



Appendix 1: Country fiches

Final report

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Institute for Advanced Studies (IHS): Consortium Leader

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CASE

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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. General data sources

The following information sources have been used to present a statistical background to the business angel and venture capital market in each country:

- **Venture Capital and Private Equity Attractiveness Index 2016**

The Venture Capital and Private Equity Attractiveness Index is prepared annually by IESE Business School Barcelona and EMLYON Business School. It aims to provide an internationally comparable ranking of market attractiveness. The Index incorporates a number of indicators, including economic activity, size and liquidity of capital markets, taxation, investor protection and corporate governance, the human and social environment and entrepreneurial culture and opportunities.

The 2016 edition of the index can be accessed at:

<http://blog.iese.edu/vcpeindex/>

- **Paying Taxes 2017**

Paying Taxes is prepared annually by PwC for inclusion as an indicator in the World Bank Group's Doing Business project. The Paying Taxes indicator is designed to establish an internationally comparable ranking of the ease of paying taxes. The indicator is composed of three measures; total tax rate, time taken to comply and number of tax payments.

The 2017 edition of Paying Taxes can be accessed at:

<http://www.pwc.com/gx/en/services/tax/paying-taxes-2017.html>

- **Venture capital market data**

Information on the level of venture capital investment will be taken from two sources. The primary source is Invest Europe's industry data. Where data gaps exist, the OECD's Entrepreneurship at a Glance publication will be used.

The Invest Europe dataset can be accessed at:

<http://www.investeurope.eu/research/invest-europe-publications/#i>

The 2015 edition of OECD's Entrepreneurship at a Glance publication can be accessed at: http://www.oecd-ilibrary.org/industry-and-services/entrepreneurship-at-a-glance-2015_entrepreneur_aag-2015-en

- **Business angel market data**

Information on the level of business angel investment will be taken from industry sources. The primary data source is the European Business Angel



Network. Where data gaps exist in the European Business Angel Network's market dataset, national business angel associations will be used.¹

The European Business Angel Network's 2015 Statistics Compendium can be accessed at: <http://www.eban.org/wp-content/uploads/2016/06/Early-Stage-Market-Statistics-2015.pdf>

A hierarchy of data sources will be used when preparing the country fiches. Priority will be given to government and institutional sources. In the event of missing or unavailable information, peer-reviewed academic articles and industry reports will be used.

Currency exchange rates used when preparing the country fiches can be accessed at: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00033&plugin=1>. Rates used are as at end of 2015 as indicated in the table.

The content of the country fiches describe the situation in each country as at 31st October 2016. As such, individual country fiches will not capture changes introduced following 31st October 2016.

In addition, the content of the country fiches contains the most up to date data available at the time of writing. As such, individual country fiches may rely on forecast or estimate data.

¹ A lot of business angel investing happens in the so-called invisible market, outside of structures like networks, clubs or matching platforms. Many attempts have been made to generate or extrapolate figures. But all surveys share the same problem in that they are either relatively small scale or unrepresentative of the market.



2. Acknowledgements

The authors of this report would like to recognise the contribution of the following Member State representatives during the country fiche review process.

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Austria	Federal Ministry of Finance
Belgium	Ministry of Finance
Bulgaria	Ministry of Finance
Croatia	Ministry of Entrepreneurship and Crafts
Cyprus	Ministry of Finance
Czech Republic	Ministry of Finance
Denmark	Danish Financial Supervisory Authority
Estonia	Estonian Ministry of Finance
Finland	Ministry of Finance
France	Direction générale du Trésor
Germany	Permanent Representation of Germany to the EU
Greece	Ministry of Finance
Hungary	Ministry for National Economy
Ireland	Permanent Representation of Ireland to the EU
Italy	Ministry of Economy and Finance
Latvia	Ministry of Finance
Lithuania	Ministry of Finance
Luxembourg	Ministry of Finance
Malta	Ministry for Finance
Netherlands	Ministry of Finance
Poland	Ministry of Finance



Country	Affiliation(s)
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Slovenia	Ministry of Finance
Spain	Ministry of Finance and Civil Service Ministry of Economy, Industry and Competitiveness
Sweden	Ministry of Finance
United Kingdom	HM Treasury HM Revenue and Customs

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European Commission


*Effectiveness of tax incentives for venture capital and
business angels to foster the investment of SMEs and start-ups*

EU-28 Country fiches



3. Austria

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Austria	23/125
	Country Sample Ranking	17/36
PwC Paying Taxes - Time to comply (hours) 2017	Austria	131
	Country Sample Ranking	13/36
Venture Capital Investment as a Percentage of GDP 2015	Austria	0.026%
	Country Sample Ranking	10/36
Average Venture Capital Investment per Company 2016	Austria	€0.410m
	Country Sample Ranking	23/36
Business Angel Investment as a Percentage of GDP 2015	Austria	0.0039%
	Country Sample Ranking	13/36
Average Business Angel Investment per Company 2015	Austria	€0.509m
	Country Sample Ranking	25/36



SME Investment Environment
<p>SMEs are the main source of employment and a key driver of entrepreneurialism and innovation in Austria. In 2012, 99.6% of all Austrian enterprises were SMEs. This totaled 1.9m employees and around 68,000 apprentices were trained in Austrian SMEs.ⁱ</p> <p>Overall, investment activities in Austria remained stable through the post-financial crisis period. Bank lending is the main source of external finding for Austrian SMEs. As in many other countries, venture capital investments remain very volatile.</p> <p>Austria is positioned at 111/189 in the 'Ease of Setting Up a Business' section on the 'Starting a Business' indicator in the World Bank's 2017 <i>Doing Business</i> report. This is a five place decline on the previous year.</p>
Venture Capital Market
<p>Total business angel investment in Austria was €16.3m in 2015, growing 9% on 2014.</p> <p>Venture capital investment volumes have been varied over the period 2007 to 2015, alternating between periods of growth and contraction. Venture capital investment stood at €111m in 2015, growing 79% on 2014.</p> <p>Venture capital in Austria has historically focused on start-up and later stage investment. Start-up investment accounted for 35% of total venture capital investment by volume and 29% of recipient companies in 2015. Later stage investment accounted for 56% of total venture capital investment by volume and 9% of recipient companies in 2015, indicating the higher levels of investment per company at this stage.</p> <p>The main sources of cross-border private equity investment (including VC) into Austrian companies are France, Germany, the United Kingdom, the United States, and</p>



Switzerland. These five countries accounted for 92% of all private equity investment in 2015, demonstrating the high exposure to cross-border investment flows in the Austrian private equity market.

General Characteristics of the Tax System ⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a flat rate of 25%.</p> <p>Loss relief is available. Losses can be carried forward indefinitely, but can only be offset against a maximum of 75% of the taxable income in any given year. Losses cannot be carried back.</p>
	Individual	<p>Personal income is taxed at progressive tax rates up to 55%.</p> <p>Business losses or rental losses can be offset with other categories of personal income in the current year. Business losses can be carried forward, but rental losses cannot be carried forward.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains are treated as corporate income and taxed under the corporate income tax regime at a flat rate of 25%.</p> <p>Loss relief is available. Losses can be carried forward indefinitely, but can only be offset against a maximum of 75% of the taxable income in any given year. Losses cannot be carried back.</p>
	Individual	<p>Capital gains are generally subject to 27.5% income tax if the assets have been acquired after 31 December 2010.</p> <p>Realised capital gains from the sale of securities bought before 31 December 2010 ("grandfathered" assets) are generally tax free.</p> <p>The grandfathering provisions do not apply to holdings where the relevant person owned at least 1% of the total issued capital of a company at any time within the five-year period preceding 1 April 2012.</p>
Dividend Tax Rate	Corporate	<p>Dividends received from an Austrian company are exempt from tax. Dividends received from foreign companies may be exempted if certain conditions are met.</p> <p>Dividend withholding tax rate at 27.5% may be reduced under Parent / Subsidiary directive and / or applicable double taxation treaties.</p>
	Individual	<p>Dividend income is generally taxed through withholding tax of 27.5%.</p>
Wealth and Inheritance Taxes	Individual	<p>There are no forms of wealth or inheritance taxes in Austria</p>

Current Tax Incentives

Austria does not currently offer tax incentives to venture capital and business angel investors.



Impact of Current Tax Incentives
Not applicable.
Abolished Tax Incentives
Tax incentivised investment through companies for medium-sized enterprise financing ("Mittelstandsfinanzierungsgesellschaften") has been successfully adopted in the past (§ 6b KStG 1988 idF MiFIGG 2007, BGBl. I Nr. 24/2007): These companies for medium-sized enterprise financing act as a financial intermediary pooling equity from investors and providing it to SMEs. However, the tax incentives associated with this regime (implemented in 2007) have already expired. Hence, according to a Ministerial Council Decision, a more flexible and modern regime for these financing companies is to be established in the foreseeable future, taking into account the changed legal EU-framework for risk capital.
Other Policy Instruments
Government-backed support to young and growing innovative companies is available in other forms in Austria. In 2013, the Austrian Federal Ministry of Economy and the Austrian Federal Ministry of Finance launched a €65m start-up fund (Gründerfonds) to support start-ups and entrepreneurs, demonstrating the increasing importance of public institutions. ⁱⁱⁱ In 2015, two deals signed between Austria Wirtschaftsservice (AWS), an Austrian federal development and financing bank, and the European Investment Fund (EIF) will allow AWS to enter into new loan agreements with SMEs as well as small Mid-caps for a total of €290m over the next two years. ^{iv} In order to encourage start-ups, certain taxes and fees are either not levied, or are reduced as far as they are incurred on the occasion of starting up a business (e.g. real estate tax under certain circumstances, certain charges on labour). The Austrian Crowdfunding Law ("Alternativfinanzierungsgesetz") entered into force in September 2015. The main regulatory changes are: The threshold for the obligation to publish a complete prospectus was raised from an issue volume of €250.000 to an issue volume of €5m and a simplified prospectus was introduced for an issue volume of between €1.5m to €5m. Consequently, the cost of alternative financing for Austrian SMEs was reduced significantly and Austrian SMEs were able to raise more than € 20m only within 2015 and the first two quarters of 2016 ^v
Bankruptcy Law^{vi}
In 2016, insolvency resolution took 1.1 years in Austria, below the OECD average of 1.7 years. Insolvency costs in the country amount to 10.0% of estate, higher than the OECD average of 9.1%.
Assessment
Austria has a growing business angel market, with €16.3m invested in 2015. The venture capital market has fluctuated in recent years, which has resulted in a 79% growth in investment in 2015. Austria does not currently offer tax incentives to venture capital and business angel investors.



However, the Austrian government does use other means to support the growth and innovation of young companies. It has implemented various policies to encourage start-ups, such as by approving new loan agreements for SMEs totaling €290m over the next two years.

Comments from Member State review

The Austrian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Austrian representatives.

References

ⁱ **OECD**, 2016. Financing SME's and Entrepreneurs 2016. OECD [online]. Available URL: http://www.keepeek.com/Digital-Asset-Management/oecd/industry-and-services/financing-smes-and-entrepreneurs-2016_fin_sme_ent-2016-en#page1 [Accessed 8 November 2016].

ⁱⁱ **PricewaterhouseCoopers**, 2016. Worldwide Tax Summaries. PricewaterhouseCoopers [online]. Available URL: <http://www.pwc.com/gx/en/services/tax/corporate-tax/worldwide-tax-summaries.html> [Accessed on 26 October 2016].

ⁱⁱⁱ **Practical Law**, 2016. Venture capital investment in Austria: market and regulatory overview. Practical Law [online]. Available URL: <http://uk.practicallaw.com/9-500-8119?source=relatedcontent> [Accessed on 18 November 2016].

^{iv} **European Commission**, 2015. Austrian SMEs to benefit from €290 million in EU-guaranteed loans. European Commission [online]. Available URL: <http://ec.europa.eu/research/index.cfm?pg=newsalert&year=2015&na=na-130315> [Accessed on 18 November 2016].

^v **Markt Meinung Mensch**, 2016. Markt Meinung Mensch [online]. Available URL: <http://www.marktmeinungmensch.at/studien/crowdfunding-in-oesterreich-2016-zahlen-daten-und/> [Accessed on 10 January 2017].

^{vi} **World Bank**, 2016. Doing Business. World Bank [online]. Available URL: <http://www.doingbusiness.org/> [Accessed on 10 January 2017].



4. Belgium

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Belgium	18/125
	Country Sample Ranking	13/36
PwC Paying Taxes - Time to comply (hours) 2017	Belgium	161
	Country Sample Ranking	18/36
Venture Capital Investment as a Percentage of GDP 2015	Belgium	0.012%
	Country Sample Ranking	22/36
Average Venture Capital Investment per Company 2016	Belgium	€0.228m
	Country Sample Ranking	27/36
Business Angel Investment as a Percentage of GDP 2015	Belgium	0.0023%
	Country Sample Ranking	19/36
Average Business Angel Investment per Company 2015	Belgium	€0.174m
	Country Sample Ranking	15/36
SME Investment Environment		
<p>In 2013, SMEs in Belgium constituted 99.9% of total enterprises, the majority of which were micro-enterprises (94.3%).</p> <p>Belgium's ranking on the Starting a Business Indicator in the World Bank's 2017 <i>Doing Business</i> report increased three places from 20 to 17.</p> <p>SME lending has grown steadily since 2008, in part because of a refocusing of the Belgian banking sector toward domestic lending. Outstanding loans to SMEs increased 32.5% during the period 2007-2014. The Belgian SME sector has historically relied on bank lending, with approximately 52% of start-ups requesting loans for operational purposes in 2014.ⁱ</p> <p>Recent policy measures have attempted to provide greater support to the SME investment environment. The Federal Government introduced the Start-Ups Plan in 2014, which aims to stimulate entrepreneurialism and promote SMEs' access to finance. The main focus of the Plan is the introduction of tax incentives.</p>		
Venture Capital Market		
<p>Total business angel investment in Belgium was €11.5m in 2015, growing 10% in 2014.</p> <p>Venture capital investment had been in decline after the financial crisis, decreasing from €181m in 2007 to €83m in 2010 before growing to €119m in 2014 and then declining again to €62m in 2015.</p>		





The start-up and later stages have historically attracted the most venture capital investment, accounting for the entirety of VC investment in 2015. Investment at the seed stage occurred in prior years but has been relatively small in comparison to other stages, peaking at approximately 9% of VC investment in 2008.

The main sources of cross-border private equity investment (including VC) into Belgian companies are the UK, France, the U.S., the Netherlands, and Luxembourg. These five countries accounted for 70.6% of all private equity investment in 2015. With the exception of inflows from the US, the Belgian private equity market is dependent on relatively localised sources of cross-border investment.

General Characteristics of the Tax Systemⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a rate of 33.99% (33% increased by a 3% crisis surcharge).</p> <p>Companies with taxable profits of below €322,500 and meeting certain conditions are eligible to be taxed at rates between 24.98-35.54%.²</p> <p>Belgian corporate income taxpayers can claim a notional interest deduction (NID). NID is a deemed interest expense in respect of total equity, with some adjustments.³ The NID rate for tax year 2016 (i.e. accounting years ending between 31 December 2015 and 30 December 2016, both dates inclusive) is 1.630% and 2.130% for SMEs (these rates are 1.131% and 1.631% respectively for tax year 2017). Qualifying SME's are defined according to art 15 of the Corporation code.</p> <p>Loss relief is available. Losses can be carried forward indefinitely, but there is no provision to allow for losses to be carried back.</p>
	Individual	<p>Taxed at rates up to 50% (local taxes to be added). Loss relief is available for professional income.</p>
Capital Gains Tax Rate⁴	Corporate	<p>Capital gains realised on shares for which the upstream taxation requirement of the participation exemption are respected and which are held in full ownership for an uninterrupted period of at least one year are exempt for SMEs,⁵ and are taxed at a rate of 0.412% for big companies. In the latter case the realised gains cannot be offset against available tax allowances (e.g. tax losses, NID, etc) and constitutes a minimum taxable basis.</p> <p>Capital gains realised on shares for which the upstream taxation requirement for the participation exemption is respected but which are not held in full ownership for an uninterrupted period of at least one year are taxable at a rate of 25.75% (Crisis</p>

² Indicated rates includes the 3% crisis tax; SME criteria indicated according to Article 215, Section 3 of the Belgian Income Tax Code

³ Provisions and differed taxes are excluded and participations in affiliates are subtracted from the NID base.

⁴ Note that the tax treatment of capital gains is part of the income tax regime; Belgium does not have a separate 'Capital Gains Tax'

⁵ SME criteria indicated according to Article 15 of the Belgian Corporation Code



		<p>surcharge included). The gains can be offset against available tax allowances.</p> <p>Capital gains realised on shares for which the upstream taxation requirement of the participation exemption is not respected are taxable at the above-mentioned standard rate (33.99% or lower rates). The gains can be offset against available tax attributes.</p> <p>Other rules apply: i) for shares in the trading portfolio of certain regulated companies; ii) for shares of so-called 'Private Privaks'; and iii) at the occasion of certain tax-neutral restructurings.</p> <p>As a general principle, capital losses on shares are not tax deductible, except capital losses booked at the occasion of the liquidation of a company up to the loss of paid-up capital represented by the shares.</p>
	Individual	<p>Capital gains on shares realised by an individual within the normal management of the private estate and outside its professional activity are in principle not taxable, but there are exceptions:</p> <ul style="list-style-type: none">a) Gains realised on the disposal of shares in listed companies held for a period of less than six months are taxed at a rate of 33% since 1.1.2016. The Government has announced that this so-called 'speculation tax' will be abolished in the future (2017);b) If the management of shares does not fall within the normal management of the private estate, the realised capital gain on shares would be taxable as miscellaneous income at a rate of 33%; (The burden of the proof lies on the tax administration).c) If the sale of the shares falls within the scope of the professional activity of a Belgian individual (which is rather rare), the capital gain would be taxable as professional income at the progressive rates of the Belgian personal income tax; andd) Capital gains realised by an individual outside the scope of his professional activity upon the transfer of a shareholding that exceeded 25% (indirect holding included) of a Belgian company during the past 5 years to an entity established outside the EEA are taxable at a rate of 16.5%. <p>In principle, only capital losses on the same shares in the same tax year can be deducted from the capital gain.</p>



Dividend Tax Rate	Corporate	<p>Dividend income received by a Belgian company is generally taxable at the standard rate of corporate income tax (33.99% or lower rates), unless the participation exemption can be applied (dividends receive deduction for 95% of the dividend income, subject to conditions).</p> <p>Belgian withholding tax on the dividend income received by a Belgian company that is withheld is in principle creditable and refundable. On dividends distributed by a Belgian company Belgian withholding tax should be withheld at a standard rate of 27% from 1.1.2016 (25% previously) (which will be increased to 30% from 1 January 2017), which could in certain circumstances be reduced or exempted based on Belgian domestic tax law, the Parent/Subsidiary Directive, and/or applicable double taxation treaties.⁶</p>
	Individual	<p>Generally subject to withholding tax of 27% (the rate will be increased to 30% from 1 January 2017). Under certain circumstances a reduced rate of 17% may apply to dividend income received from SMEs (this will be increased to 20% from 1 January 2017).</p>
Wealth and Inheritance Taxes	Individual	<p>There is no wealth tax in Belgium.</p> <p>Inheritance tax is chargeable on transfer of property on death. The rate of tax varies between regions and depends, inter alia, on the degree of kinship, and the qualification and value of the property. Special rules apply for "family enterprises". Rules differ according to the Regions. Tax rates are set at 3-7% (Flanders), (0-3%) Wallonie), 3% (Brussels)</p> <p>Registration duties are charged on gifts requiring a notarial deed. The rate of tax is dependent on the competent region and – inter alia – on the degree of kinship, and the qualification and value of the property. Special rules also apply for gifts relating to assets of family enterprise's (3% for Brussels, 0% in Flanders and Wallonia).</p>
Current Tax Incentives		
1) Tax Shelter for Investments in Start-Ups		
Overview	<p>The Tax Shelter was introduced in 2015 to incentivize investment in start-ups by individual investors.ⁱⁱⁱ</p>	
Qualifying Criteria	<p><i>Business</i> – The business must: i) be a Belgian company or a company established in the EEA with a permanent establishment located in Belgium; ii) be established after 1 January 2013; and iii) meet the criteria of an SME or micro-enterprise. To qualify as an SME, the business must meet at least two of following three criteria for the current closed financial year (on a consolidated basis):</p>	

⁶ Large companies (i.e. not SMEs) are also subject to a fairness tax on all or part of their distributed dividends. The fairness tax is a separate assessment at a rate of 5.15% (5% increased by a 3% surtax) borne by the company distributing the dividends.



	<ul style="list-style-type: none"> • Balance sheet total of no more than €4.5m; • Turnover, excluding VAT, of no more than €9m; • Average annual employee headcount of no more than 50. <p>To qualify as a micro-enterprise, the business must meet at least two of the following three criteria for the previous and current closed financial year:</p> <ul style="list-style-type: none"> • Balance sheet total of no more than €350,000; • Turnover, excluding VAT, of no more than €700,000; • Average annual employee headcount of no more than 10. <p>Certain businesses are excluded from participation, such as: i) listed companies; ii) companies created following a merger or demerger; iii) companies having reduced their capital or having distributed a dividend; iv) companies facing collective insolvency proceedings; v) investment companies, treasury companies, or financing companies; vi) real estate companies; vii) management companies; and viii) companies using the capital raised through the Tax Shelter to distribute dividends, to acquire shares, or to grant loans. Categories (v) to (viii) should be respected for 48 months following the investment in the business.</p> <p><i>Investor</i> – The investor must be a natural person with sufficient Belgian income tax liabilities. Executive managers of the company are not allowed to invest, but their family members and the start-up's employees are able to participate in the Tax Shelter.</p> <p><i>Investment</i> – New share capital issued as from 1 July 2015 and within the first four years following the foundation of the company, up to a maximum of €250,000 per company. The maximum investment attracting tax relief is €100,000 per person per year. Qualifying shares must be fully paid up in cash and may be acquired directly in a qualifying SME or micro-enterprise or indirectly through a qualifying starter funder crowdfunding platform</p> <p><i>Duration</i> – Qualifying investments must be held for a minimum of four years, except in the case of death. If not held for the minimum duration, a recapture rule applies on a monthly basis.</p>
<p>Reliefs Available</p>	<p><i>Tax relief on investment</i> – A tax credit of 30% of the value of the investment in qualifying SMEs, or 45% for direct investments in qualifying micro-enterprises, is available for offset against income tax liabilities.</p> <p><i>Tax relief on income received</i> – No relief on dividend income received.</p> <p><i>Tax relief on disposal</i> – No relief on capital gains or losses realised on disposal (however, see above).</p>
<p>Administration</p>	<p>Current guidance states that the investor must apply for the</p>



	relief through their income tax return. A royal decree will clarify how the application process will work in practice.
Penalties	A recapture rule may apply in certain circumstances (see above).
Impact	No information available.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.700 B-Index value for a large investment (€500,000) – 0.940 Average B-Index value – 0.820</p> <p>For micro-enterprises: B-Index value for a small investment (€50,000) – 0.550 B-Index value for a large investment (€500,000) – 0.910 Average B-Index value – 0.730</p>
2) Tax Treatment of Crowdfunding Loans	
Overview	The changes announced in 2015 to the tax treatment of interest income are intended to incentivise crowdfunding loans to start-ups.
Qualifying Criteria	<p><i>Business</i> – The business (company or natural person) must meet the requirement for a SME (according to the Corporation code, article 15). It must also be a start-up, registered by the Belgian Banque Carrefour des Entreprises (BCE) or similar Authority of another member state EEA for less than 48 months.</p> <p>There are no specific requirements regarding the sector of the business.</p> <p><i>Investor</i> – The investor must be a natural person acting under their private activity. Entrepreneurs, executive managers and key personnel can also benefit from the exemption for loans granted to the company.</p> <p><i>Investment</i> – New interest-bearing loans concluded as from 1 July 2015 to an above mentioned business made through a qualifying crowdfunding platform recognised by the FSMA (or similar Authority of another member state EEA). The loan must have a minimum term of four years, with interest paid annually. The maximum loan value that will attract tax relief is €15,000 (indexed amount for income year 2016) per annum and per taxpayer.</p> <p><i>Duration</i> – There is no set period of time for which the loan must be held for. However, the loan itself must have a minimum term of four years.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – No relief granted on investment.</p> <p><i>Tax relief on income received</i> – Interest income received from a qualifying loan (up to €15,000) is exempt from the final withholding tax</p> <p><i>Tax relief on disposal</i> – No relief granted on gains or losses realised on disposal (however, see above).</p>
Administration	Application through income tax return directly at source.
Penalties	No information available.



Impact	The estimated fiscal cost of this measure is €1.875m for the 2016 tax year. ^{iv}
Generosity	It has not been possible to calculate a B-Index due to the lack of upfront tax relief.



