European Commission.

These EU conditions should not significantly hinder the overall contribution of the BES Scheme to economic development and employment.

**Recommendation 1(c)**

***Further develop networks of Business Angels in order to encourage investment by private individuals in seed and early-stage businesses.***

***Response:***

The Halo Business Angel Partnership was a two-year pilot initiative which ended in August 2007 that was designed to establish an active Business Angel Network to encourage business investments. To date, over 130 business angels have registered with the Partnership with over €1 million committed to investment deals.

Enterprise Ireland (EI)(€200k) and InterTradeIreland (ITI) committed a total of €408,000 to fund the Halo Business Angels Network for the two-year pilot, which is managed by Dublin BIC (Business Innovation Centre) and supported by the Cork, Waterford and Galway BICs.

This budget was spent on management salaries, PR and events, rent, administration and professional fees and set-ups costs for the four Business Innovation Centres managing the Programme. It is important to highlight that establishing the Programme from scratch and ensuring regional coverage of the angel network took significant resources and has laid the foundation for the success of the Programme going forward. It is also envisaged that the approval of the Business Expansion Scheme in September will further encourage business angels to join the Programme and increase their investment activity.

A review of the pilot Programme, which was undertaken by FGS McClure Watters, Belfast is virtually complete. The review found that the Programme has met the main objectives set and it is now proposed that the two funding agencies Enterprise Ireland and InterTradeIreland would seek formal approval for long term funding for the Programme. Both agencies have agreed interim funding to December 2007 to finance the initiative, pending the completion of the consultants report.

Enterprise Ireland has been an active supporter with InterTradeIreland of this two-year pilot Programme. Long term funding for the (pilot) Programme is now under consideration.

## **Recommendation 1(d)**

***Amend the Companies Act to require large companies to publish in their annual accounts details of their average creditor days***

### ***Response:***

The Department is concerned that the proposal as formulated would have a limited impact in meeting the concerns of the Forum because of the significant role played by unlimited companies in the Irish economy. A company with unlimited liability is not required to file its annual accounts with the CRO (the only annual public filing required of such a company is the auditor's report to members which does not generally contain figures.). For example, it would not capture potentially important debtors such as some of the major supermarket multiples who are incorporated as companies with *unlimited liability*.

Against this background, it seems likely that small companies would derive significantly less benefit from such a provision than may have been envisaged by the SBF. This calls into question the balance between that benefit and the potential adverse impacts that would be associated with implementation of the measure, including the additional regulatory burden for those companies that would be required to file the information specified in their annual accounts. On balance, therefore, the Department does not consider it appropriate to proceed in the manner suggested.

At previous review meetings, it was suggested that an alternative approach might be to create a legislative requirement that companies would have to pay all invoices within a specified deadline, e.g. within 30 days or by the end of the month following the issue of the invoice. It was also suggested that adherence to this requirement should be subject to enforcement by the Director of Corporate Enforcement.

The Department has considered this alternative suggestion but has concerns on a number of fronts, viz,

- The proposal would remove the freedom that businesses currently enjoy to agree whatever contractual terms they feel are appropriate to the transactions between them. For example, agreeing to longer payment terms might encourage a customer to pay a higher price or to stock a line of products that they might otherwise not be particularly interested in;

- The proposal could put Irish suppliers at a competitive disadvantage vis-à-vis suppliers from outside the jurisdiction who could not be brought within the scope of the requirement;
- The proposal would impose a significant regulatory burden on all businesses, including small businesses, to ensure that payments are all made within tight timeframes regardless of circumstances in order to avoid sanctions;
- The proposal would impose a significant additional burden on the work of the ODCE and could result in the disruption of the important work being done by the Director in other areas (because of a diversion of resources).

In the light of the foregoing, the Department considers that the possible advantages of this proposal are very much outweighed by the significant disadvantages that could arise, that it is a disproportionate response to the issue and, accordingly, that it could not recommend implementation of this suggestion.