3) Win-Win Lending Scheme (Flanders)	
Overview	The Win-Win Lending Scheme was introduced by the Government of Flanders in 2006. It aims to promote loan financing to PME's by friends and families of the entrepreneur. ^v
Qualifying Criteria	<p><i>Business</i> – Must be: a micro of SME as defined in the European Recommendation;⁷ led either by a self-employed individual or by a legal entity; have an office located in the Flemish Region; be registered with the Crossroads Bank for Enterprises or with a social security institution for self-employed individuals. If the business is company, a commercial form is required.</p> <p>There are no specific provisions regarding the sector. The received money should be entirely used for business purposes. The granting of loans or guarantees is an excluded activity, unless this activity is the main activity of the borrower.</p> <p><i>Investor</i> – The investor must be a natural person living in the Flanders region, or certain non-residents. The investor must not make the loan as part of their normal commercial or professional activities, must not employ or be employed by the borrower and must not be the spouse or legally cohabiting partner of the borrower.</p> <p><i>Investment</i> – Loans with a term of eight years up to a maximum of €50,000 per investor and €200,000 per enterprise.^{vi} The interest rate must be between 50 and 100% of the legal interest rate (2.5% for 2015, 2.25% for 2016 and 2% for 2017)</p> <p><i>Duration</i> – The term of the loan must be eight years. The win-win loan can be anticipatively paid off by the borrower via a single repayment of the balance of the principal and the interests.</p>
Reliefs available	<p><i>Tax relief on investment</i> – No relief on investment.</p> <p><i>Tax relief on income received</i> – Annual tax credit of 2.5% of the value of the loan (max €1,250/partner).</p> <p><i>Tax relief on disposal</i> – In the event that the borrower is unable to repay the loan, totally or partially, the lender receives a one-off tax credit equivalent to 30% of the definitely lost capital sum.</p>
Administration	Application through income tax return.
Penalties	No information available.
Impact	The fiscal cost of the tax credit was €2.5m for 2013 (tax year 2014).
Generosity	B-Index value for a small investment (€50,000) – 0.975 B-Index value for a large investment (€500,000) – 0.998 Average B-Index value – 0.986

⁷ Commission Recommendation 2003/361/EC of 6 May 2003 and its possible modifications



4) Loan "Coup de pouce" (Wallonia)	
Overview	Loan "Coup de pouce" was introduced by the Government of Wallonia to provide a means of promoting loan financing to start-ups by friends and family of the entrepreneur.
Qualifying Criteria	<p><i>Business</i> – The business must meet the definition of an SME, including self-employed individuals working as a main or secondary occupation⁸. It must also meet the definition of a start-up.⁹ It cannot be subject to/fall within the conditions for collective insolvency proceedings, it must have a place of business in the Walloon Region and must pursue an eligible activity.</p> <p>All activities are eligible with the exception of:</p> <ul style="list-style-type: none">• financial services for the benefit of third parties;• treasury investments;• collective capital investments;• construction, acquisition, management, equipment, sale or lease of real property on own account, or holding shares in companies with a similar corporate purpose; and• a company including real property or other rights in rem to such real property, used by natural persons holding office as mentioned in Article 32, paragraph 1, 1°, of the Income Tax Code, their spouse or their children, when those persons or their spouse are legally entitled to the children's income. <p>As far as legal persons are concerned, the business:</p> <ul style="list-style-type: none">• must be a company with a commercial form (civil law or commercial company), an association or a foundation;• cannot be a company set up for concluding management/administration contracts or benefitting most of its profits;• cannot be a listed company;• cannot be set up after the merger of the division of companies; and• a capital reduction or payment of dividends cannot have yet occurred. <p>These above mentioned conditions (Walloon Region, eligible activity, legal persons) must be met for the entire term of the loan.</p> <p><i>Investor</i> – The investor must be a natural person who enters into the loan contract apart from his/her entrepreneurial or business activities. The investor must be liable to personal income tax, as located in the Walloon Region. The investor:</p>

⁸ Staff < 250 FTE **and** turnover ≤ 50,000,000 € or total balance ≤ 43,000,000 €.

⁹ Registration for less than 5 years with the ECB or a social security institution for self-employed.



	<ul style="list-style-type: none">• cannot be employed by the borrower;• cannot be the borrower's spouse or legal cohabitant if the borrower is a self-employed/natural person;• if the borrower is a legal person, the creditor, as well as his/her spouse/legal cohabitant, cannot be directly or indirectly this legal person's partner or shareholder, nor has been appointed or acting as director, manager, day-today manager or having a similar mandate within this legal person, nor holds office as director, manager, liquidator or similar function, as permanent representative of another company; and• cannot be the borrower under another "Helping Hand" Loan / Boosting Loan. <p>All conditions must be met for the entire term of the loan.</p> <p><i>Investment</i> – Fixed term loans up to a maximum of €50,000 per creditor or €100,000 per borrower, with an interest rate between 1.125% and 2.25% (legal rate applicable in 2016). The loan must be repaid in one instalment at the end of the duration period. The loan cannot be anticipatively paid off, neither totally nor partially. Interest is paid annually on the agreed due dates. The loan shall be subordinated as well to the company's existing debts as to the future debts. The borrowed amounts must be exclusively used by the borrower for performing the business activity of the company.</p> <p>Loans raised after 1 January 2016 (contracting date = date on which the amounts are released) are eligible. The creditor must introduce a registration application within three months following the date on which the amounts have been released or the entry into force of the implementation decree (30 September 2016) and on 31 December 2017 at the latest.</p> <p><i>Duration</i> – The loan must be made with a fixed term of four, six or eight years.</p>
Reliefs available	<p><i>Tax relief on investment</i> – The investor is entitled to an annual tax credit, either creditable or refundable, which can be set against their income tax liability. The credit is 4% of the loan value for the first four taxable periods from the period in which the loan was issued. The credit is then reduced to 2.5% of the loan value for the remainder of the term of the loan, up to a maximum of the following four taxable periods.</p> <p><i>Tax relief on income received</i> – No relief on interest income.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
Administration	The investor must apply for the relief through their income tax return.
Penalties	The tax advantage shall be lost in certain circumstances.



	Sanctions shall apply to the borrower in certain circumstances.
Impact	No information available.
Generosity	B-Index value for a small investment (€50,000) – 0.960 B-Index value for a large investment (€500,000) – 0.996 Average B-Index value – 0.978
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
Government-backed support to young and growing innovative companies is available in other forms in Belgium.	
In response to challenging financing conditions, direct loans and loan guarantees were made available to SMEs at the regional level. The nature and generosity varies between regions. For the period 2007-2013, €1.1bn was spent in the Walloon region on SME loans and loan guarantees.	
Bankruptcy Law^{vii}	
In 2016, insolvency resolution took 0.9 year in Belgium, some way below the OECD average of 1.7 years.	
Insolvency costs in the country amount to 3.5% of estate, also much lower than the OECD average of 9.1%.	
Assessment	
Business angel investment grew to €11.5m in 2015, whereas venture capital investment declined by almost half to €62m.	
Belgium offers four tax incentives to venture capital and business angel investors, with two of these being offered at the subnational level. These were ranked as follows in the benchmarking component of this study:	
<ul style="list-style-type: none"> • Tax shelter for investments in start-ups – 25th (joint) • Tax treatment of crowdfunding loans – 25th (joint) • Win-Win Lending Scheme – 34th • Loan “Coup de pousse” (Wallonia) – 25th (joint) 	
The schemes provide a number of forms of relief to individual investors. Tax shelter for investments in start-ups and Loan “Coup de pousse” (Wallonia) provide upfront relief (recommended practice), whereas Tax treatment of crowdfunding loans and the Win-Win Lending Scheme provide relief on returns. Only the Win-Win Lending Scheme provides loss relief on a more favourable basis than the baseline tax system (relief for default).	
In terms of qualifying criteria, all schemes adhere to good practice on investment limits, minimum holding periods, targeting new investment and business size targeting. However, performance is mixed across business age and sector targeting, cross-border investment targeting and targeting debt or equity (Tax treatment of crowdfunding loans and the Win-Win Lending Scheme only target debt investment).	
The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual	



impact monitoring.

Two of Belgium's schemes have been highlighted in this report as displaying good practice. The tax treatment of crowdfunding loans scheme is the only tax incentive in the country sample that is specifically targeted to investors in SMEs through crowdfunding platforms. As such, it has been highlighted because of the novelty of its approach. The tax shelter for start-ups scheme was also highlighted as good practice. 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.

The Belgian government also provides other forms of support to growing companies, such as direct loans and loan guarantees at a regional level.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Belgian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Belgian representatives.

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5. Bulgaria

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Bulgaria	55/125
	Country Sample Ranking	30/36
PwC Paying Taxes - Time to comply (hours) 2017	Bulgaria	453
	Country Sample Ranking	36/36
Venture Capital Investment as a Percentage of GDP 2015	Bulgaria	0.004%
	Country Sample Ranking	30/36
Average Venture Capital Investment per Company 2016	Bulgaria	€0.004m
	Country Sample Ranking	28/36
Business Angel Investment as a Percentage of GDP 2015	Bulgaria	0.0077%
	Country Sample Ranking	6/36
Average Business Angel Investment per Company 2015	Bulgaria	€0.091m
	Country Sample Ranking	5/36
		
SME Investment Environment		
<p>The value added by SMEs to the non-financial business economy equaled 62% in 2014, above the EU average of 58%. In the same year, employment stood at 76%, which was significantly higher than the EU average of 67%. The two indicators have followed divergent trends, with the value added bouncing back to 2008 levels and employment remaining at 7% below pre-crisis levels in 2014. The SME sector was dealt a serious blow by the financial crisis and its recovery since 2009 has been slow. This has been attributed to uncertainty in the business environment. For the period 2014-2016, healthy growth in terms of value added has been forecast, while job creation is expected to be slow. Notably, micro enterprises (0-9 employees) are expected to be a key driver of job creation, with forecasted employment growth of 6% driven by so-called 'necessity entrepreneurship' related to the financial crisis.ⁱ</p> <p>Bulgaria progressed from position 58 in the 2014 edition of World Bank's <i>Doing Business</i> report to position 39 in the 2017 edition. However, both the <i>Starting a Business</i> indicator and the <i>Paying Taxes</i> indicator dropped, respectively from place 65 to 82 and from place 81 to 83. Corruption continues to be a challenge, constraining the development of infrastructure through its negative impact on the utilization of EU funds.ⁱⁱ</p> <p>Access to debt finance for Bulgarian SMEs leaves room for improvement. The country occupies 32nd place in the <i>Getting Credit</i> sub-index of World Bank's 2017 <i>Doing Business</i> report. At the same time, the European Commission's 2015 <i>SBA Fact Sheet</i> report underlines a deterioration in the availability of both bank finance and public financial</p>		



support.ⁱⁱⁱ

Venture Capital Market^{iv}

The venture capital market was worth €1.1m in 2015, and Invest Europe reports that only one company benefitted from that financing – a company in the computer and consumer electronics sector, at the start-up phase. The previous years saw quantities that were larger, but still rather low in relation to national GDP, averaging less than €3m in the period 2007-2015. The median number of portfolio companies financed during that time was 3. These values place Bulgaria in the lower tier of countries with respect to the development of the venture capital.

Business angel investment amounted to €4.3m in 2015, €3.3m in 2014, and €2.9m in 2013, exceeding the average venture capital investment in the period 2007-2015. EBAN does not quote data for earlier periods, while the European Commission estimates the 2009-2010 business angel investment level at levels below €0.2m.

The capital Sofia has been occasionally touted as a potential regional hub of start-ups and seed investment.^v

General Characteristics of the Tax System^{vi}

Income Tax Rate	Corporate	<p>Corporate income is taxed at a flat rate of 10%.</p> <p>Losses can be carried forward for a period of five years.</p> <p>The incomes from interest payments on bonds or other debt instruments issued by a resident legal person, the state and the municipalities and admitted to trading on the Bulgarian or on the EU/EEA regulated markets are exempted from withholding taxation</p>
	Individual	<p>Personal income is taxed at a flat rate of 10%. There is no specific loss relief envisioned for self-employed individuals. However the taxable income of self-employed individuals is reduced by 25%-60%, depending on the specific type of the exercised activity.</p> <p>Interest income and discounts made on Bulgarian government, municipal and corporate bonds or on similar bonds issued according to the legislation of the EU/EEA are exempted from taxation.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains tax is aggregated with corporate income and are taxed at the same rate of 10%.</p> <p>Losses can be carried forward for the period of up to five years.</p> <p>In determining the tax financial result, the accounting financial result shall be debited with any profit or shall be credited with any loss from disposition of units and shares in collective investment schemes and in national investment funds, shares, rights and government securities, effected on a regulated market or a repurchase or redemption by collective investment schemes which have been admitted to public offering in Bulgaria or in the EU/EEA</p>
	Individual	<p>Capital gains are taxed at 10%.</p>



		<p>Loss relief applies to the sale of financial assets. Such losses may be offset with gains from the sale of other financial assets in the same calendar year.</p> <p>Incomes accruing from units and shares in collective investment schemes and in national investment funds, shares, rights and government securities, effected on a regulated market or a repurchase or redemption by collective investment schemes which have been admitted to public offering in Bulgaria or in the EU/EEA are exempted from taxation.</p>
Dividend Tax Rate	Corporate	<p>The received income from distribution of dividends by resident legal persons or persons who are resident for tax purposes in the EU/EEA is not recognised for tax purposes.</p> <p>Dividends paid to non-resident legal persons and resident legal persons, which are not merchants, are subject to a 5% withholding tax.</p> <p>The dividends and shares in a liquidation surplus distributed to a non-resident legal person which is resident for tax purposes in the EU/EEA, mutual funds and a resident legal person which participates in the capital of the company as a representative of the State are exempted from withholding tax.</p> <p>Dividends that fall outside of the scope of those exemptions are aggregated with corporate income and are taxed at the rate of 10%.</p>
	Individual	<p>Dividend and liquidation proceeds incomes are subject to withholding tax at a rate of 5%.</p>
Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth taxation in Bulgaria.</p> <p>Inheritance tax is charged at rates of 0.4%-6.6% above of BGN 250,000 (€127,823) or 0%, depending on the relationship of the beneficiary and the municipality in question.</p>
Current Tax Incentives		
Bulgaria does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no instances of tax incentives envisaged for venture capital and business angel investment in SMEs and start-ups during the period 2006-2016.		
Other Policy Instruments		
Like other countries in the region, Bulgaria relies on public institutional investors to close the financing gap in the SME sector. ^{vii} This includes EU's instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint		



initiative of the European Investment Bank, the European Investment Fund and DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes, with the rest being channelled into loan and guarantee schemes.

In Bulgaria, JEREMIE funds include the Acceleration & Seed Fund, which provides equity and quasi-equity capital to SMEs in order to stimulate knowledge-based start-ups. The funds earmarked for the 2014-2020 financial perspective amount to €55m.^{viii}

Bankruptcy Law^{ix}

Insolvency resolution took 3.3 years in Bulgaria, some way above the OECD average of 1.7 years.

Insolvency costs in the country amount to 9.0% of estate, just lower than the OECD average of 9.1%.

Assessment

Bulgaria has a small business angel and venture capital market, with investments totaling €4.3m and €1.1m respectively in 2015. This is relatively low in comparison to national GDP and demonstrates limited development in the sector.

Bulgaria does not currently offer tax incentives to venture capital and business angel investors.

However, the government does offer other forms of support to start-ups and SMEs. These include the EU initiative known as JEREMIE, which provides loans and guarantees, as well as the Acceleration & Seed fund which has earmarked €55m for investments to 2020.

Comments from Member State review

The Bulgarian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Bulgarian representatives.

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6. Croatia

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Croatia	80/125
	Country Sample Ranking	36/36
PwC Paying Taxes - Time to comply (hours) 2017	Croatia	206
	Country Sample Ranking	27/36
Venture Capital Investment as a Percentage of GDP 2015	Croatia	0.002%
	Country Sample Ranking	29/36
Average Venture Capital Investment per Company 2016	Croatia	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Croatia	0.0006%
	Country Sample Ranking	26/36
Average Business Angel Investment per Company 2015	Croatia	€0.070m
	Country Sample Ranking	1/36



SME Investment Environment
<p>The Croatian SME sector has been hit hard by the financial crisis. The 2016 value added by SMEs to the non-financial business economy is expected to be around 80%, and the sectoral employment to be around 90% of the pre-crisis levels. In 2014, these indicators stood at 67.4% and 55.2% respectively, compared to the EU averages of 66.9% and 57.8%. Productivity per capita remains relatively low. However, the information and communication sector, so crucial to the venture capital and business angel markets, has followed the opposite path. The information and communication sector boasts high productivity and has been frequently used by the public sector to implement state-of-art technologies.ⁱ The sector has also increased by 27% in value added and 22% in employment since 2008.ⁱⁱ</p> <p>As of 2017, Croatia occupies position 43 in World Bank's <i>Doing Business</i> ranking, which is same place as the last edition. Both the <i>Starting a Business</i> and <i>Paying Taxes</i> sub-indices remained the same, respectively 95 and 49. Tax administration requires streamlining, as the time to comply with tax obligations now consumes 206 man-hours (EU & EFTA average of 173 man-hours). However, Croatia has the lowest total tax rate of all the EU & EFTA states – 20% in in relation to the average of 40.6%.ⁱⁱⁱ</p> <p>The access to finance for Croatian SMEs can be described as mediocre. In particular, bad debt loss is a problem, with the highest percentage of receivables that had to be written off out of all the EU countries in 2014 (10% versus the EU average of 4%).^{iv}</p> <p>Croatia occupies position 75 in the <i>Getting Credit</i> sub index of World Bank's 2017 <i>Doing Business</i> ranking. On a positive note, Croatian banks are relatively well capitalised and liquid, which holds a promise of freeing up resources for the home market directly or through public intermediation.^v</p>
<p>Venture Capital Market^{vi}</p> <p>Only €300,000 exchanged hands on the Croatian venture capital market in 2014 – all of it at the later-stage phase. In the previous year, the volume of the later-stage financing phase</p>



was also €300,000, but it was accompanied by €6.2m of investment in the start-up phase. No further disaggregate data (at the company or sector level) is available for these years and for other years.¹⁰

Business angel investment was also limited and has followed a downward trend: €350,000 in 2015, €400,000 in 2014 and €800,000 in 2013. There is one business angel network in Croatia, Crane, which brings together 28 business angels. Since its establishment in 2008 until 2015 its members have invested HRK 20m (€2.6m) in Croatian companies.^{vii}

General Characteristics of the Tax System^{viii}

Income Tax Rate	Corporate	<p>Corporate income is taxed at a flat rate of 20%. However, the newly proposed amendments to the Corporate Income Tax Act prescribe a flat rate of 18% if receipts of the tax period have exceeded HRK 3m, or 12% if the receipts of the tax period have not exceeded this threshold. These rates should be applicable as of 1 January 2017. Reinvested profits (meaning the increase of registered capital for profits) are exempt from taxation, however this is for FY 2016 only, as this relief will most probably be abolished from FY 2017 according to the proposed amendments.</p> <p>Loss relief is available. Losses can be carried forward for a period of five years. Losses may not be carried back.</p>
	Individual	<p>There are three tax thresholds applicable to personal income: 12% for income below HRK 26,400 (€3,500); 25% for income in excess of HRK 26,400 but below HRK 158,400 (€21,100); and 40% for income in excess of HRK 158,400 (annual amounts).</p> <p>However, the newly proposed amendments to the Personal Income Tax Act prescribe only two thresholds applicable to personal income: 24% for income below HRK 210,000 (€28,000) and 36% for income in excess of HRK 210,000 (annual amounts).</p> <p>Loss relief is available. Losses can be carried forward for a period of five years. Losses may not be carried back.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains are aggregated with corporate income and taxed at a rate of 20%.</p> <p>As explained above, as of 1 January 2017 this rate will be reduced to 18% or 12%.</p> <p>Losses can be carried forward for a period of up to five years. Losses may not be carried back.</p>
	Individual	<p>Gains from the sale of shares purchased after 1 January 2016 and disposed of within three years are taxed at 12% (previously tax exempt).</p> <p>No tax relief for losses available for individuals as of 1 January 2016.</p>
Dividend Tax Rate	Corporate	<p>Dividends paid to resident companies are not subject to corporate income tax.</p>

¹⁰ Invest Europe aggregates the data from Croatia with those from the other former Yugoslav republics and Slovakia.



		Dividends paid to non-resident companies are subject to a 12% withholding tax. The EU parent-subsidiary exemption applies.
	Individual	Dividend income is taxed at 12%. A city surtax may apply. There is no additional withholding tax on dividends paid to individuals.
Wealth and Inheritance Taxes	Individual	There is no form of wealth taxation in Croatia. Transfers of assets, including securities, with an individual market value in excess of HRK 50,000 (€6,700) are subject to a 5% inheritance and gift tax. Transfers between immediate relatives are exempt from taxation.
Current Tax Incentives		
Croatia does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
Government-backed support to young and growing innovative companies is available in other forms in Croatia. The amendment of the company code (Zakon o trgovačkim društvima) brought the introduction of the simple limited liability company, which has contributed to increases in the number of new company registrations. ^{ix} Public policy is deployed to address the financing gap through a variety of instruments, including public financing of start-ups, credit guarantee schemes, loans, and instruments that combine debt and equity. Moreover, it was recently announced that a loan guarantee facility for innovative Croatian SMEs has been agreed between The European Investment Fund (EIF) and Hrvatska banka za obnovu i razvitak (HBOR). The facility, known as InnovFin, was launched as part of the Investment Plan for Europe and was backed under Horizon 2020. It is expected that the facility will generate HRK 150m (approx. €20m) of new loans for innovative Croatian SMEs. ^x		
Bankruptcy Law^{xi}		
In 2016, insolvency resolution took 3.1 years in Croatia, placing the country well above the OECD average of 1.7 years. Insolvency costs in the country amount to 14.5% of estate, also exceeding the OECD average of 9.1%.		
Assessment		
Business angel investment in Croatia has been on the decline in recent years, with only €350,000 invested in 2015. Similarly, venture capital investment only amounted €300,000 in 2014 and was solely focused on later-stage financing, with no investment in start-ups. Croatia does not currently offer tax incentives to venture capital and business angel investors.		



The government provides other forms of support to start-ups and SMEs. These include the recently announced loan guarantee facility backed by the European Investment Fund, which is expected to contribute HRK150m in loans, and the introduction of the new company code, which has seen the number of new company registration increase.

Comments from Member State review

The Croatian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Croatian representatives.

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7. Cyprus

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Cyprus	67/125
	Country Sample Ranking	34/36
PwC Paying Taxes - Time to comply (hours) 2017	Cyprus	127
	Country Sample Ranking	10/36
Venture Capital Investment as a Percentage of GDP 2015	Cyprus	-
	Country Sample Ranking	N/A
Average Venture Capital Investment per Company 2016	Cyprus	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Cyprus	0,0029%
	Country Sample Ranking	15/36
Average Business Angel Investment per Company 2015	Cyprus	€0.207m
	Country Sample Ranking	16/36

SME Investment Environment
<p>The value added by SMEs to the non-financial business economy equalled 73% in 2014, compared to the EU average of 58%. In the same year, employment in the SME sector stood at 83%, which was significantly higher than the EU average of 67%. The two indicators have followed very similar trends, contracting heavily especially between 2011 and 2014. Notably, SME value added fell by 28% over the years 2008-2014, while unemployment rose to the level of 16.4% by the end of that period. The sector was not initially dealt a blow as hard as was the case in the other countries of the Eurozone periphery at the onset of the crisis in 2008. Instead, it was the banking crisis that ushered in strong contracting dynamics, as the abrupt liquidity drop led to a substantial decrease of spending power. For the period 2015-2016, the SME sector is expected to bounce back, especially in terms of employment. Despite the return to growth, the value added may not return to its pre-crisis value by that time.ⁱ</p> <p>In World Bank's <i>Doing Business</i> ranking, Cyprus progressed from position 64 in the 2015 edition to position 45 in the 2017 edition. The <i>Starting a Business</i> indicator improved by 25 positions during the same period (from 88 to 53) thanks to reducing the number of tax procedures and accelerating the procedures related to company name reservation. During that period, Cyprus also managed to successfully address two chronic hurdles to entrepreneurship and economic efficiency. Namely, <i>Getting Electricity</i> moved by as many as 97 ranks to reach position 63, and <i>Resolving Insolvency</i> moved by 35 ranks, from position 51 to 16. Cyprus has a strongly outward looking service-based economy, which has been developed as an international</p>



business centre. The principal barriers to growth that the economy is currently facing are linked to the restoration of confidence and liquidity in the banking sector.ⁱⁱ

Access to debt finance for Cypriot SMEs remains challenging. The country occupies rank 62 in the *Getting Credit* sub-index of World Bank's 2017 *Doing Business* report, down from rank 42 in the report's previous edition. The slip in the ranking was largely caused by the decision in the country to stop the distribution of historical credit data. The European Commission's 2015 *SBA Fact Sheet. Cyprus* report still lists the country's access to finance, together with its state administration, among the bottlenecks in the national economy.

Venture Capital Market

No information on the venture capital market in Cyprus is available in the published sources.

The level of business angel investment in Cyprus has been around €0.6m per annum over the period 2013-2015. As of 2016, there is one business angel network active in the country, 47 registered business angels, and 3 enterprises that have benefitted from business angel investment.ⁱⁱⁱ

General Characteristics of the Tax System^{iv}

Income Tax Rate	Corporate	Corporate income is taxed at a flat rate of 12.5%. Loss relief is available. Losses can be carried forward for a period of 5 years, but may not be carried back.
	Individual	Personal income is taxed at progressive rates of 0% for income below €19,500, 20% for income between €19,501 and €28,000, 25% for income between €28,001 and €36,300, 30% for income between €36,301 and €60,000 and 35% for income in excess of €60,000. Loss relief is available for self-employed individuals. Losses can be carried forward for a period of five years, but may not be carried back.
Capital Gains Tax Rate	Corporate	In general, there is no capital gains tax on the disposal of shares. There is an exception: a rate of 20% is imposed on gains from the sale of shares in unlisted companies that own immovable property located in Cyprus. No relief on capital losses for assets that are exempt from taxation (e.g. shares).
	Individual	In general, there is no capital gains tax on the disposal of shares. There is an exception: a rate of 20% is imposed on gains from the sale of shares in unlisted companies that own immovable property located in Cyprus. No relief on capital losses for assets that are exempt from taxation (e.g. shares).
Dividend Tax Rate	Corporate	The standard tax rate for dividends is 17%. Dividends distributed between resident companies are



		<p>tax-exempt.</p> <p>Dividends received from a non-resident company are exempt from tax at 17% provided that:</p> <ul style="list-style-type: none"> a) at least 50% of the paying company's activities result directly or indirectly in active/trading (non-investment) income; or b) the foreign tax on income of the foreign company paying the dividend is not substantially lower than the Cyprus tax burden (i.e. taken to mean not lower than 6.25%) <p>Dividends paid to non-resident shareholders (companies and individuals) are not subject to any withholding tax.</p>
	Individual	<p>Dividends paid to a resident are subject to the Special Contribution for Defence (SCD) at 17%, applied as a withholding tax when paid by companies resident in Cyprus, otherwise payable by self-assessment if received from non-Cyprus resident companies.</p> <p>Dividends paid to a non-resident shareholders (companies and individuals) are not subject to any withholding tax.</p>
Wealth and Inheritance Taxes	Individual	There is no form of wealth or inheritance taxation in Cyprus.
Current Tax Incentives		
Cyprus does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
<p>Government-backed support to young and growing innovative companies is available in other forms in Cyprus.</p> <p>Cyprus relies on public institutional investors to close the financing gap in the SME sector. This includes the EU's instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint initiative of the European Investment Bank, the European Investment Fund, and DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes, with the rest being channelled into loan and guarantee schemes.</p> <p>Most recently, JEREMIE III had the total funding of €16m. It was expected that more</p>		



than 200 businesses would benefit from the scheme.

Bankruptcy Law^v

In 2016, insolvency resolution took 1.5 years in Cyprus, below the OECD average of 1.7 years.

Insolvency costs in the country amount to 14.5% of estate, substantially higher compared to the OECD average of 9.1%.

Assessment

Cyprus has a small business angel market with investments of only €0.6m over the period 2013-2015, and only 47 registered business angels in 2016.

Croatia does not currently offer tax incentives to venture capital and business angel investors.

The government provides other forms of support to start-ups and SMEs. These include the JEREMIE fund, which is expected to benefit more than 200 businesses with its €16m funding earmarked for the growth of venture capital activity, as well as loan and guarantee schemes.

Comments from Member State review

The Cypriot authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Cypriot representatives.

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8. Czech Republic

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Czech Republic	56/125
	Country Sample Ranking	31/36
PwC Paying Taxes - Time to comply (hours) 2017	Czech Republic	234
	Country Sample Ranking	30/36
Venture Capital Investment as a Percentage of GDP 2015 (Invest Europe)	Czech Republic	0.001%
	Country Sample Ranking	32/36
Average Venture Capital Investment per Company 2015 (Invest Europe)	Czech Republic	€0.238m
	Country Sample Ranking	26/36
Business Angel Investment as a Percentage of GDP 2008 (European Commission)	Czech Republic	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company	Czech Republic	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>The SME sector in Czech Republic has rebounded after the lean crisis years, but has yet to return to pre-2008 levels. In 2014, the contribution of SMEs to value added in the non-financial business economy was 55.5%, corresponding to around 90% of the pre-crisis level. This indicator is projected to fully recover by 2016. SME employment in 2014 was 69.6%, slightly below 2008 levels, and is forecast to stay there for near future.ⁱ</p> <p>The Czech business environment was rated 27th out of 190 in the 2017 edition of World Bank's <i>Doing Business</i> report, achieving the status of the top EU improver in relation to the 2014 edition, when it was ranked 75th. Particularly impressive progress was made in the area of taxation. The <i>Paying Taxes</i> indicator improved by 69 places to reach position 53 from 122 in the 2016 edition (which was the lowest score in the CEE region and the second lowest position in the entire EU, after Italy). The country also improved its <i>Starting a Business</i> indicator to arrive at position 81 from 93 in the 2016 edition and from 146 in the 2014 edition. Last year, an improvement in company registration was introduced in the form of an online platform for notary procedures.ⁱⁱ</p>		





The financial crisis caused a substantial contraction in SME lending, with lending volumes reduced by 41% in the period 2007-2010. At present, Czech SMEs enjoy good access to debt financing compared to other Member States. The Czech Republic scores above the EU average in the European Commission's *SME Access to Finance (SMAF)* index and ranks 32nd in the *Getting Credit* category of the *Doing Business* report. At 8.5%, the rate of rejected loan applications and unacceptable loan offers was half of the EU average in 2014. The cost markup of borrowing to small firms relative to large firms was close to the EU average. Importantly, businesses themselves rated their access to bank loans and public financing with more optimism than their counterparts in other Member States. Indeed, since 2015 the demand for loans was on the rise as average interests were dropping and credit standards were being relaxed. This upsurge in the credit market has been attributed to favorable expectations regarding the national economy.ⁱⁱⁱ

Venture Capital Market

Publicly available information on the business angel investment in the Czech Republic is not available.

The value of the Czech venture capital market stood at approximately €1.7m in 2015 (most of it channeled at the start-up phase, with small amounts at the seed and later stage) and represented investment in just 7 companies.^{iv} This was much less compared to the years 2008-2009, when the market was peaking around €30m (with the bulk of the investment at the later stage venture), before contracting over the next five years. In fact, the country now occupies the last position in the *Equity Finance* subcategory of the SMAF index.^v

IT and consumer goods, which dominated venture capital portfolios in the previous years, were named as particularly promising industries. Indeed, the bulk of venture investment was in the communications sector and the computer and consumer electronics sector, with occasional transfers in the energy and environment sector and recently also in consumer goods and retail.

Although most of cross-border PE and VC investments come from Poland, the largest originate from large funds in the UK, sometimes in the US. However, such large transactions are usually sporadic.

Similarly to other CEE countries, Czech Republic suffers from shortage of institutional investment in private equity. Legislation in Czech Republic effectively discourages pension funds from investing in private equity. One category of pension funds, the so-called transformed funds (*transformované fondy*), allows a maximum of 5% alternative investment, including private equity. However, the return guarantee that applies to transformed funds leads to underinvestment in projects with higher risk profiles. The other category of pension funds, the so-called participating funds (*účastnické fondy*), entirely precludes investment in private equity.^{vi}

General Characteristics of the Tax System^{vii}

Income Tax Rate	Corporate	Corporate profits are taxed at a rate of 19%. Loss relief is available. Losses can be carried forward for a period of five years. Losses may not be carried back.
	Individual	Personal income is taxed at a flat rate of 15%. Income in excess of 48 times the average monthly



		<p>salary (i.e. in excess of CZK 1,296,288 in 2016, or approximately €48,000¹¹) is subject to 7% "solidarity contribution" surcharge. The surcharge applies to employment and entrepreneurial activity.</p> <p>Loss relief is available. Losses can be carried forward for a period of five years. Losses may not be carried back.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains are realised on the sale of assets are treated as corporate income and subject to corporate income tax at a rate of 19%. Exemptions are available.</p> <p>Participation exemption applies if the company whose shares are sold is EU-resident and the conditions analogical to the dividend exemption under the EU parent subsidiary directive are fulfilled; under certain conditions capital gain from sale of shares in non-EU subsidiaries can also be exempt from taxation. Other exemptions may follow from tax treaties.</p> <p>Loss relief is available. Losses can be carried forward for a period of five years. Losses may not be carried back.</p>
	Individual	<p>Capital gains realised on the disposal of assets are treated as personal income and taxed under the personal income tax regime at 15%.</p> <p>Capital losses from the sale of securities can be offset against capital gains from other securities in the current period. No loss carryforwards possible.</p>
Dividend Tax Rate	Corporate	<p>Dividend income received by corporations is generally taxed at a rate of 15%, unless exempt under the participation exemption.</p> <p>Dividends received from non-resident companies are subject to 15% tax. Dividends received from resident companies are subject to 15% withholding tax.</p> <p>Withholding tax of 35 % applies when dividends are paid to a resident of non-treaty countries.</p>
	Individual	<p>Dividend income is treated as personal income and taxed under the personal income tax regime at 15%.</p> <p>Dividend income received by Czech residents is taxed via a withholding tax.</p> <p>Withholding tax of 35 % applies when dividends are paid to a resident of non-treaty countries.</p>
Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth tax in Czech Republic.</p> <p>Transfers of property (gifts and inheritance) are subject to tax at a rate of 15%. Various exemptions</p>

¹¹ Exchange rate as of November 15th 2016.



	are available. Income from inheritance is exempt from taxations.
Current Tax Incentives	
The Czech Republic does not currently offer tax incentives to venture capital and business angel investors.	
Impact of Current Tax Incentives	
Not applicable.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
Government-backed support to young and growing innovative companies is available in other forms in Czech Republic.	
<p>The GUARANTEE programme, which is administered by the Czech Moravian Guarantee and Development Bank, cooperates with private banks on a contractual basis to provide SMEs with partial guarantees that amount to 70% of the loan. In 2014 alone, it issued 1,952 guarantees for the total amount of CZK 4bn (approx. €150m), enabling SMEs to access loans for the total amount of CZK 5.7bn (approx. €211m).</p> <p>Unlike a number of other CEE Member States, such as Slovakia or Hungary, Czech Republic does not participate in the JEREMIE funds programme. The government recently approved a programme to support early stage venture capital in the Czech Republic. The programme suggests the investment of € 50m from the EU OP PIK in a) a Fund of fund structure managed initially by the EIF, b) a direct co-investment fund and c) a proof-of-concept fund (b) and c) to be managed by the National Innovation Fund, investment company a.s.). Also, there are ongoing negotiations about the Czech Republic's participation in a Central European Fund of funds, co-financed by the EIF and targeting later stage venture capital and growth capital funds.^{viii}</p>	
Bankruptcy Law^{ix}	
<p>In 2016, insolvency resolution has decreased from 6.5 years in 2008 to 2.1 years. However, this remains above the OECD average of 1.7 years.</p> <p>Insolvency costs in the country amount to 17% of estate, substantially higher compared to the OECD average of 9.1%.</p>	
Assessment	
<p>The Czech Republic's venture capital market has declined in recent years, with the value of investment in 2015 standing at ~€1.7m.</p> <p>The Czech Republic does not currently offer any tax incentive schemes for venture capital and business angel investors.</p> <p>The government provides other forms of support to start-ups and SMEs, such as through the GUARANTEE scheme which grants partial loan guarantees (70%) to SMEs.</p>	

Comments from Member State review

The Czech authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Czech representatives.



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9. Denmark

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Denmark	12/125
	Country Sample Ranking	8/36
PwC Paying Taxes - Time to comply (hours) 2017	Denmark	130
	Country Sample Ranking	11/36
Venture Capital Investment as a Percentage of GDP 2015	Denmark	0.024%
	Country Sample Ranking	13/36
Average Venture Capital Investment per Company 2016	Denmark	€1.730m
	Country Sample Ranking	8/36
Business Angel Investment as a Percentage of GDP 2015	Denmark	0.0070%
	Country Sample Ranking	7/36
Average Business Angel Investment per Company 2015	Denmark	€0.137m
	Country Sample Ranking	8/36
SME Investment Environment		
<p>SMEs accounted for 99.4% of enterprises in Denmark in 2013. In 2012, the SME sector provided employment for 65% of those in employment and generated 57% of total value added in the Danish economy.ⁱ</p> <p>Popularity of debt finance among Danish SMEs has declined post-financial crisis, with the percentage of SMEs applying for loan financing falling from 44% in 2010 to 34% in 2014. Equity financing for Danish SMEs fell during the crisis and the rate of recovery has remained moderate.ⁱⁱ</p> <p>SME financing was affected by the financial crisis and recession in 2008 and 2009. A 2010 survey reported that 37% of Danish SMEs find access to finance more difficult or much more difficult than in the pre-crisis period. However, the financing situation has improved somewhat in recent years, with 40% of Danish SMEs stating that the financing situation in 2015 was good or very good.ⁱⁱⁱ</p> <p>Denmark is 3rd in overall rating of World Bank's 2017 <i>Doing Business</i> report, and moved up 5 places to 24/189 on the Starting a Business Indicator.</p>		
Venture Capital Market		
<p>Total business angel investment in Denmark was €23m in 2015, growing 16% on 2014.</p> <p>Venture capital investment volumes have been volatile in recent years, but have declined over the period 2007-2015 from €208m to €78m. Similarly, the number of companies receiving venture capital investment has decreased from 84 in 2007 to 45 in 2015.</p> <p>Venture capital in Denmark has historically focused on start-up and later-stage investment. Start-up investment accounted for 50% of total venture capital investment by volume and 58% of recipient companies in 2015. Later stage</p>		





investment accounted for 47% of total venture capital investment by volume and 33% of recipient companies in 2015.

The main sources of cross-border private equity investment (including VC) into Danish companies are the UK, Sweden, France, Switzerland, and the Netherlands. These five countries accounted for 45.9% of all private equity investment in 2015.

General Characteristics of the Tax System^{IV}

Income Tax Rate	Corporate	Corporate profits taxed at 22%. Loss relief for net operating losses is available, subject to certain restrictions. Net operating losses can be carried forward, but cannot be carried back to prior years.
	Individual	Taxed at rates up to 51.95%, including state and local taxes. With the addition of social taxes the marginal rate amounts to approximately 56%. For the self-employed a loss relief for net operating losses is available. Net operating losses can be carried forward, but generally cannot be carried back to prior years.
Capital Gains Tax Rate	Corporate	Chargeable gains on unlisted shares are tax-exempt. Loss relief is not available in unlisted shares.
	Individual	Chargeable gains are treated as investment income and are taxed as such at a rate of 27% up to DKK 50,600 (DKK 101,200 for a married couple) and a rate of 42% in excess of this amount (2016 figures). Capital losses on the sale of quoted shares can be carried forward indefinitely and offset against income from other quoted shares. Capital losses on the sale of unquoted shares can be carried forward indefinitely and also offset against other income.
Dividend Tax Rate	Corporate	Taxed at a rate of 15.4%. Exemption from tax can be claimed under the Parent/Subsidiary Directive. Dividends paid to non-residents are subject to 27% withholding tax subject to reduction under applicable double taxation treaties and domestic law. If the shareholding is 10% or more, dividend income is – as a main rule – tax exempt.
	Individual	Dividend income is treated as investment income and is taxed as such at a rate of 27% up to DKK 50,600 (DKK 101,200 for a married couple) and a rate of 42% in excess of this amount (2016 figures).
Wealth and Inheritance Taxes	Individual	There is no net wealth tax in Denmark. Inheritance tax is charged at a rate of 15% on the transfer of assets to the deceased’s children and



		<p>descendants, stepchildren and their descendants, parents, or cohabitant during the last two years of one's life. Inheritance received by any other relatives than the above-mentioned is subject to a supplementary estate tax of 25% of the value of the asset after deduction of the first 15% (i.e. a total tax of 36.25%). The 15% tax is not levied on the first DKK 276,600 (in 2016) of the estate.</p>
Current Tax Incentives		
Denmark does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
Denmark has historically relied on other forms of government-backed support to support young and growing innovative businesses.		
<p>Access to finance for SMEs is managed by The Danish Growth Fund, the Danish Government's investment fund. The Danish Growth Fund has co-financed more than 5,400 Danish companies, a total commitment of more than DKK 15bn.^v</p>		
<p>The Danish Growth Fund provides a number of programmes of support for SMEs centered on facilitating investments in start-ups and providing loans and loan guarantees to SMEs.</p>		
Bankruptcy Law^{vi}		
In 2016, insolvency resolution took 1.0 years in Denmark, below the OECD average of 1.7 years.		
Insolvency costs in the country amount to 4.0% of estate, also much lower than the OECD average of 9.1%.		
Assessment		
Venture capital investment in Denmark declined to €78m across 45 companies in 2015, but business angel investment grew 16% to €23m.		
Denmark does not currently offer any tax incentive schemes for venture capital and business angel investors.		
The government provides other forms of support to start-ups and SMEs, such as through the Danish Growth Fund, which facilitates financing for SMEs.		

Comments from Member State review

The Danish authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Danish representatives.



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10. Estonia

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Estonia	44/125
	Country Sample Ranking	25/36
PwC Paying Taxes - Time to comply (hours) 2017	Estonia	84
	Country Sample Ranking	4/36
Venture Capital Investment as a Percentage of GDP 2014 (Invest Europe)	Estonia	0.015%
	Country Sample Ranking	21/36
Average Venture Capital Investment per Company 2012 (European Commission)	Estonia	€0.344m
	Country Sample Ranking	24/36
Business Angel Investment as a Percentage of GDP 2015 (EBAN)	Estonia	0.0268%
	Country Sample Ranking	2/36
Average Business Angel Investment per Company 2015 (EBAN)	Estonia	€0.106m
	Country Sample Ranking	6/36
		
SME Investment Environment		
<p>SMEs dominate the enterprise sector in Estonia, accounting for over three quarters of value added and 78% of employment in the non-financial business economy in 2014. These figures are higher by 11 and 18 percentage points than the EU averages respectively. After a dip in 2009, SME value added fully recovered by 2011 and is continuing to grow at around 10% over the period 2014-2016. In contrast, employment has not returned to pre-crisis levels, but it, too, has been growing continuously since the low of 2009.ⁱ</p> <p>Estonia has made efforts in recent years to rapidly cut bureaucratic red tape.ⁱⁱ The country tops the Baltic States and the whole CEE region in World Bank's <i>Doing Business</i> ranking. In the 2017 edition of the report, it ranked 12th out of 190 countries and 4th out of all the EU countries. Furthermore, its SME environment earned the 14th position in the <i>Starting a Business</i> indicator and the 21st position in the <i>Paying Taxes</i> indicator.ⁱⁱⁱ For example, tax compliance required on average 81 man-hours per business. This is the second best score in the EU, compared to the best performer Luxembourg's 55 man-hours and the EU & EFTA average of 173 man-hours.^{iv}</p> <p>Bank lending to SMEs shrunk considerably in the period following the crisis, with the amount of new loans almost halved in the period 2007-2010 (from €3.6m to €1.9m).</p>		



In the following years, the situation stabilised as the Estonian economy rebounded and Estonian SMEs saw their liquidity levels rise. At present, Estonia's SMEs have better access to debt financing than SMEs in the rest of the EU on average. Loans are extended more readily and on better terms than in the EU on average, and businesses remain optimistic about their credit prospects. Estonia takes position 32 in the *Getting Credit* category of the *Doing Business* report.^v

Venture Capital Market

With €6.2m worth of investment in 2013 and €4.4m in 2014, Estonia is one of the most developed venture capital markets in Europe relative to GDP. The majority of the investment was carried out at the later-stage (€3.2m both in 2014 and 2013), but the start-up phase also performed strongly, with €3m in 2013. No further disaggregate data (at the company or sector level) is available.

Moreover, with €6.7m in 2015 and €4.7m in 2013, Estonia was one of EU's top performing countries in terms of business angel investment relative to GDP.

General Characteristics of the Tax System^{vi}

Income Tax Rate	Corporate	<p>Corporate income is taxed at a flat rate of 20%.</p> <p>Corporate income is not taxed until distributed. This applies both to active income (business income) and passive income (e.g. interest, dividends).</p> <p>No relief on losses as only distributed profits are taxed.</p>
	Individual	<p>Personal income is taxed at a flat rate of 20%, and losses can be taken into account with the exception of losses from the sale of securities.</p> <p>Individuals can use an investment account to postpone the taxation of the income earned on financial assets. In order to benefit from this provision, some money would need to be transferred to the investment account and securities would need to be purchased for it.</p> <p>Amounts earned back to your investment account are not taxed immediately and the all of the money can be reinvested in new securities.</p> <p>Income tax is payable on the difference of the amount taken out of the account against the amount paid in.</p>
Capital Gains Tax Rate	Corporate	<p>The principle of non-taxation of retained earnings applies for capital gains. If they are distributed as profit, capital gains are included in the aggregate corporate income and taxed at 20%.</p> <p>No relief on losses as only distributed profits are taxed.</p>
	Individual	<p>Capital gains are included in the general personal income tax base and taxed at a flat rate of 20%.</p> <p>Loss relief is available. Losses may be carried forward indefinitely.</p>
Dividend Tax Rate	Corporate	<p>Distribution of profits in the form of dividends triggers generally 20/80 income tax (same as 20% on gross dividends) at the level of the Estonian company. There is participation exemption available to the dividends</p>



		received from EU, EEA, or Swiss tax resident companies, where an Estonian company holds at least 10% of the shareholding. There is no withholding tax applicable on the dividends.
	Individual	Foreign dividends are exempt income provided that either the dividends or underlying profits have been subject to tax in the source country. Otherwise the foreign dividends are subject to 20% income tax. Domestic dividends are tax-exempt.
Wealth and Inheritance Taxes	Individual	There is no form of wealth or inheritance taxation in Estonia, except land tax.
Current Tax Incentives		
Estonia does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
<p>Government-backed support to young and growing innovative companies is available in other forms in Estonia.</p> <p>Lithuania, Latvia, and Estonia jointly use the Baltic Innovation Fund (BIF), a fund-of-funds which lends support to the development of private equity in the region. The BIF was launched in 2012 by the European Investment Fund (EIF) together with the governments of the three Baltic states, and it liaises with the government agencies established in the participating states (KredEx in the case of Estonia). It is a fund-of-funds structure designed to stimulate equity investment in high-potential SMEs located in the area, engaging with venture capital funds and co-investing with business angels. It has currently €130m under management (period 2013-2016), raised from the contributions made by the EIF (€52m) and the respective national agencies (€26m each).^{vii} The performance of the BIF has been described as successful, being credited with boosting overall VC investment in Estonia and attracting some pension funds.^{viii}</p> <p>KredEx is a government initiative launched in 2008 in response to the financial crisis and the challenges to the SME sector that it brought. KredEx has supported start-ups and other SMEs with credit guarantees and subordinated loans, including export loans. As of March 2015, 366 projects worth €9m were financed with start-up loans, and 28 projects worth €8.7m were financed with subordinated loans.^{ix}</p> <p>In 2011 there was an amendment of the Commercial Act. The amendment abolished the capital requirement necessary to establish a company and led to a significant increase in the formation of start-ups in years 2012-2013.^x</p>		
Bankruptcy Law^{xi}		
In 2016, insolvency resolution took three years in Estonia, above the OECD average of 1.7 years.		
Insolvency costs in the country are very close to the OECD average (9.1%),		



amounting to 9% of estate.

Assessment

Estonia has a well-developed SME sector with strong investment across the business angel market. Business angel investment stood at €6.7m in 2015, giving one of the highest business angel investment to GDP ratios across Europe. Venture capital investment stood at €4.4m in 2014, the majority of which was invested in the later stage phase.

Estonia does not currently offer any tax incentive schemes for venture capital and business angel investors.

The government provides other forms of support to start-ups and SMEs. For instance, Estonia, along with Lithuania and Latvia, uses the Baltic Innovation Fund (BIF) to stimulate growth and development in the sector, and has been successful in promoting overall venture capital investment in the country. In addition, the government initiative KredEx supports credit guarantees and finding for start-ups and other SMEs.

Comments from Member State review

The Estonian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Estonian representatives.

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11. Finland

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Finland	14/125
	Country Sample Ranking	9/36
PwC Paying Taxes - Time to comply (hours) 2017	Finland	93
	Country Sample Ranking	5/36
Venture Capital Investment as a Percentage of GDP 2015	Finland	0.041%
	Country Sample Ranking	5/36
Average Venture Capital Investment per Company 2016	Finland	€0.658
	Country Sample Ranking	16/36
Business Angel Investment as a Percentage of GDP 2015	Finland	0.0142%
	Country Sample Ranking	3/36
Average Business Angel Investment per Company 2015	Finland	€0.084m
	Country Sample Ranking	3/36
SME Investment Environment		
<p>In Finland in 2013 99.4% of all firms were SMEs, employing 64.6% of the labour force. 79.3% of them were micro-enterprises with less than 10 employees, employing 25.5% of the country's total workforce.ⁱ</p> <p>SME lending reached its peak in 2008 and contracted substantially in 2009 and 2010. Over the period from 2009 to 2014, SME lending dropped by 43.6% in total. This may have been a result of increased solvency problems among SME's, lower demand for loans, as well as tightened credit conditions.ⁱⁱ</p> <p>Finland is positioned at 28/189 in the ease of setting up a business on the Starting a Business Indicator in the World Bank's 2017 <i>Doing Business</i> report. This is a 5 place increase on last year.</p>		
Venture Capital Market		
<p>The business angel and venture capital market in Finland is one of the largest in Europe (by volume).</p> <p>Business angel investment in Finland stood at €36.5m in 2015, achieving growth of 6% relative to 2014. In 2015 the median investment per round of an individual angel investor decreased from €25,000 to €20,000, indicating that the Finnish business angel market is maturing.ⁱⁱⁱ</p> <p>Venture capital investment in Finland was €106m in 2015, a decline of 14% on 2014. Over the period 2007-2015, venture capital investment has been volatile, exhibiting periods of growth and decline. However, the overall trend has been downward, declining from €132m in 2007 to €106m in 2015.</p> <p>Historically, the Finnish VC market has focused on start-up and later-stage investment. According to the Finnish Venture Capital Association (FVCA), Finland has</p>		





the highest levels of investment in start-ups and early stage growth companies in Europe, at over twice the European average.^{iv}

The main sources of cross-border private equity investment (including VC) into Finnish companies are the UK, Sweden, the Netherlands, Germany, and Russia. These five countries accounted for 57.2% of all private equity investment in 2015.