### **Late Payments Survey**

At the last meeting with members of the Small Business Forum in April 2007, the Department of Enterprise, Trade and Employment indicated that, in order that the full extent of the issue could be objectively determined, it would consider carrying out research to establish an evidence base in relation to the extent of late payments and the factors involved including:

- The situation in relation to transactions, for example, between public bodies and private companies, between large firms and their small suppliers and between small businesses as both customer and supplier;
- To what extent are the difficulties arising from late payments as opposed to lengthy contractual payment terms;
- Length of time it takes to get paid (on average, what percentage is paid on time, any other relevant patterns, etc);
- To what extent are small businesses aware of, or have availed of, the Late Payments legislation to recover un-paid debts.
- Whether the position in respect of cross-border transactions reflects the same or other experience.

- It would also be useful to benchmark Ireland against other countries in relation to payment behaviours and to consider any potential ways of improving the situation on the ground.

The Department believes that the Irish Best Practice (Benchmarking) Forum is well placed to carry out the type of research outlined above and has requested the Irish Benchmarking Forum to undertake research on this topic covering the areas specified.

The Department has been working closely with the Irish Best Practice Forum over the last few months, in drafting a Questionnaire.

The Department circulated the text of a Draft Questionnaire on 30 November 2007, to SFA, ISME and Chambers Ireland as a response to the issues raised by the Small Business Forum in relation to the Late Payments issue. These Organisations have been requested to submit any comments or amendments they may have on the Draft Questionnaire by Friday 21 December 2007.

An Implementation Group, comprising of the Department, Enterprise Ireland, and the relevant Organisations will meet in early January 2008, to, inter-alia: (i) sign-off on the final text of the Questionnaire; (ii) determine the modalities of the Survey and (c) finalise a timetable for completion of the Survey.

At this stage, the intention is to have this Survey completed and results published by May/June 2008.

## ***Recommendation 2: Management Capability***

***Raise the standard of management capability in small Irish businesses to the level of the best international practice by:***

- ***Stimulating demand among small business owner/managers for management development initiatives, and***
- ***Establishing a Management Development Council to ensure that the programmes meets the needs and learning styles of owner/managers through continuous monitoring and evaluation of the available programmes***

### ***Response:***

The Management Development Council was formally established, for a period of three years, in May 2007 by Minister Martin. It is chaired by Professor Frank Roche of University College Dublin and includes representatives of industry, enterprise development agencies, Government Departments and higher education institutions (see below). The work of the Council is supported by Forfás, which is providing research and administrative support.

The Council has the following objectives:

- To profile the adequacy and relevance of management development provision in Ireland;
- To identify good practice in management development provision internationally and in Ireland and to examine how such models could be extended or rolled-out nationally.
- To develop an Action Plan to close identified gaps in management development provision in Ireland.
- To promote the development of a coordinated approach to building awareness and appreciation in the SME sector of the need to upgrade leadership and management skills.

The Council met for the first time in September 2007, and agreed a Work Programme to end 2008. The second meeting took place in November and was attended by Minister Martin. In future, the Council will meet quarterly.

The Council has a number of projects currently underway. These include:

- A detailed census of all the Management Development Programmes, courses, Schemes, services etc. available to SMEs;
- A study to identify and understand the management development demands and needs of SMEs, and the barriers which inhibit SME participation in management development.

The Council will produce an Action Plan in late 2008. It will contain practical recommendations to the Department of Enterprise, Trade and Employment on supporting the development of world-class management skills within Irish SMEs.

### **Group Membership**

**Chair:** Professor Frank Roche, Deputy Principal of the UCD College of Business and Law

Ms. Patricia Callan, Director Small Firms Association

Mr. David Cronin, CEO, Wild Geese Group

Mr. Pat Hayden, Department of Enterprise, Trade and Employment

Ms. Briga Hynes, Small Firms Research Unit, University of Limerick

Mr. Ivan Morrissey, Business Information Systems – IS Laboratory Manager and Lecturer, UCC.

Mr. Alan Nuzum, CEO Skillnets

Mr. Liam O’Donoghue, Senior Manager, Client Manager Development Division, Enterprise Ireland

Mr. John Herlihy, European Director, Online Sales and Operations, Google

Ms. Ann O’Leary, Managing Director, BT Business

Mr. Sean O’Sullivan, Seabrook Research Limited

Ms. Orla Purcell, Head of Chambers Ireland Business School

Ms. Eilis J. Quinlan, Managing Director, Eilis J. Quinlan & Co. (nominated by ISME)

Mr. Denis Rowan, Director, FAS

Mr. Eamon Ryan, CEO, Limerick City Enterprise Board,

Mr. Tim Wray, Registrar, IMI

### ***Recommendation 3: Research, Development and Innovation***

- a) Make Innovation Vouchers available to small business in every sector, to be exchanged for advice, expertise and information from accredited knowledge providers.***
- b) Provide Knowledge Acquisition Grants to enable small businesses in the manufacturing and internationally traded sectors to gain access to research-based knowledge, expertise and facilities in higher education institutes, research bodies and large private enterprises, on a co-funded basis.***

This recommendation has been implemented by Enterprise Ireland under the auspices of Technology Ireland, which is an inter-agency committee set up to help ensure fully joined up thinking and action on the R&D agenda. Technology Ireland operates under the direction of the Office of Science, Technology and Innovation (OSTI) at the Department of Enterprise, Trade and Employment.

#### **Innovation Vouchers**

The Innovation Vouchers proposal is designed to stimulate an on-going cultural shift with regard to innovation within the small business sector while bridging the gap that exists between the small business community and public research bodies. The Programme provides financial support, in the form of an Innovation Voucher valued at €5,000, to applicant enterprises which they can use to explore a business opportunity or problem with an Institute of Technology or University, thereby facilitating knowledge transfer to their business

Minister Martin formally launched the pilot Innovation Voucher Initiative, on 21 March 2007. In the pilot phase of the Innovation Voucher initiative, 194 companies were awarded vouchers, a second round brought the number of small companies benefiting from this Programme to 350 and at the beginning of October a third round of the Innovation Vouchers initiative was launched. The third phase of this pilot initiative closed on 31st October. Under this latest phase, Enterprise Ireland received 156 applications; these are currently being processed, and it is anticipated that of the applications received in this present phase, over 120 vouchers will be approved. A fourth call was opened on 1 December 2007, with a closing date of 4 January 2008. The 2008 schedule provides for 5 further calls throughout the year.

The Vouchers can be used to facilitate knowledge transfer from the public research sector and small businesses. The Vouchers will be available to the widest possible range of small businesses in Ireland, and not merely to Enterprise Ireland clients.

To enhance the attractiveness of the initiative, Enterprise Ireland has ensured that the process is as non-bureaucratic as possible. There is no matching private funding required by small businesses. Enterprise Ireland has appointed a specific project manager who will act as an immediate, identifiable and initial point of contact for those that require information about the Innovation Vouchers Initiative. Enterprise Ireland has also established a specific website at [www.innovationvouchers.ie](http://www.innovationvouchers.ie) which provides further information including application forms.

### **Knowledge Acquisition Grants**

The recommendation is relatively broad, with the objective of developing the innovation capability and absorptive capacity of small companies. In this context, it is not dissimilar to a number of schemes currently operated by Enterprise Ireland.

Enterprise Ireland has undertaken some international comparison on this proposal. The objectives and possible activities outlined in the report are similar to schemes run in other EU countries such as *Knowledge Transfer Partnerships* in the UK and *Knowledge Transfer Entrepreneurs SMEs* (that stimulates SMEs to absorb existing knowledge) in the Netherlands. As part of the implementation process, Enterprise Ireland has examined these and other schemes in the context of the proposed scheme to ascertain lessons that might be applied around administrative requirements.

As part of the implementation of the Government's Science, Technology and Innovation Strategy, Enterprise Ireland has developed a suite of supports specially designed for the particular needs of manufacturing and internationally-traded service companies. This includes an R&D Stimulation Grant to encourage companies that have not carried out R&D in the past (or which have done so on a sporadic basis) to develop the establishment of a sustainable R&D activity.