General Characteristics of the Tax System^v

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a rate of 20%.</p> <p>Loss relief is available for net operating losses. Net operating losses can be carried forward for a period of 10 years, but may not be carried back.</p>
	Individual	<p>Earned Income: Taxed at progressive tax rates up to 31.75% in 2016. In addition municipal tax is levied at flat rates between 16.50% and 22.50% in 2016, depending on the municipality. Further, Church tax should be paid by members of the Church, and also certain social security payments are due.</p> <p>Capital income: taxable at 30/34%, please see details below.</p> <p>Finnish source employment income generated by non-residents may be taxed at flat rate 35% under certain conditions.</p> <p>Loss relief is available for self-employed individuals, and as a main rule can be utilised within the next ten tax years.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains and losses are generally and with certain exceptions included in the taxable business income (i.e. sale proceeds are included in the taxable income, and the undepreciated balance of the asset sold is deducted in the sales year) and treated as ordinary income, with a tax rate of 20%. An exemption may be granted if the conditions for participation exemption are met. Generally capital losses are non-deductible in situations where capital gains are exempt from tax.</p>
	Individual	<p>Capital gains are subject to a 30% tax rate up to taxable capital income of €30,000 and a 34% tax rate on the excess.</p> <p>Capital losses (due to the sale of a certain asset) can be deducted from capital gains during the current tax year and five following years. Capital losses can also be deducted from other capital income.</p>
Dividend Tax Rate	Corporate	<p>Dividends received by a Finnish company are tax exempt in most cases. However there are certain cases where 75% or 100% of received dividends may become taxable at ordinary at ordinary rate.</p>



		<p>Payment of a dividend to a non-resident recipient: Dividend WHT rate of 20% (for corporations) or 30% (for other recipients) may be reduced under Parent/Subsidiary Directive and / or applicable double taxation treaties.</p>
	Individual	<p>85% of dividends from publicly quoted shares are taxed as capital income (at a 30% tax rate up to taxable capital income of €30,000, with a 34% tax rate on the excess). 15% of the aforementioned dividends are tax-exempt.</p> <p>Dividends from non-quoted shares corresponding to an annual return of 8% calculated on the mathematical value of the share is regarded as taxable capital income. 25% of such a dividend is taxable (capital income) and 75% is tax-exempt. The above treatment applies to dividends up to €150,000 and per recipient. If the dividend is within the 8% cap, but exceeds €150,000, then the part of the dividend that exceeds €150,000 is taxed as follows: 85% is taxable capital income and 15% is tax-exempt; with regard to the portion exceeding the 8% calculated on the mathematical value of the share, 75% of the dividend is considered as taxable earned income, with 25% tax exempt.</p>
Wealth and Inheritance taxes	Individual	<p>There is no wealth tax in Finland.</p> <p>Inheritance tax is charged at rates of 8-20% on transfers of property, the value of which is €20,000 or more, on death.</p> <p>Gift tax is charged at rates of 8-20% on donations of property, the value of which is €4,000 or more.</p> <p>Please note that the above percentages and figures are value of the 1st tax class. This class is applicable to inheritances / gifts between closest relatives. Rates are higher for the 2nd tax class.</p> <p>Further, please note that the above figures are valid for 2016, and there will be changes for the 2017 tax year.</p>
Current Tax Incentives		
Finland does not currently offer tax incentives to venture capital and business angel investors		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
In the period 2013-2015, a tax incentive scheme offered business angels a tax deduction of 50% of the cost of investments in qualifying SMEs from this capital income for that year. It should be pointed out that the deduction was not a permanent deduction. This was because the deducted amount was returned to the taxable capital income of the investor when he or she later sold the acquired shares forward. The tax		



incentive was thus a deferral advantage in its nature. The scheme was restricted to Finnish natural persons, resident for tax persons, and the maximum deduction was limited to €150,000 per investor per tax year.^{vi}

The scheme expired on 31st December 2015 and was not continued or replaced. In part, this decision was based on the complexity of the scheme and lower than expected uptake.^{vii}

Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in Finland.

SME loans and guarantees are provided by Finnvera, a state-owned financing company. Finnvera aims, among other things, to increase the amount of start-up businesses in the economy, enable SMEs to meet financing requirements, and promote the growth, internationalization, and export volumes of Finnish businesses.

The Finnish Innovation Fund (Sitra), a public fund reporting to the Finnish Parliament, provides public venture capital funding. Sitra invests in Finnish start-up and growth stage businesses mostly through private equity funds, but occasionally makes direct investments.

Similarly, the Finnish Innovation Funding Centre (Tekes) provides funding to businesses, research organizations, and producers of public services, and funding is offered to research, development, and innovation activities. SMEs searching for international growth are the most important target group of Tekes.

Bankruptcy Law^{viii}

In 2016, insolvency resolution took 0.9 years in Finland, below the OECD average of 1.7 years.

Insolvency costs in the country amount to 3.5% of estate, also much lower than the OECD average of 9.1%.

Assessment

Finland has one of the largest business angel and venture capital markets in Europe, with investments reaching €36.5m and €106m in 2015 respectively. The venture capital market has seen an overall decline in recent years.

Finland does not currently offer any tax incentive schemes for venture capital and business angel investors. However, it recently abolished a tax incentive, in operation during the period 2013-2015, due to lower than forecast uptake.

The government provides other forms of support to start-ups and SMEs. For instance, Finnvera aims to fuel growth in the economy by boosting the number of start-ups and ensuring they have sufficient funding.

Comments from Member State review

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^{viii} **World Bank**, 2016. Doing Business: Finland – Resolving Insolvency World Bank [online]. Available URL: <http://www.doingbusiness.org/data/exploreeconomies/estonia#resolving-insolvency> [Accessed on 10 January 2017].



12. France

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	France	21/125
	Country Sample Ranking	16/36
PwC Paying Taxes - Time to comply (hours) 2017	France	139
	Country Sample Ranking	15/36
Venture Capital Investment as a Percentage of GDP 2015	France	0.025%
	Country Sample Ranking	11/36
Average Venture Capital Investment per Company 2016	France	€2.109m
	Country Sample Ranking	6/36
Business Angel Investment as a Percentage of GDP 2015	France	0.0016%
	Country Sample Ranking	22/36
Average Business Angel Investment per Company 2015	France	€0.144m
	Country Sample Ranking	9/36



SME Investment Environment

French SMEs accounted for approximately 99.8% of businesses in 2015.ⁱ

France's ranking on the starting a business indicator in the World Bank's 2017 Doing Business report increased 5 places to 27/189.

Bank lending is the main source of external finance for SMEs in France. The stock of business loans has grown steadily in nominal terms between 2007 and 2014. Like most Eurozone countries, bank loan rejection rates in France have fallen from 2009-2013. This has been cited as evidence of the effectiveness of government intervention (see credit mediation below).ⁱⁱ

Venture Capital Market

France has a well-developed market for formal and informal (business angel) venture capital.

It has the second largest number of business angels and the largest number of business angel networks in Europe, generating €42m of investment in 2015. However, the amounts invested per business angel are the lowest in Europe.

Similarly, France has the second largest venture capital market in Europe, with approximately €7.8m of new funds raised in 2015. The French venture capital market has grown steadily in recent years after a sharp decline in 2012.

The French VC market is almost entirely focused on the provision of start-up and later



stage funding. Start-up funding accounted for 51% of total VC investment by volume and 57% of companies in 2015. Later stage funding accounted for 49% of total VC investment by volume and 41% of companies in 2015.

The main sources of cross-border private equity investment (including VC) into French companies, investment are United Kingdom, US, Switzerland, Germany, and Netherlands. These countries accounted for 9.8% of all private equity investment in 2015. This illustrates the low levels of dependence on cross-border venture capital investment in France.

General Characteristics of the Tax Systemⁱⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a rate of 33.33%. A 3.3% surcharge applies to corporate income tax liabilities exceeding €763,000. Subject to meeting certain conditions, SMES are exempted from this surcharge.</p> <p>Loss relief is available. Losses can be carried forward and offset against the first €1m of taxable profits and 50% of taxable profits in excess of that. Losses can be carried back to the prior year and can be offset against a maximum of €1m of taxable profits.</p>
	Individual	<p>Income tax is charged at progressive rates from 0% - 45%. A surcharge of 3% is applicable to the portion of income that exceeds €250,000 for a single person and €500,000 for a married couple. The surcharge is increased to 4% for income that exceeds €500,000 for a single person and €1m for a married couple.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains are treated as corporate income and taxed as such at a rate of 33.33%.</p> <p>Gains on the sale of qualified shares in subsidiaries held for at least two years benefit from significant relief (88% of such capital gains are excluded from CIT, with the remaining 12% portion being taxed at the standard 33.33% rate). Under certain conditions, a reduced rate of 15%, increased by the social contribution tax, is applied to capital gains on the disposal of patents or patentable inventions, as well as on income from the licensing of patents or patentable inventions.</p> <p>Loss relief is available. Losses can be carried forward and offset against the first €1m of taxable profits and 50% of taxable profits in excess of that. Losses can be carried back to the prior year and can be offset against a maximum of €1m of taxable profits.</p>
	Individual	<p>Chargeable gains are treated as personal income and taxed as such at progressive rates from 0% - 45%. A tax rebate is applicable for assets held for a number of years. Rebate of 50% of net gain</p>



		after a 2-year holding period and 65% for 8 years are available. Social contributions payable at 15.5% on disposals.
Dividend Tax Rate	Corporate	Taxed as corporate income at 33.33% unless entity owns 5% or more for at least 2 years (in which case 95% of dividends exempt). There is a specific participation exemption for dividends received in a tax consolidation group (99% participation exemption is available).
	Individual	Taxed as personal income but after a tax rebate of 40% on the income received. Dividends income are subject to a withholding tax upon distribution of income at the rate of 21%. Social contributions payable at 15.5% (based on the gross amount).
Wealth and Inheritance Taxes	Individual	Progressive rates of 0.5% to 1.5% for household net wealth over €1.3m. Worldwide assets for French residents; French assets only for non-residents.
Current Tax Incentives		
1) Additional allowance on sale of shares in young (<10yrs incorporated) SMEs^{iv}		
Overview	France offers investors in young companies, preferential tax treatment of any gains on disposal of that investment, subject to a minimum holding period. This is complementary to benefits that certain types of young, research-intensive SME enjoy in terms of social security reductions and corporate income tax exemptions under the scheme for Young Innovative Enterprises (JEI). ^v	
Qualifying criteria	<p><i>Business</i> – Must be an SME incorporated for less than 10 years at the point of share acquisition. Asset and property management businesses do not qualify. No permanent establishment information available.</p> <p><i>Investor</i> – Individual investors with French capital gains charges.</p> <p><i>Investment</i> – No restrictions.</p> <p><i>Duration</i> – Shares must be held for at least one year. Relief increases for longer holding periods.</p>	
Reliefs available	<p>Tax relief on investment – No relief on initial investment.</p> <p>Tax relief on income received – No relief on income received.</p> <p>Tax relief on disposal – Tax relief is received on gains realised on disposal of qualifying investments. The rate of relief varies depending on the length of the holding period. A tax rebate of:</p> <ul style="list-style-type: none"> • 50% is granted for shares held for 1-4 years. • 65% is granted for shares held for 4-8 years. • 85% is granted for shares held for 8+ years. <p>In addition, subject to certain conditions, shares held in SMEs are not included in the calculation of the wealth tax. The</p>	



	condition of existence lower than 10 years is not required.
Administration	Tax relief is claimed as part of standard capital gains declaration by individuals.
Penalties	N/A
Impact	No targeted studies.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
2) "Madelin" tax reductions^{vi}	
Overview	Introduced in 1994, the "Avantage Madelin" has been subject to a number of reforms since its introduction, with changes in the tax credit granted, age of companies qualifying, limits on size of investments, etc. However, the basic structure remains that of an upfront incentive for individuals investing in SMEs.
Qualifying criteria	<p><i>Business</i> – The business must be an SME (2-250 staff; turnover/balance sheet <€10m); subject to corporate income tax; carrying on a qualifying trade (finance and real-estate activity excluded); unquoted company in EU; young company (<five years pre-2016; now <7 years). The business must be located in France or in the EU.</p> <p><i>Investor</i> – Individuals (note similar privileges may be accessed by individuals investing in SMEs through a holding company). Restrictions on ability of existing shareholders to claim tax incentive on new share subscriptions.</p> <p><i>Investment</i> – The maximum value of investment attracting tax relief is €50,000 (individuals) or €100,000 (couples) per year.</p> <p><i>Duration</i> – The investment held for at least five years.</p>
Reliefs available	<p><i>Tax relief on investment</i> – Qualifying investors receive a personal income tax credit equal to 18% of the investment value.</p> <p><i>Tax relief on income received</i> – No tax relief for income received.</p> <p><i>Tax relief on disposal</i> – Tax relief is available for gains realised on disposal of qualifying investments. For gain calculation, 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 8 years, up to 85% with additional conditions.</p>
Administration	No special arrangements.
Penalties	N/A
Impact	No targeted studies available.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.827</p> <p>B-Index value for a large investment (€500,000) – 0.983</p> <p>Average B-Index value – 0.905</p>



3) Wealth tax reliefs¹²	
Overview	A wealth tax reduction is available as an (mutually exclusive) alternative to Madelin provisions above.
Qualifying criteria	<p><i>Business</i> – The business must be an SME (<250 people, turnover <€50m, balance sheet <€43m). Businesses must be subject to corporate income tax; must carry on a qualifying trade (finance and real-estate activity are excluded); unquoted company in the EU; and young (<7 years old). The business must be located in France or in the EU.</p> <p><i>Investor</i> – The investor must be a natural person with French wealth tax liabilities.</p> <p><i>Investment</i> – Relief is granted on qualifying investments up to a value of €90,000.</p> <p><i>Duration</i> – Qualifying shares must be held for at least five years.</p>
Reliefs available	<p><i>Tax relief on investment</i> – Investors receive a deduction of 50% of total amount invested up to €90,000 from their wealth tax liability.</p> <p><i>Tax relief on income received</i> – No tax relief on income received.</p> <p><i>Tax relief on disposal</i> – No tax relief on gains realised on disposal.</p>
Administration	The same investment cannot provide both a wealth tax reduction and an income tax credit on investment (Avantage Madelin, see above). However, this investment can be exempted from the basis of the wealth tax.
Penalties	N/A
Impact	Limited information available.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.992</p> <p>B-Index value for a large investment (€500,000) – 0.999</p> <p>Average B-Index value – 0.996</p>
4) Venture Capital Firms (Sociétés de Capital Risque or SCR)¹³	
Overview	In France, Venture Capital Firms and their investors benefit from tax savings on dividends and capital gains.
Qualifying criteria	<p><i>Business</i> – The business must be an unquoted businesses with at least 50% of its net assets of SCR. No permanent establish information available. No sector targeting information available.</p> <p><i>Investor</i> – Limited to French legal companies. No single family group can own more than 30% of benefit rights from SCR. Corporate and individual investors in SCR can obtain incentive advantages.</p>

¹² Section 885-0 V bis of the French Tax Code

¹³ Section 208, 3 septies, Section 163 quinquies C, Section 150-0 A, III-1 bis and Section 39 terdecies, 5 of the French Tax Code



	<p><i>Investment</i> – No limits stipulated.</p> <p><i>Duration</i> – SCR investors must hold SCR shares for at least five years.</p>
Reliefs available	<p><i>Tax relief on investment</i> – No relief is granted in relation to the initial investment.</p> <p><i>Tax relief on income received</i> – No corporate income tax deriving from entire share portfolio income at the level of the vehicle.</p> <p>No personal income tax if revenues injected immediately back into SCR, shareholder holds shares for at least five years, and no shareholder family owns more than 25% of shares in a single company held by SCR. Otherwise, normal income tax. Social contributions are due in either case.</p> <p><i>Tax relief on disposal</i> – No corporate gains tax deriving from entire share portfolio at the level of the vehicle. No individual gains tax if revenues injected immediately back into SCR, shareholder holds shares for at least five years, and no shareholder family owns more than 25% of shares in a single company held by SCR. Otherwise, normal income tax. Social contributions due in either case.</p>
Administration	No special arrangements.
Penalties	N/A
Impact	Limited information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
5) Venture Capital Funds (including FCPR, FCPI and FIP)^{vii}	
Overview	Investors in venture capital funds (FCPR or fonds communs de placements à risques) receive certain tax benefits on their investments. FCPI (fonds communs de placement dans l'innovation) and FIP (fonds d'investissement de proximité) are subsets of FCPR, focusing on innovation investment and local investment respectively.
Qualifying criteria	<p><i>Business</i> – The venture capital funds must invest in unlisted European companies or <€150m market capitalisation (FCPR); SMEs in particular 'innovative' sectors (FCPI); SMEs in neighbouring regions (FIP). No detailed sector information available.</p> <p><i>Investor</i> – Individuals and companies.</p> <p><i>Investment</i> – Subject to various threshold (FCPR/FCPI/FIP) of fund assets invested in qualifying companies.</p> <p><i>Duration</i> – Investments must be held for a minimum of five years (during which the fund must reinvest all receipts).</p>
Reliefs available	<i>Tax relief on investment</i> – Investors in FCPI and FIP receive an 18% tax credit (up to a cap). FIP and FCPI investors are also eligible to the 50 % wealth tax relief (it is exclusive to the 18 % income tax relief), the same way direct investment in SMEs



	<p>is either eligible to income or wealth tax relief.</p> <p><i>Tax relief on income received</i> – Investors receive dividends tax-free for all types of venture capital fund.</p> <p><i>Tax relief on disposal</i> – Investors receive capital gains tax-free for all types of venture capital fund.</p> <p><i>Wealth Tax</i> – Subject to conditions, the shares are not included in the basis of the wealth tax (subject to conditions). A tax rebate is also available.</p>
Administration	No special arrangements.
Penalties	N/A
Impact	No specific impact studies noted.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
6) PEA-PME¹⁴	
Overview	The PEA (plan d'épargne en actions) is an individual savings account for equity investments, designed to encourage share ownership by individuals by offering tax incentives on dividend income and capital gains. The PEA-PME is a type of PEA targeted specifically towards investments in the SME sector.
Qualifying criteria	<p><i>Business</i> – The business must have employees <5,000; turnover <€1.5m; and balance sheet <€2m. Based in EEA. No detailed sector information available.</p> <p><i>Investor</i> – The investor must be an individual with French tax liabilities.</p> <p><i>Investment</i> – Maximum lifetime investment amount of €75,000 (on top of allowance permitted for standard PEA).</p> <p><i>Duration</i> – Tax advantages require minimum of five year investment.</p>
Reliefs available	<p><i>Tax relief on investment</i> – No relief on initial investment.</p> <p><i>Tax relief on income received</i> – Relief from income taxes other than social contributions due on withdrawals.</p> <p><i>Tax relief on disposal</i> – Exemption from personal income tax other than social contributions due on withdrawals.</p>
Administration	No special arrangements.
Penalties	N/A
Impact	The uptake of PEA-PME has been relatively low since introduction.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
Impact of Current Tax Incentives	
No information available.	

¹⁴ Section 150-0 A, II-2 and 200 A, 5 of the French Tax Code

**Abolished Tax Incentives**

There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.

Other Policy Instruments

The Government of France has implemented a number of non-tax policy initiatives to ensure start-ups and SMEs have sufficient access to finance.

Credit mediation was setup in 2008 to assist SMEs in maintaining or obtaining bank credit. Under the scheme, mediators from Banque de France support negotiations between SMEs and banks. The scheme has been extended until 2017 and has unblocked bank credit of €5.9bn to date. ^{viii}

Bpifrance is the main vehicle for the delivery of public support to SMEs, providing guarantees, co-financing, direct loans and public VC. In the wake of the Eurozone crisis, the provision of development loans (prêt de développement) has been increased through Bpifrance. €1.9bn of development loans were granted in 2014, a 43% increase on 2013. These loans guaranteed by a public fund, require no collateral from the entrepreneur and have a maturity of seven years, with a two-year grace period. These loans are systematically accompanied by a loan or equity investment by a private actor, for an amount at least equal to the public loan.

Bankruptcy Law^{ix}

In 2016, insolvency resolution took 1.9 years in France, above the OECD average of 1.7 years.

Insolvency costs in the country amount to 9.0% of estate, almost on par with the OECD average of 9.1%.

Assessment

France displays an attractive environment for investment. It is home to the largest number of business angel networks in Europe, making investments of €42m in 2015, and the venture capital market has seen growth in recent years.

France currently offers six incentive schemes, granting different tax incentives at different points of the investment lifecycle. These were ranked as follows in the benchmarking component of this study:

- Additional allowance on sale of shares in young (<10yrs incorporated) SMEs – 29th
- “Madelin” tax reductions – 3rd
- Wealth tax reliefs – 15th
- Venture Capital Firms (Sociétés de Capital Risque or SCR) – 45th
- Venture Capital Funds (including FCPR, FCPI and FIP) – 11th
- PEA-PME – 42nd

The schemes provide a number of different tax incentives to venture capital and business angel investors, including one of the only wealth tax reliefs in the country sample. The “Madelin” tax reductions, wealth tax reliefs and venture Capital Funds (including FCPR, FCPI and FIP) all correspond to good practice in that they provide upfront relief. The majority of schemes provide some form of relief on returns (recommended or neutral practice), but often do not distinguish between capital and current income. None of the schemes offer tax relief on more favourable terms than the baseline tax system.

The schemes perform relatively well in terms of qualifying criteria (e.g. business age,



size and sector targeting, investor targeting, targeting equity over debt investment and stipulating minimum holding periods). However, performance is mixed in terms of related parties targeting (no information available), targeting new investments and restricting the value of the investment which attracts tax relief.

The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

The 'Madelin' tax reduction scheme in particular, has been highlighted as good practice due to its benchmarking score across the qualifying criteria benchmarking categories. The scheme incorporates partial targeting of business size and age, as well as its restriction on certain sectors. As a result, it achieved one of the highest scores in terms of the qualifying criteria.

The French government also supports growth in innovative companies through other policy instruments, such as Bpifrance, which provides guarantees and loans to SMEs.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The French authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the French representatives.

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ⁱⁱ Ibid

ⁱⁱⁱ **PricewaterhouseCoopers**, 2016. Worldwide Tax Summaries. PricewaterhouseCoopers [online]. Available URL: <http://www.pwc.com/gx/en/services/tax/corporate-tax/worldwide-tax-summaries.html> [Accessed on 27 October 2016].

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13. Germany

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Germany	9/125
	Country Sample Ranking	6/36
PwC Paying Taxes - Time to comply (hours) 2017	Germany	218
	Country Sample Ranking	29/36
Venture Capital Investment as a Percentage of GDP 2015	Germany	0.022%
	Country Sample Ranking	15/36
Average Venture Capital Investment per Company 2016	Germany	€1.100m
	Country Sample Ranking	13/36
Business Angel Investment as a Percentage of GDP 2015	Germany	0.0012%
	Country Sample Ranking	25/36
Average Business Angel Investment per Company 2015	Germany	€0.247m
	Country Sample Ranking	21/36
		
SME Investment Environment		
<p>In 2012, German SMEs accounted for 99% of all 3.3m enterprises and employ two thirds of all employees.ⁱ</p> <p>The German SME sector demonstrated resilience during the financial crisis, creating 1.1m jobs over the period 2009-2012. The performance of the German SME sector is in marked contrast to other Member States and has been driven, in part, by higher levels of innovation and international-orientation in the sector.ⁱⁱ</p> <p>Germany is positioned at 33/189 in the ease of setting up a business on the 'Starting a Business' indicator in the World Bank's 2016 <i>Doing Business</i> report. This is a seven place decline on last year.</p>		
Venture Capital Market		
<p>Total business angel investment in Germany was €44m in 2015, growing 19% on 2014. Germany was the third largest business angel market in Europe in 2015.</p> <p>Venture capital investment volumes declined sharply during the financial crisis years, falling from over €1bn in 2008 to €659m in 2009, a 34% decline. Investment levels are growing from the lows of 2009 and stand at €837m in 2015.</p> <p>Venture capital in Germany has historically focused on start-up investment. Start-up investment accounted for 50% of total venture capital investment by volume and 61% of recipient companies in 2015.</p> <p>The main sources of cross-border private equity investment (including VC) into German companies are from the United Kingdom, the United States, Sweden, Switzerland, and the Netherlands. These five countries accounted for 17.1% of all private equity investment in 2015.</p>		



General Characteristics of the Tax System ⁱⁱⁱ		
Income Tax Rate	Corporate	<p>Corporate profits are taxed at a flat rate of 15% (corporation tax) plus a surcharge of 5.5% of the corporation tax (solidarity levy) and are also subject to trade tax. Trade tax is collected by the municipalities, which assess the tax by applying a multiplier (minimum of 200%, so-called "tax factor" – Hebesatz) to the uniform basic tax. In 2015, the average municipal multiplier amounted to 399% (average tax rate of 13.965%). Overall it means an average tax rate of 29.79%.</p> <p>Loss relief is available. Losses can be carried forward indefinitely and can be offset each year up to €1m plus 60% of the total amount of the income exceeding €1m. For corporation tax (but not trade tax), there is an optional carryback to the previous year of up to €1m.</p>
	Individual	<p>Personal income is taxed at progressive tax rates up to 45% plus a surcharge of 5.5% of the income tax (solidarity levy).</p> <p>Loss relief is available. Losses can either be carried back to the previous year up to €1m (jointly assessed spouses: €2m) or can be carried forward to future years; each year up to €1m (jointly assessed spouses: €2m) plus 60 per cent of the total amount of the income exceeding €1m.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains realised on the disposal of assets are generally taxed under the above-mentioned corporation tax regime.</p> <p>Loss relief is available. Losses can be carried forward indefinitely. For corporation tax (but not trade tax), there is an optional carryback to the previous year of up to €1m.</p> <p>Capital gains from the sale of investments in other corporations are generally exempt from corporation and trade taxes. These capital gains are e.g. under certain conditions subject to tax if they are realised by credit institutions and financial services institutions and their material subsidiaries.</p> <p>Corresponding losses related to 'tax exempt investments stated above' are not deductible. However, 5% of the capital gains are added back to taxable income as non-deductible, directly-related expenses.</p>
	Individual	<p>Capital gains from private assets are subject to a flat tax rate of 25% plus the 5.5% solidarity surcharge which is withheld at source, providing the financial investments were acquired after 31 December 2008.</p> <p>Capital gains related to financial investments before 1</p>