In October 2007, European Commission approval was secured for the State-Aids element of the revised R&D Schemes, to be implemented by Enterprise Ireland and IDA separately. The newly designed schemes are each due to be launched by IDA Ireland and Enterprise Ireland at the beginning of 2008. It is anticipated that the more streamlined schemes, with enhanced budgets proposed, will facilitate the drive by the agencies towards achieving the SSTI targets.

Within the context of the new R&D Stimulation Grant Programme, Enterprise Ireland will deliver the Knowledge Acquisition Grants Scheme, which will allow grants of up to €50,000 to be paid on a once-off basis for projects up to 1 year.

**Recommendation 4: ICT**

***Drive awareness and understanding of the role of ICT in improving business performance, by creating a subsidised scheme costing €2 million a year for three years to help small businesses to avail of an ICT audit. This audit will enable businesses to access customised, independent, professional advice on the use of ICT to improve productivity and foster growth.***

***Response:***

Minister Martin launched the Tech-Check Programme on 26 April 2007. The purpose of the Programme is to promote awareness of the productivity benefits of greater strategic utilisation of ICTs by Irish SMEs. The Programme offers a highly subsidised technology check-up to small business and helps them to identify ways to boost their productivity and profitability through the better use of technology. The Tech-Check Programme is being run by the 35 County and City Enterprise Boards (CEBs) and initial funding of €1m has been allocated for its rollout in the latter half of 2007.

Under the Tech-Check Programme, small businesses are able to apply to their local CEB who will appoint an independent expert to carry out an ICT analysis of the business. The 2007 funding provided will enable the CEBs to provide access to the Programme for up to 1,000 individual businesses. A modest end-user fee of €150 has been set for access to the Programme. Participation is not confined to CEB clients; it is open to all small businesses in all sectors of commercial activity. In this context, small businesses are defined in accordance with the standard EU definition used by the Small Business Forum, i.e. up to 50 employees.

To accompany the launch of the Tech-Check Programme, the Department retained the services of the Media Group to devise a national promotion and advertising campaign to raise general awareness of the Programme and its objectives and to encourage the participation of small businesses in the Programme. The campaign, which is currently underway, consists of targeted advertising slots in National and Local Radio Media

accompanied by Press Advertising in selected National Press publications (i.e. to target the small business sector) and in relevant Trade magazines.

The CEBs have recently commenced organising a series of local and regional information seminars on the Programme at venues throughout the country .The purpose of these seminars is to highlight some of the potential benefits for small business of ICT usage and encourage their participation in the Programme.

To-date, 615 Tech-Checks have been approved nationwide of which 230 have already been completed. Current projections to year-end indicate that 850 Tech-Checks will be completed countrywide, which demonstrates a relatively robust performance when compared to the initial target of 1000. It must be emphasised however, that the Tech-Check Programme is still a developing initiative. Notwithstanding this, the above progress demonstrates that the Programme is continuing to integrate and become more fully embedded at national and regional level.

## **Recommendation 5: Better Regulation**

### ***Existing Regulations***

- a Use the Regulatory Impact Analysis (RIA) mechanism to conduct a systematic seven-year review, with annual targets, of existing regulations that have greatest impact on small business (Taxation, Health & Safety and Employment) and amend these regulations to reduce the burden of compliance.***

### ***New Regulations:***

- b During Regulatory Impact Analysis, explicitly consider amendments or exemptions for small businesses. Provide Government Departments with specific guidelines on the treatment of small business.***

### ***Implementation***

- c Whenever possible, use a risk-based approach to regulatory implementation and enforcement. Allow new regulations to come into effect on only two dates each year to facilitate small businesses to keep track of regulatory change.***

### ***Specific, immediate actions:***

***The following actions should be taken immediately to benefit small businesses:***

***I. Increase the turnover threshold above which businesses are required to be audited from €1.5 million to the EU limit (currently €7.3 million)***