		<p>January 2009 were generally not subject to German income tax when the holding period exceeded one year.</p> <p>60% of capital gains from the sale of investments in corporations are taxed at progressive tax rates up to 45% plus a surcharge of 5.5% (solidarity levy), if the shareholders own at least 1% of the shares (private assets) or if the shares are qualified as business assets.</p> <p>Capital gains from business assets are also subject to trade tax.</p> <p>Loss relief is available for losses from business assets or losses from the sale of shares (private assets), if the shareholder owns at least 1% of the shares. Losses can either be carried back to the previous year or carried forward to future years up to €1m.</p> <p>If the shareholder owns less than 1% of the shares (private assets) losses can be carried forward to future years. Losses in other private assets (i.e. bonds) can also be carried forward to future years. Losses from capital assets must not be offset with other income.</p>
Dividend Tax Rate	Corporate	<p>Dividends received on significant holdings are generally exempt from corporation and trade taxes without a minimum holding period. These dividends are subject to tax if the direct shareholder holds less than 10%. With regard to the trade tax exemption, a couple of preconditions have to be met. In particular the percentage of the shareholding has to be at least 15% at the beginning of the financial year with regard to dividend distributions from German subsidiaries.</p> <p>However 5% of the tax-free gross dividend is added back to taxable income as non-deductible business expenses.</p> <p>Corporate recipients of dividend income can apply for a refund of the tax withheld over the corporation tax rate of 15%, regardless of any further relief available under a treaty.</p>
	Individual	<p>Dividend income from private assets is generally subject to a flat tax rate of 25% plus the 5.5% solidarity surcharge – which is withheld at source – under certain conditions.</p> <p>Dividend withholding tax of 25% may be reduced under applicable double taxation treaties.</p> <p>60% of dividend income from business assets is taxed at progressive tax rates up to 45% plus a surcharge of 5.5% (solidarity levy).</p>



Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth taxation in Germany.</p> <p>Inheritance and gift tax is charged on lifetime gifts and the transfer of property on death at progressive rates of 7%-50% depending on the value and relationship between recipient and the donor respectively the deceased, subject to a tax-free allowances in case of unlimited tax liability of €20,000 - €500,000 depending on the value and relationship between the recipient and the donor respectively the deceased and beneficiary.</p>
Current Tax Incentives^{iv}		
1) "INVEST - Venture Capital Grant"		
Overview	<p>The "INVEST" subsidy consists of an income subsidy and, in addition, an investment project.</p>	
Qualifying criteria	<p><i>Business</i> – The investee company must meet the following requirements:</p> <ul style="list-style-type: none"> • No older than seven years; • Less than 50 employees (full-time equivalents); • Annual turnover or annual balance sheet total of € 10m; • A capital company with its head office in the EEA and at least one branch in Germany registered in the commercial register or a business establishment registered in the trade register; • Proven innovative: According to the commercial register, the company belongs to an industry defined as an innovative one, is the holder of a patent or has used public funding for a research or innovation project in the two years prior to the application. Innovativeness can also be demonstrated by a separate short report from a designated independent expert; and • Is actively pursuing economic activity or commences its business activity no later than one year after completion of the investment <p><i>Investor</i> – The investor company must meet the following requirements:</p> <ul style="list-style-type: none"> • Natural person whose principal place of residence is in the EEA and which is not affiliated with the undertaking; • Alternatively: Investment via Beteiligungs-GmbH or UG: The investor can also subscribe the shares in the company via a holding company or UG (limited liability company) with a maximum of six shareholders for the approval of the acquisition grant. The business purpose of the GmbH / UG must include the taking-over and holding or disposal of participations. Other permissible business activities are asset management and consulting. Beteiligungs-GmbHs or UGs, however, have no claim to the Exitzuschuss; • Acquisition of newly issued shares (no acquisition of existing shares by another shareholder); • Purchase on own account and from own money (no financing of the shares); • Investment decision based on a submitted business plan; 	



	<ul style="list-style-type: none"> • Participation in all opportunities and risks of the company; • Market-based liquidation preferences and anti-dilution regulations are permitted; • New: Shares can also be purchased through a wall loan; • In this case the disbursement of the acquisition grant (to the converted amount) will only take place after the conversion; • New: Investments in investments are also eligible, provided the acquisition of the shares held by the investor has already been funded by the acquisition grant. • In order to receive the Exitzuschuss, the investor must be a natural person who has received the acquisition grant for the acquisition of the shares, the three-year minimum retention period, and may not hold the shares for more than ten years. <p><i>Investment</i> – The investor must provide the company at least €10,000. The maximum amount of funding per investor per calendar year is now €100,000 and is doubled from 2017 onwards.</p> <p><i>Duration</i> – Participation must be held for at least three years</p>
<p>Reliefs available</p>	<p><i>Tax relief on investment</i> – No tax relief on investment, but the acquisition grant is 20% of the investment sum on the acquisition of shares. If the payment is linked to the fact that the company reaches certain milestones, each individual payment must be at least €10,000.</p> <p><i>Tax relief on income received</i> – No tax relief on income received, but in addition to the acquisition grant, the tax, which is attributable to a capital gain, can be compensated at a lump sum. This is called an 'Exitzuschuss'. In the case of an 'Exitzuschuss', the investor receives a flat-rate financial compensation amounting to 25% of the profit, which was obtained from the sale of his shares subsidized with the acquisition grant. The compensation is limited to 80% of the investment amount of the INVEST shares. Only natural persons are given the 'Exitzuschuss'.</p> <p><i>Tax relief on disposal</i> – No tax relief on disposal</p>
<p>Administration</p>	<p>Online application form to The Federal Office for Economic Affairs and Export Control (BAFA).</p>
<p>Penalties</p>	<p>No information available.</p>
<p>Impact</p>	<p>"INVEST already reaches the set goals after three years" Through "INVEST - Venture Capital for Venture Capital", more private venture capital is to be mobilized in Germany and the access from start-ups to venture capital will be improved. The present evaluation of the Center for European Economic Research (ZEW) impressively confirms that the set goals have already been achieved three years after the start of the measures.</p>
<p>Generosity</p>	<p>B-Index value for a small investment (€50,000) – 0.836 B-Index value for a large investment (€500,000) – 0.836 Average B-Index value – 0.836</p>



Impact of Current Tax Incentives
Since May 2013, INVEST has made more than € 210m in start-up capital available for innovative start-ups for business angels or investors. Until the end of 2016, the BAFA granted almost 2,800 investment grants to investors in a total of over €42m. The programme was evaluated in 2016 and on this basis has now been substantially improved and expanded (e.g. doubling the eligible investment sums, introduction of the Exitzuschuss).
Abolished Tax Incentives
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.
Other Policy Instruments
<p>There is a 40% tax exemption for the carried interest paid to the initiators of venture capital funds. Moreover there is a tax exemption for INVEST grants paid to business angels, who invests in benefitted companies.</p> <p>In 2016, an amendment to the Corporate Income Tax Law grants further reliefs on the loss carry forward limitation. Tax losses and interest carry-forwards can now generally be retained upon application despite a detrimental change in ownership, if the corporation has maintained the same business operations since its formation, or at least for a period of three years and continues to carry out these business operations after the change in ownership. This utilization of this new regulation is not possible exclusively by the venture capital sector. Nevertheless, the venture capital can be a great beneficiary of this regulation.</p> <p>Government-backed support to young and growing innovative companies is available in other forms in Germany.</p> <p>In 2016 the 'ERP/EIF Co-investment Growth Facility' (ERP-EIF-Wachstumsfazilität) was established with the purpose of co-investing with successful venture capital managers and other institutional investors in innovative fast growing German SMEs with capital requirements in the range of €30-40m. The volume of the fund is € 500m, funded by the German Ministry of Economic Affairs and Energy on behalf of the European Recovery Programme and by the European Investment Fund.</p> <p>Other measures to improve conditions for venture capital are a top-up for the ERP/EIF-Venture-Capital-Dachfonds (fund-of-funds) to €2.7bn (including €300m for business angels), and the launch of the new co-investment fund with a volume of €225m in 2016.^v</p>
Bankruptcy Law^{vi}
<p>In 2016, insolvency resolution took 1.2 years in Germany, below the OECD average of 1.7 years.</p> <p>Insolvency costs in the country amount to 8.0% of estate, also lower than the OECD average of 9.1%.</p>
Assessment
<p>Germany has one of the largest venture capital markets in Europe, with investment standing at €837m in 2015. The level of business angel investment grew 14% to €44m 2015.</p> <p>Germany operates one tax incentive scheme for venture capital and business angel investors. "INVEST – Venture Capital Grant" ranked 5th (joint) in the benchmarking</p>



component of this study.

The scheme provides upfront relief, which is considered good practice. However, it displays neutral practice in maintaining loss relief as per the baseline tax system and providing relief to both capital and current returns. It generally performs well against the principles of good practice for qualifying criteria, but displays not recommended practice in only targeting business angels. The scheme performs well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

It was also highlighted for demonstrating good practice as a result of its high benchmarking score and novelty in its design. The scheme is the only one in the country sample to use an upfront grant, rather than a tax credit. This shows a novel approach to overcoming some of the challenges related to providing relief to investors that do not have existing tax liabilities in the jurisdiction in question.

The government provides other forms of support to start-ups and SMEs such as the 'ERP/EIF Co-investment Growth Facility', which has a €500m fund and aims to co-invest in fast-growing SMEs with VC managers.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The German authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the German representatives.

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ⁱⁱ Ibid.

ⁱⁱⁱ **PricewaterhouseCoopers**, 2016. Worldwide Tax Summaries. PricewaterhouseCoopers [online]. Available URL: <http://www.pwc.com/gx/en/services/tax/corporate-tax/worldwide-tax-summaries.html> [Accessed on 28 October 2016].

^{iv} **BMW**, 2017. INVEST - Subsidy for venture capital BMW [online]. Available URL: <http://www.bmw.de/Redaktion/DE/Dossier/invest.html> [Accessed on 20 February 2017]


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14. Greece

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Greece	66/125
	Country Sample Ranking	33/36
PwC Paying Taxes - Time to comply (hours) 2017	Greece	193
	Country Sample Ranking	25/36
Venture Capital Investment as a Percentage of GDP 2015	Greece	0.000%
	Country Sample Ranking	35/36
Average Venture Capital Investment per Company 2016	Greece	€0.000m
	Country Sample Ranking	29/36
Business Angel Investment as a Percentage of GDP 2015	Greece	0.0012%
	Country Sample Ranking	24/36
Average Business Angel Investment per Company 2015	Greece	€0.225m
	Country Sample Ranking	18/36
		
SME Investment Environment		
<p>SMEs accounted for 99.9% of Greek enterprises in 2013 and 96.7% of these are classified as Very Small Enterprises. Compared to EU averages, micro-enterprises play a more significant role in the Greek SME sector and the wider economy.ⁱ</p> <p>Recent political instability and financial crises have generated significant impacts on SME lending. Greece is reported to have the highest external financing gap for SMEs in Europe, driven by credit scarcity and high interest rates. Indeed, a 2015 ECB survey reported that 34% of Greek SMEs consider access to finance as the most important problem they face.ⁱⁱ</p> <p>Despite the significance of SMEs in the Greek economy, promotion of venture capital and business angel investment is mixed.</p> <p>Greece are placed 56/189 in World Bank's 2017 <i>Doing Business</i> report on Starting a Business.</p>		
Venture Capital Market		
<p>Business angel investment levels as a percent of GDP are small when compared to other European markets, but are growing. Total business angel investment in Greece was €2.7m in 2015, growing 50% on 2014.</p> <p>Venture capital investment volumes have declined in recent years and are heavily exposed to cross-border investment flows. Over the period 2007-2015 venture capital investment has declined significantly. Investment has tended to be concentrated in a</p>		



small number of Greek companies across all stages of the venture capital funding cycle.

Cross-border private equity investment (including VC) into Greek companies accounted for 100% of all private equity investment in 2015. This investment was sourced from a UK investor and was made in a single Greek company.

General Characteristics of the Tax Systemⁱⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a rate of 29%. Start-up expenses incurred from 1st January 2015 onwards are deductible in the year they were realised. Net operating losses can be carried forward for a period of five years, but may not be carried back.</p> <p>Partnerships maintaining simplified books of account are taxed at a rate of 29%.</p>															
	Individual	<p>Employment income is taxed at rates between 22-45%. Trading income (freelancers and sole traders) is taxed at the same rates as employment income (i.e. at rates between 22-45%). For individuals commencing their business activity as of 1 January 2013 and for the first three years of their business activity, the tax rate of the first income bracket of the aforementioned progressive tax scale is reduced to 50%, provided that their annual gross business income exceeds €10,000.</p> <p>The business income is determined following the deduction of any business expenses, bad debt provisions, and depreciations.</p> <p>Loss relief is available for sole traders. The general rule based on which operating losses can be carried forward for a period of five years is equally applicable for individuals exercising business activity.</p> <p>Property income is taxed at rates between 15-45%.</p> <p>Income (even exempt income) received by individuals is subject to a special solidarity contribution. The contribution will be calculated based on a progressive tax scale:</p> <table border="1" data-bbox="678 1630 1385 1933"> <thead> <tr> <th>Income - €</th> <th>Special Solidarity Contribution Tax Rate</th> </tr> </thead> <tbody> <tr> <td>0 - 12,000</td> <td>0.0%</td> </tr> <tr> <td>12,001 - 20,000</td> <td>2.2%</td> </tr> <tr> <td>20,001 - 30,000</td> <td>5.0%</td> </tr> <tr> <td>30,001 - 40,000</td> <td>6.5%</td> </tr> <tr> <td>40,001 - 65,000</td> <td>7.5%</td> </tr> <tr> <td>65,001 - 220,000</td> <td>9.0%</td> </tr> <tr> <td>Over 220,001</td> <td>10.0%</td> </tr> </tbody> </table>	Income - €	Special Solidarity Contribution Tax Rate	0 - 12,000	0.0%	12,001 - 20,000	2.2%	20,001 - 30,000	5.0%	30,001 - 40,000	6.5%	40,001 - 65,000	7.5%	65,001 - 220,000	9.0%	Over 220,001
Income - €	Special Solidarity Contribution Tax Rate																
0 - 12,000	0.0%																
12,001 - 20,000	2.2%																
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30,001 - 40,000	6.5%																
40,001 - 65,000	7.5%																
65,001 - 220,000	9.0%																
Over 220,001	10.0%																
Capital Gains Tax Rate	Corporate	<p>Chargeable gains are treated as corporate income and taxed as such at a rate of 29%. Losses can be carried forward for a period of five years, but may not be</p>															



		carried back.
	Individual	Chargeable gains are taxed at a rate of 15%. The taxation of any capital gains realised by the transfer of real estate property is suspended until 31 December 2016 and, based on unofficial announcements, is expected to be further suspended up to 31 December 2018. Any loss realised by the transfer of securities (shares, bonds, derivatives, etc) will be transferred for the following five years to be offset exclusively against capital gains realised by the transfer of securities.
Dividend Tax Rate	Corporate	Taxed at a rate of 10% (as of 1 January 2017 the tax rate will increase to 15%). Exemption may be available under the parent/subsidiary directive.
	Individual	Taxed through corporate withholding tax at a rate of 10%. The aforementioned special solidarity contribution will be applicable on the dividends received by the individuals.
Wealth and Inheritance Taxes	Individual	Inheritance tax is charged on transfers of property on death. The rate of tax varies depending on the relationship between the deceased and the inheritor.
Current Tax Incentives		
Greece does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished tax incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other policy instruments		
<p>The Government of Greece provides support to young and growing innovative businesses in other forms. The main focus of the broader SME policy mix has been on facilitating access to finance.^{iv}</p> <p>AKES is a government-backed domestic fund structure open to participation by domestic and non-domestic limited partners. The structure provides for management fees to be exempted from VAT in Greece and it allows non-domestic limited partners to avoid creating a permanent establishment in Greece, thus limiting the extent to which they are subject to tax in Greece.</p> <p>TANEO is the first and only public venture capital fund in Greece. It is structured as a fund of funds and has provided over €280m of investment in Greek SMEs since its establishment in 2003.</p> <p>Greek banks have also worked with the EU on different SME financing initiatives, such as the Guarantee Fund for Greek SMEs. The Guarantee Fund utilizes EU structural funds to provide loan guarantees to SMEs in Greece.</p>		
Bankruptcy Law^v		
In 2016, insolvency resolution took 3.5 years in Greece, somewhat above the OECD average of 1.7 years.		
Insolvency costs in the country amount to 9.0% of estate, almost on par with the		



OECD average of 9.1%.

Assessment

Greece has a smaller business angel market, when compared against GDP, in relation to the rest of Europe, with investment of €2.7m in 2015. The venture capital market has declined in recent years and is heavily dependent on cross-border investors.

Greece does not currently offer any tax incentive schemes for venture capital and business angel investors.

The government provides other forms of support to start-ups and SMEs. For instance, the government supports SME innovation through the TANEQ fund, which has provided over €280m in funding since 2003.

Comments from Member State review

The Greek authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Greek representatives.

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15. Hungary

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Hungary	47/125
	Country Sample Ranking	27/36
PwC Paying Taxes - Time to comply (hours) 2017	Hungary	277
	Country Sample Ranking	35/36
Venture Capital Investment as a Percentage of GDP 2015	Hungary	0.018%
	Country Sample Ranking	19/36
Average Venture Capital Investment per Company 2016	Hungary	€0.438m
	Country Sample Ranking	22/36
Business Angel Investment as a Percentage of GDP 2015	Hungary	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Hungary	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>In Hungary, the 2008 financial crisis caused a significant drop in the number of SMEs (by 10%), sectoral employment (by 10%) and the value added to the non-financial business economy (by 15%). Since then, the latter has recovered (by 12% in the period 2009-2014), while employment decreased further (by 2% in the period 2009-2014).ⁱ</p> <p>In terms of the conditions for entrepreneurship, Hungary is improving, in line with the other countries of Central and Eastern Europe in general. In the 2017 edition of World Bank's <i>Doing Business</i> report, the country ranks 41th, up from 42nd in the 2016 edition, and 54th in the 2014-2015 editions. The <i>Paying Taxes</i> indicator has followed a more winding path, reaching position 77 in the 2017 edition following on the positions 95 in the 2016 edition, 88 in the 2015 edition, and 124 in the 2014 edition. The SME sector benefits from progressive corporate taxation, under which the income below HUF 500m (approximately €1.6m) is taxed at the rate of 10%. From 2017 this current progressive tax regime will be replaced by a new, single-digit corporate tax rate of 9%. Pursuant to this change, the Hungarian corporate tax rate will be the lowest in the European Union. Recent legislative changes include additional deductions for new acquisitions of land and buildings. <i>Starting a Business</i> has recently regressed by 20 places, from 55 to 75.ⁱⁱ</p> <p>The SME sector in Hungary struggles with access to conventional financing. Poor performance in the access to debt financing was confirmed by the SMAF index.</p>		





Hungary was among the least favourable environments – the third lowest in the EU in terms of access to debt financing in 2012. Lending to the SME sector outside of the National Bank of Hungary’s *Funding for Growth Scheme* programme (which offers preferential credits) did not recover in 2014, and the amount of short-term and long-term loans was lower compared to 2013. In terms of access to equity finance, the country was close to the EU average.ⁱⁱⁱ

Venture Capital Market^{iv}

There is no available data on the business angels market in Hungary in the published sources.^v

The venture capital market in Hungary has been strong: €25m in 2015, €32m in 2014 and nearly €17m in 2013. Interestingly, the market performed particularly well in 2012, when it reached €65.5m. In turn, the market was particularly weak in 2009, when its volume was just over €1m. Life sciences absorbed the most investment in 2015, and other well-capitalized sectors included consumer services, business and industrial products, consumer goods and retail, computer and consumer electronics, and communications. The start-up stage accounted for the most investment in the recent years (75% in 2015, 69% in 2014, 87% in 2012), followed by later stage venture and the seed stage.

The main sources of cross-border private equity investment (including VC) into Hungarian companies are the United Kingdom, Belgium, Finland, Germany, and Luxembourg. These countries accounted for 85% of all private equity investment in 2015, demonstrating the Hungarian private equity market’s high exposure to cross border flows.

Venture capital transactions in Hungary have been dominated by public sector investments, channelled either directly by public funds or through the JEREMIE Funds. JEREMIE funds combine EU and private financing, and in fact they are the most active investor in terms of both number and size. The JEREMIE funds have been largely credited with the development of the Hungarian venture capital market.^{vi}

General Characteristics of the Tax System^{vii}

<p>Income Tax Rate</p>	<p>Corporate</p>	<p>Corporate income is subject to 10% tax rate up to HUF 500m (approximately €1.6m). Income in excess of this threshold is taxed at a rate of 19%. From 1 January 2017 the corporate income tax rate will be 9%.</p> <p>Loss relief is available against up to 50% of the positive corporate income tax base (calculated without the utilisation of losses carried forward from previous years).</p> <p>Losses can be carried forward, but may not be carried back (except for taxpayers operating in the agricultural sector, those may account deferred losses from the tax year by self-audit or by correcting the amount of tax paid in the previous two tax years by reducing the pre-tax profit of the preceding two tax years by the amount of the deferred loss, each tax year up to 30 per cent of the pre-tax profit for the tax year).</p> <p>Losses are carried forward on a first in first out basis according to the following rules:</p> <ul style="list-style-type: none"> • Losses arising before or during the tax year 2014 can be carried forward until 31 December 2025. • Losses arising after the tax year 2014 can be
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		carried forward for a period of five years.
	Individual	<p>Personal income is taxed at a flat rate of 15%.</p> <p>Individuals may also be subject to a 14% healthcare tax/contribution on certain types of separately taxed income (e.g. dividend income, income from borrowing and lending securities, and income from capital gains). The healthcare tax/contribution is to be paid up to a contribution cap of HUF 450,000 (€1,500) in a given year.</p> <p>Loss relief is available for self-employed individuals, who are registered as private entrepreneurs. They may carry forward the loss from previous years as a tax base decreasing item up to 50% of the tax base (calculated without the loss carried forward). The unused loss may be carried forward to the subsequent years for five tax years. For individuals who are not registered as private entrepreneurs no loss relief is available.</p>
Capital Gains Tax Rate	Corporate	Capital gains are treated as corporate income and taxed as such. Participation exemption applies if the taxpayer holds at least 10% of the subsidiary for at least one year and reports the acquisition of the participation to tax authorities within 75 days after the transaction.
	Individual	<p>Capital gains are treated as personal income and taxed as such. Capital gains might be subject to 14% healthcare tax under the same circumstances as income tax rate.</p> <p>Capital losses may be deductible in some circumstances. Income from controlled capital market transactions is not subject to the 14% healthcare tax. Controlled capital market transactions are transactions concluded with – or with the help of – a financial service provider (including the capital gain on a bond or a unit of an investment fund if the transaction is concluded in a stock market) at a non-predetermined price. Such transactions are taxed collectively, and losses can be carried forward for two years.</p> <p>Other capital gains – like the sale of a company without the involvement of a financial services provider – are subject to the 14% healthcare tax. The healthcare tax is capped at HUF 450,000 (€1,500) and any healthcare contribution paid by the individual is taken into account. In the case of normal capital gains, no loss carry forward is available.</p> <p>The personal income rate is 15% on any type of income.</p>
Dividend Tax Rate	Corporate	Dividends received by Hungarian companies from domestic or foreign sources (except for a CFC – controlled foreign corporation) are exempt from tax. Dividends from CFCs are classified as “other income” and taxed accordingly.



	Individual	Dividend income is taxed under the personal income tax regime at a flat rate of 15% Dividend income may be subject to 14% healthcare tax under the same circumstances as income tax rate.
Wealth and Inheritance Taxes	Individual	There is no form of wealth taxation in Hungary. The inheritance tax is charged on the transfer of property on death at a flat rate of 18% in general (exceptions are applicable). Full exemptions for close relatives might be available.
Current Tax Incentives		
Hungary does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
Government-backed support to young and growing innovative companies is available in other forms in Hungary. Like other countries in the region, Hungary relies on public institutional investors to close the financing gap in the SME sector. This includes EU's instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint initiative of the European Investment Bank, the European Investment Fund and DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes, with the rest being channelled into loan and guarantee schemes. In addition, micro-, small-, and medium-sized enterprises may also obtain support within the confines of the so-called GINOP programme. Accordingly, companies carrying on innovative, high value-added projects may be assisted with non-refundable support. Refundable support is also available under the VEKOP programme, which aims to help SMEs in obtaining financing sources for their investments.		
Bankruptcy Law^{viii}		
In 2016, insolvency resolution took 2 years in Hungary, above the OECD average of 1.7 years. Insolvency costs in the country amount to 14.5% of estate, substantially higher compared to the OECD average of 9.1%.		
Assessment		
In recent years, the venture capital market in Hungary has declined, but still remains stronger than many of its Eastern European counterparts. Venture capital investment reached €25m in 2015. Hungary does not currently offer any tax incentive schemes for venture capital and business angel investors. However, from 2017 Hungary will offer a tax deduction for investments in early-stage enterprises.		



The government provides other forms of support to start-ups and SMEs. For instance, innovative businesses can obtain financial support under the GINOP and VEKOP programmes.

Comments from Member State review

The Hungarian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Hungarian representatives.

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16. Ireland

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Ireland	17/125
	Country Sample Ranking	12/36
PwC Paying Taxes - Time to comply (hours) 2017	Ireland	82
	Country Sample Ranking	3/36
Venture Capital Investment as a Percentage of GDP 2015	Ireland	0.024%
	Country Sample Ranking	12/36
Average Venture Capital Investment per Company 2016	Ireland	€1.403m
	Country Sample Ranking	9/36
Business Angel Investment as a Percentage of GDP 2015	Ireland	0.0046%
	Country Sample Ranking	8/36
Average Business Angel Investment per Company 2015	Ireland	€0.215m
	Country Sample Ranking	17/36
SME Investment Environment		
<p>The SME sector is a significant driver of the Irish economy. In 2012, SMEs accounted for 99.6% of all businesses and employed approximately 68% of the labour force. Ireland moved up from 25 to 10 in the Starting a Business Indicator in the World Bank's 2017 <i>Doing Business</i> report.</p> <p>Business lending was significantly affected by the financial crisis. Short-term SME lending declined by 86% between 2007 and 2014. However, SME lending declined at a slower rate, leading to SME lending occupying a larger proportion of total business lending, rising from 63.9% in 2010 to 67% in 2013. Equity finance remained relatively stable during the crisis, but growth capital declined between 2008 and 2009. ⁱ</p> <p>As a result of the impacts of the financial crisis, the Irish Government has developed a wide range of programmes targeted to support of SME access to external finance.</p>		
Venture Capital Market		
<p>Business angel investment in Ireland stood at €14.4m in 2015, achieving growth of 15% relative to 2014.</p> <p>Venture capital investment in Ireland was €76m in 2015, a decline of 16% on 2014. Over the period 2007-2015, venture capital investment has been volatile, Ireland were exhibiting periods of growth and decline. However, the overall trend has been downward, declining from €86m in 2007 to €76m in 2015.</p> <p>Historically, the Irish VC market has focused on start-up and later stage investment. Start-up funding accounted for 48% of total VC investment by volume and 76% of companies in 2015. Later stage funding accounted for 51% of total VC investment by volume and 22% of companies in 2015.</p> <p>The main sources of cross-border private equity investment (including VC) into Irish companies are France, the United States, the United Kingdom, Finland, and the</p>		





Netherlands. These five countries accounted for 79.3% of all private equity investment in 2015.

General Characteristics of the Tax Systemⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits generated from trading activity taxed at 12.5%. A rate of 25% applies to corporate profits from non-trading income.</p> <p>Trading losses can be offset against other profits (income and capital gains) in the current period, or a prior accounting period of equal length, subject to certain rules and restrictions. There is an exclusion in respect of certain gains on land disposals against which trading losses cannot be offset.</p> <p>Unutilised trading losses can be carried forward indefinitely and offset against profits of the same trade.</p>
	Individual	<p>Taxed at rates up to 40%.</p> <p>Loss relief is available for personal trading losses. Unutilised trading losses can be carried forward indefinitely and offset against income of the same trade.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains taxed at a rate of 33%. Chargeable gains are exempt from tax where the conditions for the participation exemption are met.</p> <p>Capital losses realised can be offset against capital gains in the current and future periods, however they cannot be carried back to prior periods.</p> <p>Trading losses can be offset against capital gains (except for 'development land' gains) in the current or prior accounting period. Unutilised losses can be carried forward indefinitely.</p>
	Individual	<p>Chargeable gains taxed at a rate of 33</p> <p>Under Entrepreneur's Relief a rate of 10% applies to gains realised on the disposal of business assets, excluding land after 1 January 2017, subject to a lifetime limit of €1m. The rate applicable to disposals realised before this date is 20%.</p> <p>Relief is available for capital losses against capital gains realised in the same or future periods. Capital losses cannot be carried back to prior periods. Unutilised capital losses can be carried forward indefinitely.</p>
Dividend Tax Rate	Corporate	<p>Dividends from Irish resident companies are exempt from tax. Dividends received from foreign companies are subject to tax at 25%, or 12.5% where the dividend is paid out of trading income</p>



		and certain other conditions are satisfied.
	Individual	Dividends and other distributions made by Irish resident companies to Irish resident individuals are taxed at the individual's marginal rate of tax (up to 40%). Dividends are paid net of withholding tax at 20% with a corresponding credit available.
Wealth and Inheritance Taxes	Individual	There are currently no wealth taxes in Ireland. Inheritance tax is charged at a rate of 33% on transfers of property on death. Tax-free thresholds are available and vary based on the relationship between the deceased and the inheritor (a maximum tax-free threshold of €310,000 applies).
Current Tax Incentives		
1) Employment & Investment Incentiveⁱⁱⁱ		
Overview	The Employment & Investment Incentive (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. ^{iv}	
Qualifying criteria	<p><i>Business –</i></p> <ul style="list-style-type: none"> • Micro, Small, or Medium Sized Enterprise within the EC definition; • Is an unquoted company (with certain exceptions); • Has its issued share capital fully paid up; • Incorporated in the State or another EEA State, Tax resident in the State, or resident in another EEA State (and carries on a business in the State through a branch or agency); • Not regarded as a firm in difficulty for the purposes of Community Guidelines on State Aid for rescuing and restructuring firms in difficulty; • Cannot be under the control of another company i.e. hold in excess of 50% of the ordinary share capital, have in excess of 50% of the voting rights of the company, and are entitled to in excess of 50% of the net assets of the company in a winding up; • Certain conditions must be satisfied in the case of new companies (e.g. must carry on relevant trading activities for 4 months); • Compliance with the EU's General Block Exemption Regulations (GBER) on State Aid is now required. These provisions are particularly relevant in the case of companies seeking to raise EII funding more than 7 years after commencing to trade or which intend to raise EII in tranches. • Company must use the equity raised for the purpose of carrying on relevant trading activities (or R&D activities where trading has not yet commenced); • Funds must contribute directly to the maintenance/creation of employment in the company; <p>Throughout a four year holding period:</p>	



	<ol style="list-style-type: none"> 1. Carries on relevant trading activities from a fixed place of business in the State, or 2. Consists wholly of the holding of shares or securities of, or the making of loans to, one or more qualifying subsidiaries of the company, or 3. Both the holding of shares/securities, or the making of such loans, and the carrying on of relevant trading activities from a fixed place of business in the State; <p>The scheme is available to the majority of small and medium-sized trading companies. However, the following trading activities are excluded from the EII scheme:</p> <ul style="list-style-type: none"> • Adventures or concerns in the nature of trade, e.g. once-off or speculative transactions • Dealing in commodities or futures in shares, securities or other financial assets, financing activities, professional service companies, e.g. accountants, solicitors, business advisors, doctors and architects. However, Internationally Traded Financial Services may qualify subject to approval from Enterprise Ireland, dealing in or developing land, i.e. • Construction and building, • Forestry, • Operations carried on in the coal industry or in the steel • Shipbuilding sectors • Production of a film (within the meaning of Section 481)^v <p><i>Investor -</i></p> <ul style="list-style-type: none"> • EII is open to resident individuals who are unconnected with the business in which the investment is being made. The investor or their associates cannot be a partner in the business, control the business, or directly or indirectly hold more than a 30% interest. <p><i>Investment -</i></p> <ul style="list-style-type: none"> • Individual must subscribe on his/her own behalf for new ordinary shares (with no preferential rights) in a qualifying company which are fully paid up; • Minimum investment is €250 per company; • The maximum investment by all investors in any one company, or a group of companies, is €15m (capped at €5m in any one year); • Maximum qualifying investment is €150,000 per annum. <p><i>Duration -</i></p> <ul style="list-style-type: none"> • Qualifying investments must be held for a period of four years for the full relief to be available.
Reliefs available	<i>Tax relief on investment</i> – EII provides individual investors with tax relief of 30% initially in respect of investments of



	<p>between €250 and €150,000 per annum. Where it has been established that additional jobs were created or the company used the capital raised for expenditure on research and development, an additional 10% relief is available at the end of the four year holding period. Relief in respect of investments in new companies will not be granted until the company has been trading for at least four months.</p> <p><i>Tax relief on income received</i> – No relief on dividend or interest income received.</p> <p><i>Tax relief on disposal</i> – No relief on capital gains generated on disposal of qualifying investments. Capital losses are generally not allowable for tax purposes.</p>
<p>Administration</p>	<p>In order to avail of the relief, a company must submit a Form EII 1:</p> <ul style="list-style-type: none"> • immediately, in the case of a company that has already been trading for more than four months, • in the case of a new company, when the company has been trading for four months, or • in the case of a company that is not yet trading but carrying on qualifying R&D, when 30% of the money raised under the EII scheme is spent on R&D. <p>The investor must claim relief within 2 years of the end of the year of assessment in which the shares are issued, and where the company has not commenced trading in the period the shares are issued, within 4 months of the commencement to trade.</p> <p>A company may apply for Outline Approval for the EII in order to ascertain whether or not it would qualify for the EII. The form EII Outline must be completed. However, the entitlement to relief is determined when the share issue has taken place and the fact that a company may obtain Outline Approval does not guarantee the availability of relief.</p> <p>The scheme has been extended to 31/12/2020</p>
<p>Penalties</p>	<p>Relief will be withdrawn if:</p> <ul style="list-style-type: none"> • Any of the qualifying conditions are not met for the duration of the four year holding period; and • Shares are disposed of within four years of investment or if the investor receives value from the company (e.g. loan or sale of assets at undervalue).
<p>Impact</p>	<p>The fiscal cost of the Employment & Investment Incentive for the period 2011-13 was €16.5m.</p> <p>Analysis of the broader impacts generated by the Employment & Investment Incentive is not available.</p>
<p>Generosity</p>	<p>B-Index value for a small investment (€50,000) – 0.800 B-Index value for a large investment (€500,000) – 0.940 Average B-Index value – 0.870</p>



	<p>For R&D and/or job creation: B-Index value for a small investment (€50,000) – 0.733 B-Index value for a large investment (€500,000) – 0.920 Average B-Index value – 0.827</p>
Impact of Current Tax Incentives	
<p>It was estimated that tax incentive schemes¹⁵ designed to promote investment in SMEs would attract investments of €128m per year. However, €41.5m was invested in 2013, which was substantially less than anticipated. The low levels of investment could be attributed to a number of factors, including reduced risk appetite and available investment capital among investors as a result of the downturn in the Irish economy.</p> <p>It is important to note that the level of investment in 2013 represents an increase of 209% compared to 2012, indicating that the uptake of tax incentives may be growing as the economy begins to recover.</p>	
Abolished Tax Incentives	
<p>The EII and Seed Capital Scheme (SCS) - now known as the start-up refund for entrepreneurs (SURE) scheme - was introduced in 2011 to replace the Business Expansion Scheme (BES). BES provided individual investors with tax relief for investments in SMEs and start-ups held for a minimum of five years.^{vi} BES was criticized for not targeting job creation and was replaced following a government review.^{vii}</p> <p>In 2013, it was announced that EII and SURE 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.</p>	
Other Policy Instruments	
<p>The Irish Government has introduced a number of policy instruments to support access to finance for SMEs in the wake of the financial crisis.</p> <p>A Credit Guarantee Scheme was introduced in 2012 with the aim of providing an additional €150m in lending per annum to SMEs. Uptake of the Credit Guarantee Scheme has been lower than expected, but job creation was higher than anticipated.</p> <p>SMEs can apply for unsecured business loans of €2,000 to €25,000 for commercially viable proposals that have been declined bank credit from Microfinance Ireland. The circa €8bn Ireland Strategic Investment Fund is making €900m of resources available to invest in SMEs as part of its broader mandate for investment on a commercial basis to support economic activity and employment in Ireland. In addition, the Strategic Banking Corporation Ireland was established to provide over €500m of financial support to the SME sector.</p> <p>To support SMEs navigate the various Government-backed financing options, Local Enterprise Offices were established as a one-stop-shop for anyone seeking information and support on starting or growing a business in Ireland.</p>	
Bankruptcy Law^{viii}	
<p>In 2016, insolvency resolution took 0.4 years in Ireland, significantly below the OECD average of 1.7 years.</p>	
<p>Insolvency costs in the country amount to 9.0% of estate, almost on par with the</p>	

¹⁵ Estimated and actual levels of investment under the tax incentive scheme covers the EEI and the Seed Capital Scheme (SCS), which entitles individuals starting their own business following recent redundancy to an income tax refund of tax paid in previous years up to a maximum of €100,000 per annum. While the SCS is designed to support the growth of start-ups and SMEs, it is not within the scope of this study as it is not targeted towards externally-sourced investment.



OECD average of 9.1%.

Assessment

Ireland has a strong business angel market, with investments totaling €14.4m in 2015. Although the venture capital market has declined in recent years, investments reached €76m in 2015.

Ireland operates one tax incentive scheme for venture capital and business angel investors. The Employment & Investment Incentive ranked 33rd in the benchmarking component of this study.

The scheme corresponds to good practice in providing upfront relief, but displays not recommended practice in not providing relief for investment returns and for disallowing losses. It performs well across many elements of qualifying criteria (e.g. partial targeting on business size, sector exclusions, targeting equity investment, investment size limits and minimum holding periods), but displays not recommended practice in not targeting based on business age and only targeting individual investors. The scheme performs well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

It was also highlighted for demonstrating good practice because of the EII's additional tax credit which creates explicit incentives for investment to be used for the achievement of specific outcomes. The EII was the only scheme in the country sample to offer a form of performance-related relief. As such, it was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases.

The government provides other forms of support to start-ups and SMEs, such as a Credit Guarantee Scheme which facilitates loans to SMEs.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Irish authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Irish representatives.

References

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iii **Revenue**, 2016. IT 55 - The Employment and Investment Incentive (EII) - Relief for Investment in Corporate Trades. Revenue [online]. Available URL: <http://www.revenue.ie/en/tax/it/leaflets/it55.html> [Accessed on 31 October 2016].

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17. Italy

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Italy	34/125
	Country Sample Ranking	23/36
PwC Paying Taxes - Time to comply (hours) 2017	Italy	126
	Country Sample Ranking	9/36
Venture Capital Investment as a Percentage of GDP 2015	Italy	0.002%
	Country Sample Ranking	28/36
Average Venture Capital Investment per Company 2016	Italy	€1.187m
	Country Sample Ranking	12/36
Business Angel Investment as a Percentage of GDP 2015	Italy	0.0006%
	Country Sample Ranking	27/36
Average Business Angel Investment per Company 2015	Italy	€0.166m
	Country Sample Ranking	13/36



SME Investment Environment ¹
<p>In Italy, SMEs represented 99.9% of all enterprises and account for 80% of the industrial and service labour force in 2013. Excluding self-employment, micro enterprises accounted for 95.3%, small and medium-sized enterprises for 4.1% and 0.5%, respectively, of total Italian corporates within the industry and production services sectors in 2013.</p> <p>The economic and financial crisis from 2008 to 2009 impacted on lending, not only for SMEs, but larger firms alike. After a temporary improvement between 2010 and 2011, firms' financing conditions deteriorated after the sovereign debt crisis, particularly in 2012 and 2013.</p> <p>Italy is positioned at 63/189 in the ease of setting up a business on the starting a business indicator in the World Bank's 2017 Doing Business report. This is a six place decline on 2016.^v</p>
Venture Capital Market
<p>Business angel investment stood at €12.25m in 2015, with an average investment of approximately €15,000 per company. The Italian business angel market grew 18% in 2014, but growth moderated to 5% in 2015.</p> <p>Venture capital investment volumes over the period 2007-2015, exhibited periods of growth and contraction. Over the period, venture capital investment declined from €131m to €46m, a decline of 65%. However, venture capital investment grew 39% in</p>



2015.

Historically, the Italian VC market has focused on start-up and later stage funding, but seed funding has become more popular in recent years. Start-up funding accounted for 47% of total VC investment by volume and 67% of companies in 2015. Later stage funding accounted for 48% of total VC investment by volume and 18% of companies in 2015.

The main sources of cross-border private equity investment (including VC) into Italian companies' investment are United Kingdom, France, Germany, United States and Switzerland. These five countries accounted for 54.2% of all private equity investment in 2015.

During the implementation of the AIFM Directive, Italy did not opt to apply the exemptions for funds below €100m, which has not been helpful for venture capital funds development. This considerably increased the costs of managing small funds and may have an impact on investors return.ⁱⁱ

General Characteristics of the Tax Systemⁱⁱⁱ

Income tax rate	Corporate	<p>Corporate profits are taxed at a rate of 27.5% (IRES), which is due to decrease to 24% effective 1st January 2017. There is also a regional production tax at a rate of 3.9% (IRAP), which may be increased by any Region up to 4.82%. Different IRAP tax rates are provided in some specific cases. Apart from IRAP, there is also a regional surtax up to 1.06%</p> <p>For IRES purposes, tax losses can be carried forward and used to offset income in the following tax periods without any time limit. Tax losses can only be offset with taxable income for an amount not exceeding 80% of the taxable income. However, losses arising in the first three years of activity can be offset with 100% of taxable income. Tax losses may not be carried back.</p> <p>Tax losses may not be carried back for IRAP purposes.</p>
	Individual	<p>Personal income is taxed at progressive rates up to 43%. In addition, there is a regional personal income tax charged at rates from 1.23% to 3.33% and municipal income tax at rates up to 0.9% (Rome).</p> <p>Loss relief is available for self-employed individuals. Tax losses arising from self-employment may not be carried back.</p>
Capital Gains tax rate	Corporate	<p>Capital gains are treated as corporate income and taxed under the corporate income tax regimes.</p> <p>Capital gains from the sale of investments in other companies are generally subject to corporate tax. However, 95% of the capital gains may be exempt from IRES under the participation exemption regime provided that specific participation exemption conditions are met.</p>



		<p>Capital losses are generally deductible as they are included in tax losses but capital losses on shares under the participation exemption regime are not deductible.</p> <p>Capital gains on financial investments generally are excluded from the IRAP taxable base.</p>
	Individual	<p>Gains arising on the disposal of shares capital that do not exceed 2% of voting rights or 5% of capital in the case of listed shares, or 20% of voting rights or 25% of capital in case of other participation (non-qualified shareholding) are taxed at a flat rate of 26%. Capital losses can offset capital gains realised on other non-qualified shareholding in the fiscal period and in the future four fiscal periods.</p> <p>Gains arising on the disposal of share capital that do not meet the criteria set out above (qualified shareholding) are taxed at the marginal income tax rate on 49.72% of the realised gain (said percentage is to be varied by the Ministry of Finance). Capital losses can offset capital gains realised on other qualified shareholding in the fiscal period and in the future four fiscal periods.</p>
Dividend tax rate	Corporate	<p>Dividends received by Italian resident companies from Italian companies or from companies resident in countries other than tax havens, are excluded from the taxable income for 95% of their amount.</p> <p>The remaining 5% is taxed using the IRES taxation (24% from 2017).</p> <p>Dividends generally are excluded from the IRAP taxable base.</p>
	Individual	<p>Non-qualified dividend income is subject to a flat rate of tax of 26%. In respect to qualified shareholdings, progressive tax rates apply on 49.72% of dividends distributions (said percentage is to be varied by the Ministry of Finance). Qualified/non-qualified limit rules are the same as for capital gains tax regime.</p>
Wealth and inheritance taxes	Individual	<p>In Italy there is not a comprehensive wealth tax, instead, there are several taxes which are related to wealth such as the real estate taxation (for estates in Italy or abroad) and financial investments (0.2% taxation).</p> <p>Inheritance tax is due on transfers of money and assets on death. The rate of tax is 4-8% and exemption limits depend on the beneficiary's relation with the deceased person.</p>
Current Tax Incentives		
1) Tax incentives for investing in Venture Capital Funds (VCF)		
Overview	Tax Exemption of the Revenue deriving from VCFs	
Qualifying	<i>Business</i> – Requirements for the VCF:	



<p>criteria</p>	<ul style="list-style-type: none"> • Minimum 75% of fund’s capital must be invested in unlisted SMEs with the following prerequisites: <ol style="list-style-type: none"> I. They must be seed financing or in the start-up financing stage or in the early-stage financing or in the expansion financing stage. II. They must have operational base in Italy III. At list 51% of the company must be owned by individuals IV. They must be subjected to the corporate income tax without any exemption V. They must not be older than 36 months VI. Their revenue must not be greater than €50m • The investments must not be greater than €2.5m for each SME yearly <p><i>Investor</i> – The investors in the VCF must be either professionals or they:</p> <ul style="list-style-type: none"> • Have to invest min €100,000 and • Must declare to be aware of the risks and • Must be evaluated in order to be declared capable to understand the investments and the risk <p><i>Investment</i> –The minimum investment in an FVC is €100,000.</p> <p><i>Duration</i> – No information available.</p>
<p>Reliefs available</p>	<p><i>Tax relief on investment</i> - No relief on investment.</p> <p><i>Tax relief on income received</i> – Income from capital arising from participation in an FVC is not subject to income tax.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
<p>Administration</p>	<p>For Italian venture capital funds, appropriate accounting reports giving evidence of the executed investments shall be made available to the relevant tax authority for a five years statutory period.</p> <p>For EU or EEA venture capital funds, in addition to the above reports, a copy of their fund rules and any further amendments shall be made available to the Italian tax authority for a five-year statutory period. Such documents should be made available to the Italian withholding agents (if any) which are responsible for the payment of the funds profits.</p>
<p>Penalties</p>	<p>No information available</p>
<p>Impact</p>	<p>No information available</p>
<p>Generosity</p>	<p>It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.</p>
<p>2) Tax incentives for investing in innovative start-ups and innovative SMEs</p>	
<p>Overview</p>	<p>Tax credit for investing in innovative start-ups and innovative SMEs.</p>
<p>Qualifying criteria</p>	<p><i>Business</i> – Definition of innovative start-ups (see D.L. 2012 n.179): companies with shared capital (i.e. limited companies), including cooperatives, whose shares or significant registered capital shares are not listed on a regulated market nor on a multilateral negotiation system. These companies must also meet</p>



	<p>the following requirements:</p> <ul style="list-style-type: none">• Have been operating for less than five years;• have their headquarters in Italy or in another EU country, but with at least a production site branch in Italy;• have a yearly turnover lower than €5m from the second year of activity;• do not distribute profits;• produce, develop and commercialize innovative goods or services of high technological value;• are not the result of a merger, split-up or selling-off of a company or branch;• be of innovative character, which can be identified by at least one of the following criteria:<ul style="list-style-type: none">I. at least 15% of the company's production's cost (or production's total value if greater), can be attributed to R&D activities;II. at least 1/3 of the total workforce are either PhD students, or PhD holders or researchers from at least three years; alternatively, 2/3 of the total workforce must hold a Master's degree;III. the enterprise is the holder, depositary or licensee of a registered patent (industrial property) or the owner of a programme for original registered computers. <p>Definition of the innovative SMEs (see D.L. 2015 n.3): They has to be defined SMEs according to the European recommendation 2003/361/CE. The companies must also respect the following requirements:</p> <ul style="list-style-type: none">• have their headquarters in Italy or in another EU country, but with at least a production site branch in Italy;• have a certified balance sheet• must not be listed on the regulated market• must not be classified as innovative start-up• be of innovative character, which can be identified by at least two of the following criteria:<ul style="list-style-type: none">I. at least 3% of the company's production's cost (or
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	<p>production's total value if greater), can be attributed to R&D activities;</p> <p>II. at least 1/5 of the total workforce are either PhD students, or PhD holders or researchers from at least three years; alternatively, 1/3 of the total workforce must hold a Master's degree;</p> <p>III. the enterprise is the holder, depositary or licensee of a registered patent (industrial property) or the owner of a programme for original registered computers.</p> <p><i>Investor</i> – Individual investors and Corporate investors are eligible to participate.</p> <p><i>Investment</i> – Individual investors up to €500,000 yearly, and corporate investors up to €1.8m. This is due to increase in 2017 to €1m for individuals.</p> <p><i>Duration</i> – The tax incentives must be returned if within 3 years from the investments, one of the following happens: the participations obtained due to the investment are sold (even partially); the capital invested is reduced; the investor withdraws; the innovative firm loses one of the prerequisite required.</p>
<p>Reliefs available</p>	<p><i>Tax relief on investment</i> – If individual investor: tax credit of 19% (or 25% if either social innovative start-ups or innovative start-ups working in the energy sector) up to €500,000 yearly.</p> <p>If corporate investor: 20% tax base deduction (or 27% if either social innovative start-ups or innovative start-ups working in the energy sector) up to €1.8m yearly.</p> <p>With effect from 2017, the tax credit for individuals is due to increase to 30%, and the tax base deduction for corporates is also set to increase to 30%.</p> <p>In addition there is the exemption of the stamp duty and the access to the equity crowdfunding.</p> <p>It is important to note that, apart from the tax incentives, there are a series of simplification for the innovative start-ups and innovative SMEs.</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
<p>Administration</p>	<p>The innovative start-up provides the investors with:</p> <p>I. a certification attesting that the maximum amount of share capital contributed (i.e., €15m) is not exceeded; and</p> <p>II. its own investment plan.</p> <p>Investment funds provide the investors (upon their request) with a certificate attesting that they invest mainly in "innovative"</p>



	<p>start-up companies.</p> <p>Unlisted companies provide the investors (upon their request) with a certificate attesting that they invest mainly in “innovative” start-up companies and the amount of the investment that can benefit from the tax deduction</p>
Penalties	No information available.
Impact	No information available.
Generosity	<p>Individuals: B-Index value for a small investment (€50,000) – 0.774 B-Index value for a large investment (€500,000) – 0.774 Average B-Index value – 0.774</p> <p>Companies: B-Index value for a small investment (€50,000) – 0.905 B-Index value for a large investment (€500,000) – 0.905 Average B-Index value – 0.905</p>
3) PIR (Piani Individuali di Risparmio)	
Overview	Tax exemption for earnings obtained from qualifying investments.
Qualifying criteria	<p><i>Business</i> – The business must reside in Italy or an EU (or EEA) country.</p> <p><i>Investor</i> – The investor has to be a person residing in Italy. Each person may own only one PIR investment</p> <p><i>Investment</i> –</p> <ul style="list-style-type: none"> • The investment must not be greater than €30k yearly and €150,000 globally • They have to be invested in qualified Investments, i.e.: <ol style="list-style-type: none"> I. Shares or quotas of firms residing in Italy or an EU (or EEA) country II. Shares or quotas of funds resident in Italy or in a EU (or EEA) country investing in the firms described in (i) • Every year for at least 2/3 of the year, the amount invested has to be invested, for at least 70%, in financial instruments (even not exchanged in regulated markets) from firms (excluding some types of firms excluded by the norm) established either in Italy or in a EU (or EEA) country. • The 30% of the 70% invested in firms (hence the 21% of the overall investment), has to be invested in financial instruments from firms not present in the FTSE MIB index or in a similar stock exchange index • It is not allowed to invest more than 10% of the investments on financial instruments from one firm • The financial instruments bought in the investment have to be detained for at least five years • Each PIR investment may be owned only by one person <p><i>Duration</i> – No information available</p>
Reliefs available	<p><i>Tax relief on investment</i> – No relief on investment.</p> <p><i>Tax relief on income received</i> – Exemption from capital gains tax</p>



	<p>on yields (coupons, dividends). The PIR are also exempt from inheritance tax.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
Administration	No information available.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments^{iv}	
<p>Government-backed support to young and growing innovative companies is available in other forms in Italy.</p> <p>A special package of legislation, providing for specific measures aimed at promoting the creation and the development of innovative start-up undertakings in Italy, has been recently implemented. This initiative provides financial aid to innovative start-ups, which consist of zero interest loans covering:</p> <ul style="list-style-type: none"> • up to 80% of the investment programmes amounting to the maximum amount provided for by Italian legislation. In such case, every partner/shareholder must be younger than 35 or, alternatively, women or, alternatively, at least a partnership quota shall be owned by a person who has a PhD or equivalent for no longer than six years and has conducted research or has taught abroad for at least three years; and in all the other cases; • up to 70% of the maximum amount of eligible investment costs provided for by Italian legislation. <p>Moreover enterprises with registered office in Southern Italy, or in other developing area (in particular: Calabria, Sicily, Sardinia, Basilicata, Puglia, Campania and in some parts of Abruzzo) can receive partially refundable loans for which they are obliged to repay up to 80% of the amount granted.</p> <p>Italy also actively implements various EU programmes offering financial support to European enterprises. This mainly consists of indirect assistance (channeled through various financial instruments and Structural Funds). Funds are disbursed by the EU to national governments and then through agencies and local authorities.</p>	
Bankruptcy Law^v	
<p>In 2016, insolvency resolution took 1.8 years in Italy, above the OECD average of 1.7 years.</p> <p>Insolvency costs in the country amount to 22.0% of estate, significantly above the OECD average of 9.1%.</p>	
Assessment	
<p>Italy has an active business angel market, with an average investment of €15,000 per company in 2015. It also has an expanding, yet somewhat volatile, venture capital market which displayed growth of 39% in 2015.</p> <p>Italy currently offers three incentive schemes for venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study:</p>	



- Tax incentives for investing in Venture Capital Funds (VCF) – 30th
- Tax incentives for investing in innovative start-ups and innovative SMEs – 22nd
- PIR (Piani Individuali di Risparmio) – 41st

The schemes display mixed performance in terms of scope. Both tax incentives for investing in innovative start-ups and innovative SMEs and PIR schemes display good practice by offering upfront relief, not recommended practice in not offering relief on returns and neutral practice in maintain loss relief as per the baseline tax system. By contrast, the VCF scheme displays not recommended practice in not providing upfront relief, and neutral practice in the use of relief on returns and loss relief.