***II. Increase the turnover thresholds for VAT exemption from €55,000 to €70,000 (on goods) and from €27,500 to €35,000 (on services);***

***III. Allow the preliminary payment of corporation tax to be based on the previous year's assessment where the tax for the previous year is less than €100,000 (currently €50,000).***

***IV. Raise the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1m.***

***Recommendation 5(a): Existing Regulations***

***Use the Regulatory Impact Analysis (RIA) mechanism to conduct a systematic seven-year review, with annual targets, of existing regulations that have greatest impact on small business (Taxation, Health & Safety and Employment) and amend these regulations to reduce the burden of compliance.***

***Response:***

Since 21 June 2005, Regulatory Impact Analysis (RIA) must be applied to all proposals for primary legislation, significant statutory instruments, draft EU directives and significant EU Regulations. RIA is a tool which is used to assess the likely effects of a proposed *new* regulation or regulatory change.

In relation to existing regulations, in April 2007 the Minister for Enterprise, Trade and Employment established the High-Level Group on Business Regulation to examine ways of reducing the administrative burden (or red tape) on business, especially small business. The Group is comprised of representatives of business (including ISME and SFA), Government and Agencies, as well as a representative of ICTU.

The Group is focussing initially on five policy areas that are deemed to carry the biggest administrative burdens (i.e. Taxation returns, Health and Safety requirements, Statistical requirements, Environmental legislation and Employment and Company law). The Group is seeking to address concrete measures in these areas and to that end, has held workshops with small business. The HLG would welcome suggestions from the business sector on items to include in its work programme.

The Department believes that this process is best served to address the above recommendation and believes that a continuing strong input from business as to which regulatory requirements are causing the biggest burdens is critical.

**Recommendation 5(b) New Regulations:**

***During Regulatory Impact Analysis, explicitly consider amendments or exemptions for small businesses. Provide Government Departments with specific guidelines on the treatment of small business.***

***Response:***

The Department of the Taoiseach is currently progressing a Review of the operation of Regulatory Impact Analysis in line with commitments contained in “*Towards 2016*”. The Review commenced on 31 October, 2007.

The Review will assess the current model of RIA having regard in particular to the principle of proportionality and international best practice. At the end of the Review, recommendations will be made for any necessary changes to the model itself or to its operation. It is expected that the Review will be finalised early next year.

The Department of Enterprise Trade and Employment will strongly urge that the question of exemptions and guidelines for small business will be considered as part of that Review.

**Recommendation 5(c): Implementation**

*Whenever possible, use a risk-based approach to regulatory implementation and enforcement. Allow new regulations to come into effect on only two dates each year to facilitate small businesses to keep track of regulatory change*

**Response:**

Already, the Labour Inspectorate, the Revenue Commissioners and the Department of Social and Family Affairs prioritise, in much of their inspection and enforcement work, those sectors of the economy where non-compliance is a feature.

While there can be challenges for small business in keeping up to date with regulatory change, there are concerns that restricting the commencement dates for regulations would not necessarily improve the situation and might even create unnecessary bottlenecks within the regulatory process and further confusion, especially for small businesses.

### ***Recommendation 5: Specific Immediate Actions***

***Specific, immediate actions: The following actions should be taken immediately to benefit small businesses:***

***I. Increase the turnover threshold above which businesses are required to be audited from €1.5 million to the EU limit (currently €7.3 million);***

***II. Increase the turnover thresholds for VAT exemption from €55,000 to €70,000 (on goods) and from €27,500 to €35,000 (on services);***

***III. Allow the preliminary payment of corporation tax to be based on the previous year's assessment where the tax for the previous year is less than €100,000 (currently €50,000);***

***IV. Raise the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1m.***

### **Response:**

#### ***Recommendation I: Audit Exemption***

The Minister decided prior to publication of the Small Business Forum's Report to implement this recommendation in full. The recommendation was implemented through Section 9 of the Investment Funds, Companies and Miscellaneous Provisions Act 2006 which came into effect from 24 December, 2006. The new audit exemption thresholds are turnover of €7.3m and balance sheet of €3.65m. The Company Law Review Group is currently considering whether the exemption should be further extended to the new EU limit and whether, e.g. the exemption should apply to Group companies and dormant subsidiaries.

## ***Tax Thresholds***

### **Recommendation II: Increase turnover threshold for VAT**

Changes to the VAT registration thresholds for small businesses have been implemented. With effect from 1 March 2007 the VAT thresholds increased from €27,500 to €35,000 in the case of services and from €55,000 to €70,000 in the case of goods.

These thresholds are being further increased from 1 May 2008, to €37,500 for services and to €75,000 for goods respectively, as part of a package of measures for small and medium employers announced by the Minister for Finance, Mr. Brian Cowen, T.D. as part of his *Budget 2008* Speech on Wednesday 5 December 2007. This measure will take about 2,700 businesses out of the VAT system.

### **Recommendation III: Preliminary Corporation tax**

The Finance Act 2007 confirmed the changes to the preliminary tax obligations of certain companies as recommended by the Small Business Forum:

- Small companies are now permitted to calculate their preliminary tax payments based on 100% of the prior-period tax liability if their tax liability for the prior period did not exceed a certain threshold. The above Act increased that threshold from €50,000 to €150,000.

The Minister for Finance announced a further increase in this threshold to €200,000 as part of *Budget 2008* in the Dáil on 5 December 2007. This will be effective for preliminary tax payment dates arising after 5 December 2007.

- New companies which do not expect their tax liability for the first year to exceed €150,000 are no longer obliged to pay preliminary tax in that first year.

The Minister for Finance also announced a further increase in this threshold to €200,000 as part of *Budget 2008* on 5 December 2007. This will be effective for preliminary tax payment dates arising after 5 December 2007.

### **Recommendation IV: Threshold for cash basis of accounting for VAT**

The 2006 Budget announced an increase in the VAT cash accounting threshold for small firms from €635,000 per annum to €1 million with effect from 1 March 2007 and this increase was confirmed in the Finance Act 2007.

## **Recommendation 6: Local Authority Charges**

*Collect from the business community only its fair share of local authority funding by*

- *Rebalancing the contributions of business, central government and domestic sources by introducing base broadening measures and applying a “User Pays Principle”; and*
- *Providing greater transparency and clarity in the preparation of local authority accounts.*

### *Specific, immediate actions:*

*The following actions should be taken immediately to benefit small businesses:*

- *Base development charges to small businesses on the incremental costs that are directly attributable to the proposed development.*
- *Establish a Business Users’ Forum in each local authority area to improve consultation with and responsiveness to businesses.*

### *Response*

As outlined in the Second Progress Report, following a request from the Department of Enterprise, Trade and Employment, the Department of the Environment, Heritage and Local Government initiated a review of the operation of the provisions for Local Authority development contributions in late 2005. An Interdepartmental Committee was established to evaluate the effectiveness of the Schemes to date and to discuss operational issues of interest to a number of key policy Departments.

The Report of the Interdepartmental Committee was published in April 2007. On the basis of this Report, a revised guidance circular letter was issued to Local Authorities on 9<sup>th</sup> May 2007, highlighting the importance of competitiveness, objectivity, equity and transparency in the drawing up of Schemes. There are a number of important changes in the Guidelines including:

- Local Authorities are requested to be more aware of the implications of their actions on inward investors and Irish business.
- Costs charged must reflect the economic costs of providing the infrastructure – Local Authorities cannot profit from development charges.
- Greater transparency with stakeholders is required – Local Authorities should clearly explain how charges are calculated and there should be greater consistency across regions.
- Transparency – Firms should be able to identify what projects were delivered with their development charges.
- Double charging is not allowed.
- Proactive consultation including with the County Development Board.

As a follow-up to the issuing of these Guidelines, the Department has held meetings with Enterprise Ireland and IDA Ireland following which both Agencies now actively monitor these new Guidelines at local level. This will be underpinned by the following actions:

- Impact Statements, including estimates of exports and economy expenditures from Agency assisted companies in each county, have been prepared and are currently being circulated to the Agency Regional Directors. These Impact Statements will be used to clearly raise the awareness of the positive impact that Enterprise Ireland (EI) and IDA clients have as drivers of economic success in each county.
- Using these Impact Statements, as part of an overall presentation on Agency activities, the Agency Regional Directors are currently holding meetings with each City and County Manager in their particular region to highlight the issues client companies face and the impact that the companies make in generating wealth in each county and the impact those companies could make in the future.
- In this context, Regional Directors are impressing on the County Managers that by ensuring Development Charges are imposed in a flexible, transparent and proportionate manner, positive outcomes for all can be achieved into the future.

- Agencies will continue to raise client competitiveness issues at Local, Regional and National levels.

The Department of Environment Heritage and Local Government has responded positively in this instance and the Department of Enterprise, Trade and Employment will, continue to work with that Department in the context of the Programme for Government commitment to “*examine measures to limit the ability of local authorities to impose punitive charges on local businesses.*”

***Recommendation 7: Access to Information***

***Develop, launch and promote a first-stop 'Knowledge Base' – a comprehensive central resource of relevant, up-to-date, user-led business information for entrepreneurs, owner/managers and their advisers.***

***This Knowledge Base will be available to businesses by telephone and over the Internet, and will support a wide range of information channels, including the development agencies and other business advisors.***

***The Knowledge Base as envisaged will be substantially different from anything currently available from public or private sources, but it will build on the best of those sources.***

***Response:***

As outlined in the Second Progress Report, the Department of Enterprise, Trade and Employment had intended setting up a Steering Group, including representatives of Enterprise Ireland, Forfas, the City and County Enterprise Boards, the Business Innovation Centres (BICs) and the Department to consider how best to implement the recommendation. Progress has not been achieved in establishing this Steering Group, due to priority being given to progressing other recommendations of the Small Business Forum's Report. This matter will be given priority in 2008 and a Steering Group will be established early in the new year. A timescale of at least two years is envisaged for the implementation of this project in an appropriate manner.

It is envisaged that the Steering Group would establish relevant Advisory Group(s) that would include business representatives, to advise on particular issues such as the appropriate specifications and structures for the project, data collection arrangements, the type of content required and the development of content, including online tools for inclusion on the proposed Knowledge Base.

***Recommendation 8: Encouraging more and better start-ups***

***Government should formally adopt a National Entrepreneurship Policy focused on optimising the number of start-up businesses, and in particular on maximising the number of start-ups aspiring to and achieving high growth.***

***This policy should build upon three specific platforms:***

- ***Stimulating latent entrepreneurial potential, particularly among women and the immigrant community;***
- ***Reinforcing entrepreneurship in the education system; and***
- ***Enhancing the culture for entrepreneurship.***

***The range of existing initiatives aimed at stimulating entrepreneurship should be incorporated into this policy, to ensure a cohesive, coordinated approach.***

***Response:***

On 23 October 2007, Forfás published its Report “*Towards Developing an Entrepreneurship Policy for Ireland*”. The Report which has been circulated to the members of the Small Business Forum, provides background information to the National Entrepreneurship Policy Statement and sets out a blueprint to drive entrepreneurship in Ireland.

The Report also looks at a number of key issues in detail and identifies areas for further development in improving the entrepreneurial culture, entrepreneurship in the education system and entrepreneurial activity among women and immigrants.

A draft Policy Statement has been submitted to the Department of Enterprise, Trade and Employment for consideration. The Department is currently preparing a final Policy Statement for submission to the Minister and/or Government, as appropriate, for adoption. The Department expects the Policy Statement to be published in early 2008.

***Recommendation 9: Data on the small business sector***

***Compile and publish an annual Small Business Release that presents up-to-date, robust data on a range of indicators relevant to the small business sector. The Release will enable emerging trends to be monitored and key business issues identified.***

The CSO published its Report "*Small Business in Ireland*" in May 2007. This Report provides detailed information on small businesses in the country.

Work has begun on producing the next Report and it is due for publication before April 2008. The content of the Report will be largely similar to the current publication.

Statistics on business demography are not available at present. The CSO has been engaged in an extensive exercise to develop a comprehensive statistical business register. This project has been hampered by the lack of a unique identifier for businesses.

The National Statistics Board in its report "*Policy Needs for Statistical Data on Enterprises*" recommended the introduction of a unique business identifier linked to a centrally maintained accessible business register covering the entire economy.

On foot of this Report, the Government established a Cross-Departmental Group to look into the feasibility of introducing a Unique Business Identifier (UBI) and an associated Central Business Register. A comprehensive up-to-date Central Business Register could provide significant benefits to the statistical system and could be an invaluable source of information on business demographics. A Unique Business Identifier might also enable increased and more efficient use of administrative data thus reducing the response burden, particularly on small business. All of these issues will be examined by the Group.

The CSO hopes to have statistics on business demography available for the 2009 "*Small Business in Ireland*" Report.

## **Appendix 1**

### **Text of**

*Notice of implementation of the SME Guarantee Facility under the Competitiveness and Innovation Framework Programme (2007-2013)*

*- as published in the Official Journal of the European Union on 26 September 2007 – Ref. No. 2007/C 226/02*

### **(Text with EEA relevance)**

This notice is addressed to financial intermediaries for SMEs, such as banks and institutions operating guarantee schemes. It outlines a financial instrument, the SME Guarantee Facility that aims to improve the financial environment for SMEs by facilitating their access to debt and equity finance.

The SME Guarantee Facility is operated by the European Investment Fund (EIF) on behalf of the European Commission under Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 on a Competitiveness and Innovation Framework Programme (2007-2013).

This programme is open to the Member States of the European Union and those Member States of the European Free Trade Association ('EFTA') which are members of the European Economic Area ('EEA'), accession countries and candidate countries benefiting from a relevant pre-accession strategy, countries of the Western Balkans in accordance with the relevant framework agreements and any other country included in the list of Participating Countries as published from time to time in the Official Journal.

The total indicative budgetary appropriations for the financial instruments under Competitiveness and Innovation Framework Programme are EUR 1,1 billion and about half of this is foreseen for SME Guarantee Facility for the period 2007-2013.

The Facility will provide counter-guarantees or, where appropriate, co-guarantees for guarantee schemes operating in participating countries, as well as direct guarantees in the case of any other appropriate financial intermediary.

The following four windows are available under the Facility:

1. Guarantees for debt financing via loans or leasing to support SMEs with growth potential. Under this window, the EIF issues partial guarantees (directly or indirectly) to cover portfolios of debt finance.
2. Guarantees for portfolios of micro-loans for very small enterprises with up to 9 employees, to encourage financial institutions to play a greater role in the provision of

loans of a smaller amount which involve proportionally higher handling costs. Financial intermediaries may also receive grants in the form of technical support to partially offset the high administrative costs inherent in micro-credit financing.

3. Guarantees to financial intermediaries to cover equity or quasi-equity investments in SMEs which involve investment in seed capital and/or capital in the start-up phase, mezzanine financing and/or risk capital operations.

4. Guarantees to support securitisation structures with a view to assisting financial institutions to mobilize debt financing for SMEs, conditional upon an undertaking by the relevant financial intermediary to use a significant part of the resources mobilised as a result of the securitisation transaction for new SME financing.

Prospective financial intermediaries can obtain detailed information on the Facility from:

European Investment Fund

43, avenue J. F. Kennedy

L-2968 Luxembourg

E-mail: [info@eif.org](mailto:info@eif.org)

or from the EIF's website at: [www.eif.org](http://www.eif.org)

The contact details of all financial intermediaries with whom the EIF has signed a contract will be published on the EIF's website in order to allow SMEs to make direct contact with these intermediaries.

Proposals from financial intermediaries will be examined by the EIF on a continuous basis, within the constraints of the available Community budget allocations. The EIF will endeavour to achieve an overall geographic balance.

ENDS

26.9.2007 C 226/3 Official Journal of the European Union