The tax incentives for investing in innovative start-ups and innovative SMEs and PIR schemes achieve similar performance in terms of qualifying criteria. The schemes display good practice in using a combination of business age and size targeting, whereas the PIR scheme displays not recommended practice (i.e. no targeting based on business age or size). All schemes conform to good practice by targeting equity investment and restricting the value of investment attracting tax relief. However, the schemes display not recommended practice in not targeting new investments. There was insufficient information to assess performance on related parties targeting and the use of minimum investment holding periods.

The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

The government provides other forms of support to start-ups and SMEs. For instance, the government provides financial aid consisting of partially refundable loans in certain developed areas.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Italian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Italian representatives.

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18. Latvia

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Latvia	52/125
	Country Sample Ranking	29/36
PwC Paying Taxes - Time to comply (hours) 2017	Latvia	169
	Country Sample Ranking	19/36
Venture Capital Investment as a Percentage of GDP 2015	Latvia	0.022%
	Country Sample Ranking	16/36
Average Venture Capital Investment per Company 2016	Latvia	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Latvia	0.0025%
	Country Sample Ranking	17/36
Average Business Angel Investment per Company 2015	Latvia	€0.084m
	Country Sample Ranking	4/36
SME Investment Environment		
<p>SMEs are very important to the Latvian economy, accounting for 78.6% of employment in the non-financial business economy and 68.8% of value added in the sector in 2014. This is 12 and 11 percentage points more than the EU averages respectively. The sector suffered a serious downturn in 2009, with a decrease in the value added by 31% and in employment by around 20%. The former is expected to recover fully by 2016, while employment, which is growing at a slower rate, will most likely remain below pre-crisis levels in the foreseeable future.ⁱ</p> <p>Latvia has been a solid performer in terms of business regulations for the past years and currently ranks 14 in World Bank's <i>Doing Business</i> report.ⁱⁱ The country occupies position 22 in the <i>Starting a Business</i> and 14 in the <i>Paying Taxes</i> indicators. This reflects that the costs and procedures of starting and running a company in Latvia are relatively accessible.ⁱⁱⁱ Likewise, tax burden is moderate (total tax rate of 35.9%), and tax compliance costs are bearable (193 man-hours per annum).^{iv} Latvia recently improved its tax administration system by streamlining its online corporate income tax returns system.</p> <p>Access to finance for Latvian SMEs is reasonably good, although there has been deterioration in some areas in the recent years. The cost markup of borrowing for small firms relative to large firms is currently very close to the EU average. However, the rate of rejected loan applications and unacceptable loan offers, at 32%, is nearly twice as high as the EU average.</p>		





Latvia currently occupies position seven in the *Getting Credit* sub-index of the *Doing Business* report, up from position 19 a year ago and down from position three years ago. The financing gap is covered by public sources, including EU funds.^v

Venture Capital Market

The value of the venture capital market in Latvia was €3.3m in 2014, exactly three times more than in the previous year. In both years the investment was almost equally distributed between the start-up and the later stage phases. This can be contrasted with the situation before the crisis, when the market value oscillated between €8-9m.^{vi} No further disaggregate data (at the company or sector level) is available.

Business angel investment in Latvia was rather low in the years 2015 and 2014, at respectively €0.8m and €0.2m. Additionally, the European Commission quotes business angel investment amounting to €2m in 2012.^{vii}

There have been calls from local stakeholders to develop a statistical database of national venture capital and business angel investment activities.^{viii}

General Characteristics of the Tax System^{ix}

Income Tax Rate	Corporate	<p>Corporate income is taxed at a flat rate of 15%.</p> <p>Microenterprises use a turnover tax of:</p> <ul style="list-style-type: none"> • 12% up to €7,000 of annual income and 15% above it in 2017; • 15% of annual income in 2018. <p>Permanent establishments that operate in Latvia for no more than one year can use a simplified tax regime, where tax is withheld at source at a rate of 20%.</p> <p>Loss relief is available. Losses incurred after 2008 can be carried forward indefinitely up to 75% from the tax base of the particular taxation period. Losses cannot be carried back.</p> <p>The Solidarity Tax has been introduced in 2016 for income in excess of the national social insurance cap. Solidarity tax is covered by both the employers and the employees at the same rates as the Latvian National Social Insurance Contributions (NSIC) – i.e. 10.5% from the employee and 23.59% from the employer. To the taxpayers the implementation of the solidarity tax in practice means cancellation of the salary cap for NSIC purposes (i.e. if monthly salary exceeds €4,050 the employer continues to apply the same NSIC rates but they are transferred to the Solidarity Tax budget.</p>
	Individual	<p>Employment and self-employment income is taxed at a flat rate of 23%.</p> <p>Solidarity tax has been introduced in 2016 for income in excess of the national social insurance cap (which is €52,400 in 2017). Such income is subject to additional taxation at a rate of 10.5%.</p>
Capital	Corporate	Capital gains are treated as corporate income and



Gains Tax Rate		taxed as such at a rate of 15%. However, from 2013 capital gains from the sale of shares are exempt from corporate income tax. There is no relief on losses incurred from the sale of shares.
	Individual	Capital gains, including gains from the sale of shares, are taxed at a rate of 15%. No loss carryforward is available.
Dividend Tax Rate	Corporate	Dividend income is exempt from taxation. The exemption does not apply to dividends paid out to companies resident in black-listed jurisdictions. Such dividends are charged with a 15% withholding tax.
	Individual	Dividend income is taxed at 10%.
Wealth and Inheritance Taxes	Individual	There is no form of wealth or inheritance tax in Latvia.
Current tax Incentives		
Latvia does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
Government-backed support to young and growing innovative companies is available in other forms in Latvia. Lithuania, Latvia, and Estonia jointly use the Baltic Innovation Fund (BIF), a fund-of-funds which lends support to the development of private equity in the region. The BIF was launched in 2012 by the European Investment Fund (EIF) together with the governments of the three Baltic states, and it liaises with the government agencies established in the participating states (Altum in case of Latvia). It is a fund-of-fund structure designed to stimulate equity investment in high potential SMEs located in the area, engaging in venture capital funds and co-investing with business angels. It has currently €130m under management, raised from the contributions made by the EIF (€52m) and the respective national agencies (€26m each). ^x The performance of the BIF has been described as successful, being credited with boosting overall VC investment and even attracting some pension funds. Since 2015, Altum is part of an umbrella organization called the Joint-Stock Company Development Finance Institution Altum. As part of a wide-scale action plan, the organisation offers training and counselling activities to SMEs. It also extends microloans (up to €25,000) for companies in the start-up and growth phases through the Latvian Guarantee Agency. ^{xi}		
Bankruptcy Law^{xii}		
In 2016, insolvency resolution took 1.5 years in Latvia, below the OECD average of 1.7 years.		



Insolvency costs in the country amount to 10.5% of estate, slightly higher than the OECD average of 9.1%.

Assessment

Latvia has an active venture capital market which has displayed significant growth in 2014, reaching investment levels of €3.3m. Contrastingly, business angel investment in 2015 was fairly minimal, at only €0.8m.

Latvia does not currently grant any tax incentives for venture capital or business angel investment.

The government provides other forms of support to start-ups and SMEs. For instance, Latvia uses the Baltic Innovation Fund to boost venture capital investment in the region and to support the financial needs of innovative SMEs.

Comments from Member State review

The Latvian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Latvian representatives.

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19. Lithuania

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Lithuania	40/125
	Country Sample Ranking	24/36
PwC Paying Taxes - Time to comply (hours) 2017	Lithuania	171
	Country Sample Ranking	20/36
Venture Capital Investment as a Percentage of GDP 2015	Lithuania	0,022%
	Country Sample Ranking	17/36
Average Venture Capital Investment per Company 2016	Lithuania	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Lithuania	0.0026%
	Country Sample Ranking	16/36
Average Business Angel Investment per Company 2015	Lithuania	€0.150m
	Country Sample Ranking	11/36
SME Investment Environment		
<p>SMEs are very important to the Lithuanian economy and have performed strongly since the time of the crisis. They currently account for 76.7% of employment in the non-financial business sector (EU average 66.9%) and for 68.5% of the value added (EU average 57.8%) in 2014. Employment is still around 10% lower than it was before the crisis, but the value added has grown by 8%.ⁱ</p> <p>In the 2017 edition of World Bank's <i>Doing Business</i>, Lithuania has ranked just outside of the top 20, on position 21. Lithuania's progress in <i>Starting a Business</i>, now ranked 29th, has been made possible thanks to adjustments in the commercial code and gradual simplification of VAT registration, among other initiatives. The <i>Paying Taxes</i> sub-index is at 27. The time required to comply with all tax obligations, at 171 man-hours, is just below the UE & EFTA average (173 hours), and the overall tax rate, at 42.6%, just above it (40.6%).ⁱⁱ</p> <p>Lithuanian SMEs have enjoyed good access to finance in recent years, but this situation has somewhat deteriorated in 2015. In particular, the rate of rejected or unacceptable loan applications has risen as banks have followed more conservative credit patterns, lending mainly to low risk large companies. On the other hand, access to public finance is good. The country occupied position 28 in the <i>Getting Credit</i> indicator of the 2016 <i>Doing Business</i> ranking and position 14 (out of 28 EU Member</p>		





States) in the debt sub-index of the European Commission's 2012 SMAF ranking.ⁱⁱⁱ

Venture Capital Market

The size of the Lithuanian venture capital market was nearly €10m in 2014 and over €9m in 2013.¹⁶ All the stages of venture were well financed, in particular the start-up phase at €5m in 2014 and €2.5 in 2013, and the later stage at €3.2m in 2014 and €5.5m in 2013. No further disaggregate data (at the company or sector level) is available. Local pension funds have been reported as increasing their investment activity in venture funds.^{iv}

The level of business angel investment was estimated at €1.2m in 2015, down from €2.1m in 2014, €2m in 2013, and €1.5m in 2012.^v

General Characteristics of the Tax System^{vi}

Income Tax Rate	Corporate	<p>Corporate income is taxed at a flat rate of 15%.</p> <p>A 10% tax rate (without any deductions) is applicable to the income (royalties and compensations for violation of copyright or related rights) of a foreign entity, sourced in the Republic of Lithuania, received otherwise than through its permanent establishments situated in the Republic of Lithuania.</p> <p>Microenterprises (who employ at most 10 employees and earn an annual income of up to €300,000) are eligible for a reduced rate of tax at 5%. Eligibility is subject to meeting certain conditions. The same rate applies to agricultural companies, also meeting certain conditions.</p> <p>The reduced corporate income tax rate of 0% applies to companies that, <i>inter alia</i>: i) employ certain groups of people for social support; and / or ii) are established in a Free Economic Zone (in this case the 0% CIT can be applied only for the first six years of operations if the company meets other certain conditions.</p> <p>Loss relief is available and losses can be carried forward indefinitely. Reduction of taxable profit by accumulated tax losses is limited to 70% of the taxable profit for the current year. Losses incurred due to the transfer of securities and / or derivative financial instruments may be carried forward for five years (indefinitely for financial institutions). Losses cannot be carried back.</p>
	Individual	<p>Personal income is taxed at a flat rate of 15%.</p> <p>Income from independent activities (excluding income from such professions as lawyers, auditors, architects, etc.) is subject to a 5% tax rate.</p>

¹⁶ In the *European Private Equity Activity Data*, the most important and comprehensive database that Invest Europe releases, data on venture capital in the three Baltic States (Lithuania, Latvia, and Estonia) are aggregated.



		<p>In certain cases, individuals performing individual activities can carry forward any losses for an unlimited period of time, until the activity that resulted in such losses is terminated.</p> <p>Generally losses resulting from the sale of shares and other financial instruments can reduce the profits earned from such sales during the same tax year (certain restrictions apply). However, losses resulting from other sales of property (e.g. immovable property) do not reduce the taxable base of other sales transactions of such property. Moreover, it is not possible to carry forward losses resulting from the sale of capital.</p> <p>Losses cannot be carried back.</p>
<p>Capital Gains Tax Rate</p>	<p>Corporate</p>	<p>Capital gains are aggregated with other taxable corporate income and subject to the 15% rate.</p> <p>Capital gains are treated as non-taxable income when they are derived from the transfer of shares in a company incorporated in the European Economic Area or in a country with which Lithuania has a valid DTT and that pays CIT or an equivalent tax. This holds true of the Lithuanian holding company holds more than 25% of voting shares for a continuous period of i) at least two years; or ii) at least three years when the shares were transferred in one of the established forms of reorganization. Certain restrictions apply.</p> <p>Capital losses from the transfer of such shares are offset with capital gains from the sale of securities and are not carried forward.</p> <p>Loss relief is available. Capital losses from the sale of securities and/or derivative financial instruments can only be offset against capital gains of a similar type and may be carried forward for a period of up to five years.</p>
	<p>Individual</p>	<p>Capital gains are taxed with other income at the rate of 15%.</p> <p>The following capital gains are exempt from tax in Lithuania:</p> <ul style="list-style-type: none"> • Profits from the transfer of financial instruments or realization of derivatives not exceeding €500 per tax year; • Income from the sale of housing (including land) located in an EEA Member State if the individual's place of residence was declared there during the two years prior to the sale. If the place of residence was declared for a



		<p>shorter period but the income received from the sale was invested into the acquisition of another property located in one of the EEA Member States in one year after the sale and the place of residence was declared there accordingly, such income would also be treated as non-taxable;</p> <ul style="list-style-type: none"> • Income from the sale or other transfer of movable property that is legally registered in Lithuania or within an EEA Member State if the property was acquired more than three years prior to its sale or other transfer. • Income from the sale of immovable property (except for housing as indicated above) if the property was acquired more than ten years prior to its sale; and • Capital gains (resulting from transfer of property other than mentioned above) not exceeding €2,500 during the tax period. <p>Relief is available for losses realised on disposal of shares and other financial instruments. Such losses can only be offset against gains realised from the sale of shares or other financial instruments in the same year.</p>
Dividend Tax Rate	Corporate	<p>Dividend income is taxed at the standard rate of 15%.</p> <p>There is a participation exemption for parent companies that have held a minimum of 10% of shares in the subsidiary company for at least 12 months.</p> <p>Dividends received by a Lithuanian company from foreign companies are not subject to taxation in Lithuania if a foreign company is registered in an EEA country (in this case no participation or holding limits are applied).</p> <p>A withholding tax of 15% applies to dividends paid out to non-resident companies, unless the criteria of participation exemption are met.</p>
	Individual	<p>Dividend income is taxed at the standard rate of 15%.</p>
Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth taxation in Lithuania.</p> <p>Inheritance tax applies to assets above €3,000 in value. A rate of 5% is charged on assets below €150,000 in value and a rate of 10% for assets above €150,000.</p>



Current Tax Incentives
Lithuania does not currently offer tax incentives to venture capital and business angel investors.
Impact of Current Tax Incentives
Not applicable.
Abolished Tax Incentives
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006 – 2016.
Other Policy Instruments
<p>Government-backed support to young and growing innovative companies is available in other forms in Lithuania.</p> <p>Like other countries in the region, Lithuania relies on public institutional investors to close the financing gap in the SME sector. This includes the EU's instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint initiative of the European Investment Bank, the European Investment Fund and DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes, with the rest being channelled into loan and guarantee schemes.</p> <p>In the programming period of 2007–2013 four venture capital funds and one Business Angel Fund with a total commitment of €56.5m were established. The total amount available for the Lithuanian SMEs through the equity investments has reached more than €75m as the JEREMIE Holding fund supported equity funds attracted almost €20m of private investments into the funds. Since inception, the equity funds have made 93 investments into the Lithuanian SMEs.</p> <p>In 2016 Lithuania has established a new fund of funds "Business Financing Fund, Funded by the European Regional Development Fund" and will implement five venture capital measures with the allocation of up to €70.6m and 3 loan measures with the allocation of up to €109m of EU Structural funds and national budget resources.</p> <p>Lithuania, Latvia, and Estonia jointly use the Baltic Innovation Fund (BIF), a fund-of-fund which lends support to the development of private equity in the region. It is a fund-of-fund structure designed to stimulate equity investment in high potential SMEs located in the area, engaging in venture capital funds and co-investing with business angels. It has currently €130m under management (period 2013-2016), raised from the contributions made by the EIF (€52m) and the respective national agencies (€26m).^{vii} The performance of the BIF has been described as successful, being credited with boosting overall VC investment and even attracting some pension funds.^{viii}</p>
Bankruptcy Law^{ix}
<p>In 2016, insolvency resolution took 2.3 years in Lithuania, well above the OECD average of 1.7 years.</p> <p>Insolvency costs in the country amount to 10% of estate, higher compared to the OECD average of 9.1%.</p>
Assessment



Lithuania's business angel market has been on the decline in recent years. Business angel investment levels were estimated to be €1.2m in 2015. However, the venture capital market grew in 2014 to ~€10m.

Lithuania does not currently grant any tax incentives for venture capital or business angel investment.

The government provides other forms of support to start-ups and SMEs. For instance, the EU JEREMIE fund contributes to financing the growth and activity of SMEs through loan and guarantee schemes. Additionally, Lithuania also jointly uses the Baltic Innovation Fund to encourage equity investments in high potential SMEs.

Comments from Member State review

The Lithuanian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Lithuanian representatives.

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20. Luxembourg

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Luxembourg	30/125
	Country Sample Ranking	20/36
PwC Paying Taxes - Time to comply (hours) 2017	Luxembourg	55
	Country Sample Ranking	1/36
Venture Capital Investment as a Percentage of GDP 2015	Luxembourg	0.008%
	Country Sample Ranking	25/36
Average Venture Capital Investment per Company 2016	Luxembourg	€1.340m
	Country Sample Ranking	11/36
Business Angel Investment as a Percentage of GDP 2015	Luxembourg	0.0039%
	Country Sample Ranking	11/36
Average Business Angel Investment per Company 2015	Luxembourg	€0.119m
	Country Sample Ranking	7/36



SME Investment Environment
<p>In Luxembourg, 99% of all firms were SMEs in 2013, employing 69% of the labor force and account for 64% of the value added.¹</p> <p>The SME sector in Luxembourg has largely avoided the scale of impact from the financial crisis felt elsewhere in Europe. Indeed, the number of SMEs grew 12% between 2008 and 2013, with job creation growing despite a slight contraction in 2009.</p> <p>However, despite growth in the SME sector, contribution to GDP (as expressed by the aggregated value-added) remained relatively static over 2010-2012.</p> <p>Luxembourg is positioned at 67/189 in the ease of setting up a business on the starting a business indicator in the World Bank's 2017 Doing Business report. This is a 13-place rise on last year.</p>
Venture Capital Market
<p>The business angel market in Luxembourg is small, but among the fastest growing in Europe. Total business angel investment in Luxembourg was €2.5m in 2015, growing 150% on 2014.</p> <p>Venture capital investment volumes are volatile by nature but have been on an upward trend over 2015 and 2016. The launch of the Digital Tech Fund, the entrance of new market participants and the build out of start-up incubators, private and public have all had a positive impact on the national venture capital environment.</p>



Venture capital in Luxembourg has historically focused on start-up investment. Start-up investment accounted for 96% of total venture capital investment by volume and 75% of recipient companies in 2015. Later stage investment accounted for 4% of total venture capital investment by volume and 25% of recipient companies in 2015.

The main sources of cross-border private equity investment (including VC) into Luxembourg companies are China, United Kingdom, France, Germany and Netherlands. These five countries accounted for 99.2% of all private equity investment in 2015, illustrating the importance of cross-border investment flows in Luxembourg.

General Characteristics of the Tax System

Income tax rate	Corporate	<p>Corporate profits are taxed at an effective rate of 29.22%, which includes Corporate Income Tax (CIT – at a 21% rate), solidarity surtax (of 7% on the CIT rate), and Municipal Business Tax (MBT – with a rate depending on the city: for Luxembourg-City, the rate amounts to 6.75%). Businesses with taxable income lower than €15,000 are subject to CIT at a rate of 20% instead of 21%, which results in a lower effective tax rate.</p> <p>As from FY 2017, the CIT rate is to be reduced from 21% to 18% over 2017 and 2018. There are no changes to the solidarity surtax rate levied on the CIT rate, or to the rate of the MBT payable by companies. More specifically, the CIT rate for companies having a taxable income of more than €30,000 is reduced to 19% for FY 2017 and 18% for FY 2018. This would result in an overall tax rate of 27.08% for companies in Luxembourg City for FY 2017 and 26.01% for FY 2018 (taking into account the solidarity surtax and MBT rate).</p> <p>As from FY 2017, a reduced CIT rate of 15% will be applicable for companies with a taxable income lower than €25,000. For companies with a taxable income ranging from €25,000 to €30,000, the corporate income tax charge will be €3,750 plus 39% of the basis above €25,000 for FY 2017 and €3,750 plus 33% of the basis above €25,000 for FY 2018.</p> <p>Losses can be carried forward indefinitely, but may not be carried back.</p> <p>As from FY 2017, the use of losses generated is limited. Losses generated during and after FY 2017 will only be able to be carried forward for a maximum period of 17 years. Losses that arise before FY 2017 are not affected by this time limit.</p>
	Individual	<p>Income tax rates are progressive. They vary from 0% up to 40%. A 7% (in some cases 9%) surcharge for the Employment Fund applies on the income tax due. A temporary “budget-balancing tax” amounting to 0.5% applies to professional income and benefits as</p>



		<p>well as on capital income taxable in Luxembourg for both resident and non-resident taxpayers.</p> <p>New tax measures as from 2017: Income tax brackets are revised, with the introduction of new tax rate scales. The overall consequence is a lowering of the average tax rate. However new tax rates for individuals with higher income are added (tax rates of 41% and 42% on income exceeding €150,000 and €200,004 respectively) with the abolition of the 0.5% temporary "budget-balancing tax.</p>
Capital Gains tax rate	Corporate	<p>Capital gains are treated as corporate income and taxed as such (respectively at 29.22% for FY 2016 and at 27.08%/26.01% for FY 2017 / FY 2017, for companies in Luxembourg-City). A full exemption may be granted if the conditions for participation exemption are met.</p> <p>As from FY 2017; In order to make inter-generational transfers of family businesses or to employees easier, a tax deferral is introduced for the capital gain realised on real estate assets (land and buildings) held by the enterprise (under certain conditions).</p> <p>A loss relief is available.</p>
	Individual	<p>Capital gains derived from the disposal of movable properties are subject to Luxembourg progressive income tax rates.</p> <p>Capital gains on movable properties are taxed at:</p> <ul style="list-style-type: none"> • < six months of the acquisition date: progressive income tax rate (if total gain of the year > €500) • six months and participation < 10%: tax exemption • six months and participation > 10% (i.e. "important participation" directly or through close family at any point within 5 years): application of a half rate (max. 21% as of 2017) <p>Capital losses can only be offset against capital gains arising in the same year.</p>
Dividend tax rate	Corporate	<p>Dividend income is treated as corporate income and taxed as such. A full exemption may be granted if the conditions for participation exemption are met.</p> <p>Dividend withholding tax (WHT) of 15% should apply if a Luxembourg company distributes a dividend. The WHT rate may be reduced if the conditions for participation exemption are met or if a double tax treaty is applicable.</p>
	Individual	<p>Withholding tax of 15% applies on Luxembourg domestic dividends paid by a Luxembourg fully taxable company. Final taxation arises via the filing of</p>



		a personal income tax return. Dividend income is subject to progressive income tax rates. A 50% exemption may be granted in addition to €1,500 tax free allowance (doubled for couples) if the dividends are received from a fully taxable company resident in the EU or in a Treaty country.
Wealth and inheritance taxes	Individual	<p>Wealth taxes have been abolished from 1 January 2006 for individuals (resident and non-resident).</p> <p>Regarding the inheritance tax rates, each beneficiary is taxed separately based on the value of the net share attributed to them, less personal allowances. It should be noted that the tax rates differ depending on the degree of relationship between the beneficiary and the deceased person.</p> <p>Gift tax is charged on lifetime gifts of property. The rate of gift tax depends on the degree of relationship between the donor and the donee. Gifts of immovable property are subject to an additional transfer duty.</p>
	Corporate	<p>Luxembourg companies are subject to Net Wealth Tax (NWT). NWT is assessed on 1 January of each year on the basis of the estimated realizable value of the company's net assets (the "unitary value"). Generally, the unitary value is determined on the basis of the balance sheet of the company as at 31 December of the previous year (assuming that the accounts close on that date). NWT rate is regressive, as follows:</p> <ul style="list-style-type: none"> - 0.5% of the unitary value up to €500 Mio; and - 0.05% of the unitary value exceeding €500 Mio. <p>In any case, a minimum NWT applies as follows:</p> <ul style="list-style-type: none"> - €3,210 if the sum of financial assets, receivables due by affiliated companies, transferable securities and cash at bank exceeds 90% of the total gross assets and €350,000 (based on the closing balance sheet of the preceding year). Please note that this amount has been increased to €4,815 as from 2017. - For all the other (non-financial) entities that do not fall within the scope of the minimum of €3,210, the minimum NWT charge would range from €535 to €32,100 (including the solidarity surtax) depending on the company's total gross assets (based on the closing balance sheet of the preceding year).
Current Tax Incentivesⁱⁱ		
Luxembourg does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		

**Abolished Tax Incentives**

There were no known instances of tax incentives for venture capital and business angel investments in SMEs and start-ups being abolished during the 2006-2016 period.

Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in Luxembourg.

Loans for "Innovative enterprises" by SNCI (Société Nationale de Crédit et d'Investissement) can be granted to young innovative SME which possess a business permit issued pursuant to the law of 2nd September, 2011 (right of establishment), have been in existence for less than eight years and have a substantial impact on national economic development.

Several financial measures in Luxembourg aim to enhance the competitiveness of companies. The amended law of 5 June 2009 relating to the promotion of research, development and innovation allows providing grants that are particularly adapted to the needs of SMEs. The aid scheme of the Ministry of the Economy includes three types of R&D: Experimental development, industrial research and fundamental research. Companies also have the opportunity to benefit from the support to create research collaborations.

New tax measures as from FY 2017: investment in tangible depreciable assets is further encouraged through the increase of investment tax credits. Complementary and overall investment tax credits are increased respectively from 12% to 13% and from 7% - 8%. The rate of overall investment tax credit for investments exceeding €150,000 however remains at 2%. The investment tax credit for assets eligible for the special depreciation regime is increased from 8% to 9% - here the tax credit for investments exceeding €150,000 remains at 4%. In addition, the scope of eligible investments is broadened (to investments made anywhere within the European Economic Area).

In addition, the Ministry of Economy offers a number of forms of financial support to SMEs and start-ups. The Financial Aid Scheme provides capital grants or interest relief to SMEs in the industrial or services sector who act as a driving force to economic growth.ⁱⁱⁱ The Initial Investment Aid Scheme provides capital grants or interest relief to new entrepreneurs setting up an SME.^{iv}

Bankruptcy Law^v

In 2016, insolvency resolution took 2 years in Luxembourg, below the OECD average of 1.7 years.

Insolvency costs in the country amount to 14.5% of estate, significantly higher than the OECD average of 9.1%.

Assessment

Luxembourg's business angel market displayed significant growth in 2015 to reach investment levels of €2.5m. Similarly, the venture capital market has seen an upward trend. Luxembourg relies on cross-border investment flows, which accounted for 99% of private equity investment in 2015.

Luxembourg does not currently grant any tax incentives for venture capital or business angel investment.

The government provides other forms of support to start-ups and SMEs. These include investment tax credits, loans granted to young innovative SMEs and interest relief for



new entrepreneurs.

Comments from Member State review

The Luxembourg authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Luxembourg representatives.

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21. Malta

Business Angel and Venture Capital market		
Venture Capital and Private Equity Attractiveness Index 2016	Malta	69/125
	Country Sample Ranking	35/36
PwC Paying Taxes - Time to comply (hours) 2017	Malta	139
	Country Sample Ranking	15/36
Venture Capital Investment as a Percentage of GDP 2015	Malta	-
	Country Sample Ranking	N/A
Average Venture Capital Investment per Company 2016	Malta	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Malta	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Malta	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>The value added by SMEs to the non-financial business economy equaled 77% in 2014, compared to the EU average of 58%. In the same year, employment in SMEs stood at 81.6%, which was significantly higher than the EU average of 67%. The two indicators follow similar upward post-crisis trends, with value added of SMEs growing significantly faster than the number of persons employed in the sector. The Maltese SME sector is one of the few that expanded throughout the Eurozone crisis. For the period 2014-2016, the number of SME employees is forecasted to rise by 6%, while the value added by 13%. Notably, between 2009 and 2014, growth was led by small firms (10-49 employees), with a 55% increase in value added and a 19% rise in employment. The only sectors still struggling with the aftermath of the crisis are manufacturing and mining and quarrying.ⁱ</p> <p>Malta progressed from position 80 in the 2016 edition to position 76 in the 2017 edition of World Bank's <i>Doing Business</i> ranking. The <i>Starting a Business</i> indicator did not change and remains at place 132, while the <i>Paying Taxes</i> indicator dropped from place 33 to 25 following the replacement of the capital gains tax with a property transfer tax.</p> <p>Access to debt finance of Malta's SMEs is improving from a relatively low base. The country occupies 139th rank in the <i>Getting Credit</i> subindex of World Bank's 2017 <i>Doing Business</i> report. This progress in relation to the 2016 edition (174th rank) was possible thanks to the launch a new credit registry. The European Commission's 2015 <i>SBA Fact</i></p>		





Sheet report points to Malta's steady progress in terms of offering access to finance, highlighting that country's loan financing indicators score above the EU average (although a number of indicators are not yet available for the Maltese economy).ⁱⁱ

Venture Capital Market

No information on the venture capital and business angel markets in Malta is available in the published sources.

General Characteristics of the Tax Systemⁱⁱⁱ

Income tax rate	Corporate	Corporate income is taxed at a flat rate of 35%. Loss relief is available. Losses may be carried forward indefinitely. Losses cannot be carried back.
	Individual	Personal income is taxed at progressive rates, with a top marginal rate of 35%. Taxable income thresholds vary depending on whether the taxpayer is single, married and elects to be taxed as a couple or a parent. Loss relief is available. Personal trading losses may be carried forward indefinitely. Losses cannot be carried back.
Capital gains tax rate	Corporate	Chargeable gains, including gains realised on the disposal of securities that do not yield a fixed rate of return, are taxed under the corporate income tax regime. No tax is levied on gains realised on the disposal of investments that yield a fixed rate of return and any shares listed on the Malta Stock Exchange. Loss relief is available. Losses may be carried forward indefinitely. Losses cannot be carried back.
	Individual	Chargeable gains, including gains realised on the disposal of securities that do not yield a fixed rate of return, are taxed at the marginal rate of income tax. No tax is levied on investments that yield a fixed rate of return and any shares listed on the Malta Stock Exchange.
Dividend tax rate	Corporate	Dividends received by one resident company from another, whether or not a subsidiary, are taxable on the gross amount in the recipient's hands. If the distributed profits have been taxed, no further tax should be chargeable to the recipient company. However, for resident shareholders, if the corporate rate of tax in the year in which the profits are earned is lower than that in the year in which they are distributed, an amount equivalent to the difference in rates (topping up) is payable. If the distribution is made from untaxed income, the dividend will be tax-free in the hands of the recipient company.



		<p>Dividends received by a corporate investor from a non-resident company may qualify for a participation exemption in Malta, subject to the satisfaction of certain statutory conditions.</p> <p>No WHT is imposed on dividends distributed by Maltese companies (except for distributions of untaxed income to resident persons other than companies) because no additional tax is imposed on distributions other than the tax charged on the company with respect to the distributed profits.</p>
	Individual	<p>Dividend income is tax under the withholding tax regime. Distributions of dividends by a Maltese company where the dividend represents a distribution of untaxed income attracts a 15% WHT where the shareholder is (i) a Maltese resident other than a company, (ii) a non-resident person who is directly or indirectly owned and controlled by, or acts on behalf of, a Maltese domiciled and ordinarily-resident individual, or (iii) an EU/ EEA individual who has declared that at least 90% of worldwide income is derived from Malta.</p>
Wealth and inheritance taxes	Individual	<p>There is no form of wealth taxation in Malta.</p> <p>Although there is no form of inheritance taxation, stamp duty is charged on transfers of immovable property situated in Malta and shares in Maltese companies on death.</p>
Current Tax Incentives		
1) Seed Investment Scheme		
Overview	Investors can get a maximum tax credit of €250,000 per year when investing in start-ups.	
Qualifying Criteria	<p><i>Business</i> – Companies that are the subject of investment must satisfy the following requirements:</p> <ul style="list-style-type: none"> • be incorporated and based in Malta; • be an SME; • employ no more than ten persons; • have assets not exceeding €250,000; • be no more than three years old; • be unlisted; and • not be an undertaking in difficulty, an undertaking subject to an outstanding recovery order, or undertaking that is excluded from receiving the aid – pursuant to the Commission Regulation (EU) No 651/2014 of 17 June 2014. <p>The investee company may not be engaged in the following commercial activities:</p> <ul style="list-style-type: none"> • dealing in real estate; • dealing in financial instruments; • dealing with goods other than in the normal course of business; • banking, insurance, and any other activity covered by the Investment Services Act, the Banking Act, and the 	



	<p>Financial Institutions Act;</p> <ul style="list-style-type: none">• real estate development;• management and operation of hotels, hostels, guest houses, and residential care homes;• generation of electricity and other energy sources;• provision of professional services (e.g. legal, accounting);• receiving royalties and license fees; and• holding of shares (directly or indirectly) in any company carrying out any of the above-mentioned activities. <p><i>Investment</i> – The investment must take place in the form of subscription to a new issue of fully paid-up, non-redeemable equity shares in the investee company at par value. It should leverage other investment(s) in the investee company, and the risks and rewards should be shared proportionally.</p> <p><i>Investor</i> – The incentive can be used by individual investors (natural persons) who satisfy the following conditions:</p> <ul style="list-style-type: none">• they are EU/EEA Member State nationals whose 90% or more of worldwide income is derived from Malta;• prior to the subscription for shares, they were not connected to the investee company in ways related to family ties, employment, shareholding, civil or commercial partnership, debt or entitlement to assets;• they are not an undertaking in difficulty, an undertaking subject to an outstanding recovery order or undertaking that is excluded from receiving the aid – pursuant to the Commission Regulation (EU) No 651/2014 of 17 June 2014. <p><i>Duration</i> – subscription for shares is to be carried out within two years after the issuance of the Compliance Certificate for a Qualifying Company, and the shares are to be held for a minimum of three years.</p> <p>If the tax credit is not fully absorbed within one year, it can be carried forward.</p> <p>The scheme has been launched in August 2016, and it will be active until December 31, 2018, or until €5m worth of applications have been filed.</p>
Reliefs available	<p><i>Tax relief on investment</i> – tax credit of 35% of the aggregate value of the investments made in a qualifying company, provided that the total tax credit shall not exceed €250,000 p.a.</p> <p>The credit can be set off against the tax due by the qualifying investor in respect of any income and gains earned by him in the basis year during which the investment is made. Any amount which is not fully absorbed can be carried forward to be absorbed against the tax due in subsequent years of assessment.</p> <p><i>Tax relief on income received</i> – No relief on income received.</p>



	<p><i>Tax relief on disposal</i> – no relief on disposal.</p>
Administration	<p>The investee company must submit the following documentation in the application process:</p> <ul style="list-style-type: none">• Application Form;• Self-Declaration Form;• SME Declaration Form;• a certified copy of the latest Memorandum and Articles of Association issued by the Maltese Registrar of Companies;• a good standing certificate issued by the Maltese Registrar of Companies up to one month prior to the application; and• a copy of the latest Audited Financial Statements, if available. <p>Successful applicants are granted the Compliance Certificate for a Qualifying Company.</p> <p>The investee company must submit the following documents annually, within 30 days of the anniversary of the issuance of the Compliance Certificate for a Qualifying Company:</p> <ul style="list-style-type: none">• Annual Confirmation Form;• Self-Declaration Form;• SME Declaration Form;• a copy of the Audited Financial Statements; and• a good standing certificate issued by the Maltese Registrar of Companies. <p>The investor must submit the following documentation in the application process:</p> <ul style="list-style-type: none">• Application Form;• Self-Declaration Form;• due diligence documents (e.g. a certified copy of the passport, bank reference letter); and• evidence of qualified investment. <p>Successful applicants are granted the Compliance Certificate for Qualifying Investor.</p> <p>The investor must submit the following documents annually, within 30 days of the anniversary of the issuance of the Compliance Certificate for Qualifying Investor:</p> <ul style="list-style-type: none">• Annual Confirmation Form;• Self-Declaration Form;• declarations concerning the total investments in each investee company; and• any other documents that may be required to determine the amount of the tax credit.
Penalties	<p>The qualification status may be withdrawn if the beneficiary turns out not to have been eligible for the relief.</p> <p>The abuse of scheme results in the amount invested being brought to charge, and interest of 1% per month of the amount used for tax credit being charged.</p>
Impact	<p>The incentive is in operation for less than a year, and no impact assessment is known as of yet.</p>



Generosity	B-Index value for a small investment (€50,000) – 0.812 B-Index value for a large investment (€500,000) – 0.812 Average B-Index value – 0.812
Impact of Current Tax Incentives	
The Seed Investment Scheme marks Malta's first effort to use a tax incentive to stimulate investment in start-ups.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
Government-backed support to young and growing innovative companies is available in other forms in Malta. Malta offers a number of tax, advisory and credit mechanisms supporting entrepreneurship. Notably, the <i>MicroInvest</i> scheme aims to support businesses investing in innovation, expansion and development, as well as the implementation of compliance directives. A number of policy instruments are deployed in Malta to assist with access to finance. Funding for start-ups is provided through the <i>TAKEOFF Seed Fund Award</i> . The programme lends support to SMEs in the commercialization of business ideas; its value totaled €100,000 in 2015. The <i>Micro Guarantee Scheme</i> aims at business enhancement, growth acceleration and development by facilitating access to debt finance for SMEs. It provides enterprises with guarantees running up to 80% for loans no larger than €100,000. The <i>ERDF Research and Development Grant Scheme</i> , funded through the European Regional Development Fund, provides cost-linked partial financing to support R&D activities. In 2014, Malta adopted the <i>Joint SME initiative (2014-2020)</i> in collaboration with the European Commission, a €15m investment programme targeting SME competitiveness, aimed at building on the successful implementation of the JEREMIE financial instrument. ^{iv} The EU backed <i>Joint European Resources for Micro to Medium Enterprises (JEREMIE)</i> funds had a duration of three years from April 2011, providing more than 500 SMEs with €52m worth of loans; an amount that was augmented by a €10m in additional involvement from the side of the Maltese government. ^v	
Bankruptcy Law^{vi}	
In 2016, insolvency resolution took 3 years in Malta, substantially above the OECD average of 1.7 years. Insolvency costs in the country amount to 10% of estate, also higher than the OECD average of 9.1%.	
Assessment	
Malta operates one tax incentive scheme for venture capital and business angel investors. The Seed Investment Scheme ranked 14th in the benchmarking component of this study. The scheme corresponds to good practice in providing upfront relief and capital gains relief, but displays not recommended practice in disallowing losses. It performs well across many elements of qualifying criteria (e.g. partial targeting on business size, sector exclusions, targeting equity investment, investment size limits and minimum holding periods), but displays not recommended practice in investor targeting by only	



targeting individual investors. There was insufficient information to assess performance in terms of cross-border investment targeting.

The scheme performs well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs, such as the Micro Guarantee Scheme, which aims to facilitate debt financing for SMEs.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Maltese authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Maltese representatives.

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22. Poland

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Poland	25/125
	Country Sample Ranking	18/36
PwC Paying Taxes - Time to comply (hours) 2017	Poland	271
	Country Sample Ranking	34/36
Venture Capital Investment as a Percentage of GDP 2015	Poland	0.004%
	Country Sample Ranking	26/36
Average Venture Capital Investment per Company 2016	Poland	€0.316m
	Country Sample Ranking	25/36
Business Angel Investment as a Percentage of GDP 2015	Poland	0.0023%
	Country Sample Ranking	18/36
Average Business Angel Investment per Company 2015	Poland	€0.386m
	Country Sample Ranking	23/36



SME Investment Environment
<p>In 2014, the value added by Polish SMEs to the non-financial business economy was 50.5 % (compared to the EU average of 57.8%), and employment was 67.8% (compared to the EU average of 66.9%). The former was forecast to reach and exceed its pre-crisis level in 2016, while the latter was expected to remain at an approximately 5% below pre-crisis level. As of 2016, there were 2,677 start-ups in Poland, with most at the intermediate stage of business development.ⁱ</p> <p>Poland has been consistently climbing up the World Bank's <i>Doing Business</i> report ranking in the recent years. Between the 2014 and 2017 editions, the country has progressed from position 45 to 32, 25, and eventually 24. The <i>Paying Taxes</i> sub-index showed an even greater improvement – from position 113 to 87, 58, and finally 47. One of the major reforms was the introduction of the electronic system for filling and paying VAT. The <i>Starting a Business</i> sub-index, on the other hand, has largely followed the opposite direction, progressing from place 116 in the 2014 edition to 85 in the 2015-2015 editions only to slide back again to 107 in the newest edition.ⁱⁱ</p> <p>Financing of SMEs used to be dominated by traditional sources, but this picture is changing. According to a recent report, precisely 50% of start-ups were financed exclusively by own capital, and the other 50% made use of some sort of external financing.ⁱⁱⁱ The most popular source of external financing was EU-sourced funds (used by 24% of start-ups), followed by venture capital (22% of start-ups), and business angels (17% of start-ups). Other sources included business accelerators, strategic</p>



investors, bank loans, and crowdfunding.

Venture Capital Market^{iv}

The business angels market in Poland is accelerating. Its value increased from €6.6m in 2013 to €9.5m in 2014 to €12.35m in 2015. There are five business angel networks in the country that bring together 411 business angels. 32 companies were financed in 2016.

The volume of the venture capital market in Poland was almost €20m in 2015, €22.5m in 2014 and nearly €16m in 2013. The market performed particularly well in 2008, when it reached €50m, before declining to little over €1m in 2009. Computer and consumer electronics was the sector that enjoyed the most investment in the recent years, followed by business and industrial services and communications. Both start-up and later stage venture are well-represented in the investors' portfolios, with the seed stage accounting for anything from €0.5m to €3m in the last five years.

The main sources of cross-border private equity investment (including VC) into Polish companies are the United Kingdom, Norway, Germany, the Czech Republic, and Denmark. These countries accounted for 13.6% of all private equity investment in 2015.

Poland is perceived by investors as being among the best venture capital markets in the region. The country was placed 25th out of 125 in the IESE's *Venture Capital & Private Equity Country Attractiveness Index* in 2016, the highest position among Central and Eastern European countries. Enterprises are also aware of the benefits offered by the venture and business angels markets. In a recent survey,^v 59% of Polish start-ups stated that they planned to use venture capital within the next six months, and 35% planned to attract a business angel investor during the same time (compared to 56% who planned to use EU-based funding).

General Characteristics of the Tax System^{vi}

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a rate of 19%. From 2017 15% rate apply to small taxpayers and to taxpayers beginning to carry their activity (in the tax year of such a beginning).</p> <p>Loss relief is available. Losses may be carried forward for a period of five years, but may not be carried back. However, the allowable deduction on any one year is restricted to 50% of the loss.</p>
	Individual	<p>Personal income is taxed at a rate of 18% for income below PLN 85,528 (€19,370) and 32% for income in excess of it.</p> <p>During the period 2009-2016 there was tax-free personal allowance of PLN 3091 (€700). From 1 January 2017 the tax-free personal allowance rises to PLN 6,600 for income below PLN 6,600, but gradually decreases to PLN 3,091 for income between PLN 6,600 and PLN 11,000. For income between PLN 11,000 and PLN 85,528 the tax-free personal allowance remains at PLN 3,091, then again decreases gradually until it reaches 0 for income higher than PLN 127,000</p> <p>Self-employed taxpayers may be taxed at a flat rate of</p>



		<p>19% and this has to be declared.</p> <p>In many cases non-residents can benefit from a flat 20% tax rate calculated on their revenues (i.e. with no deduction of costs).</p> <p>Loss relief is available for self-employed individuals. The losses from economic activity may be set off against future income within five years. However, only up to 50% of this loss may be reconciled in a given tax year.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains realised by corporates are taxed under the corporate income tax regime.</p> <p>Loss relief is available. Losses may be carried forward for a period of five years, but may not be carried back. However, the allowable deduction on any one year is restricted to 50% of the loss.</p>
	Individual	<p>Capital gains are taxed at a flat rate of 19%. This flat rate is applicable for both domestic- and foreign-sourced capital gains income.</p> <p>Loss relief is available. Capital losses may be deducted from capital gains in the current year and carried forward for a period of 5 years. However, the amount of the deduction in any of those years may not exceed 50% of the loss.</p>
Dividend Tax Rate	Corporate	<p>1. Dividends paid by Polish tax-resident companies to foreign companies / Polish tax-resident companies.</p> <p>The general withholding tax with respect to dividend payments is 19% regardless of whether the recipient is resident or non-resident. However, some exceptions / rate reductions may apply depending on the recipient's tax residence.</p> <p>In line with the Parent / Subsidiary directive, based on the Polish CIT Law, a withholding tax exemption (the so-called 'participation exemption') applies to dividends being paid by a Polish taxpayer to EU / EEA / Swiss parent companies (including in particular Polish parent companies) provided that a certain level of the shareholding is maintained for an uninterrupted period of two years and certain additional conditions are met.</p> <p>Irrespective of the above exemption, if the recipient is a foreign company, the WHT rate may also be reduced based on the appropriate double taxation treaty.</p> <p>2. Dividends received by Polish companies from foreign entities</p> <p>Polish CIT taxpayers who receive dividends from European companies (i.e. including entities of the EU, the EEA, and Switzerland) and PEs thereof do not</p>



		<p>include dividends into their worldwide income, provided that a minimum of 10% of the shareholding is maintained for at least two years.</p> <p>In all other cases the dividend payment receipts are added to the worldwide income and taxed at the standard rate of 19%. Double taxation is avoided by an application of the ordinary tax credit method.</p> <p>3. Limitations of the above CIT exemptions</p> <p>As of 1 January 2016, dividends or other profit distributions must originate from agreements reflecting real business activity, and the exemption will not apply if the main purpose is to obtain a tax advantage.</p>
	Individual	Dividend income received by individuals is taxed through withholding tax of 19% for both domestic- and foreign-source dividends.
Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth taxation in Poland.</p> <p>Inheritance and gift tax is charged at rates from 3% to 20%, subject to a number of allowances.</p>

Current Tax Incentives

Tax exemption on the disposal of stocks and shares

Overview	Tax exemption on the disposal of stocks and shares held in eligible companies and purchased in 2016-2017.
Qualifying criteria	<p><i>Business</i> – The companies that are the subject of investment eligible for the relief must satisfy the following requirements:</p> <ul style="list-style-type: none"> • must be a CIT-payer on the territory of Poland, EU or EEA, with respect to entire corporate income regardless of its origin; • may not be controlled by the investing company; • may not be engaged in the production of excise goods (e.g. fuels, alcohol, tobacco); • may not be involved in trade; and • must be engaged in R&D activity. <p><i>Investment</i> – The investor must commit a minimum of 75% of its assets (as per the balance sheet on the last day of the fiscal year in which the investment is finalized) to a financial investment. Such investment includes non-publicly traded stocks and shares, and excludes publically traded equity, real estate, and money market instruments. The investment may not exceed €50m of purchase price. The investor must directly hold a minimum of 10% of shares or stocks of the investee company for the uninterrupted period of at least two years.</p> <p><i>Investor</i> – The incentive can be used by companies that operate in the form of a limited liability company, joint-stock company, or a limited joint-stock partnership. The only area of business activity that such a company may undertake is financial investment (as defined above).</p>



	<i>Duration</i> – Only the instruments purchased in 2016 and 2017 are eligible for the incentive. There are no limitations on the date of disposal, but equity must be held for a minimum of two years.
Reliefs available	<p><i>Tax relief on investment</i> – no relief on investment.</p> <p><i>Tax relief on income received</i> – no relief on income received.</p> <p><i>Tax relief on disposal</i> – because there is no separate capital gains tax for companies in Poland, all gains from disposal of stocks and shares are normally taxed under CIT at 19%. The tax exemption guarantees that no such tax must be paid on the entirety of profits from disposal of eligible stocks and shares.</p>
Administration	Beneficiaries are obliged to submit an extra tax return form “CIT-VC”, which contains information on the purchase of eligible stocks or shares. This duty has to be complied with by the end of the third month following the purchase of the assets.
Penalties	No information available.
Impact	The fact that only the stocks and shares purchased in 2016 and 2017 are eligible for the relief has been described as its main limitation. ^{vii} The tax incentive has also been described as relatively unknown. ^{viii}
Generosity	It is not possible to calculate a B-Index value due to the lack of upfront tax relief.
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
<p>There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.</p> <p>On 1 January 2016 tax relief for new technologies was abolished and replaced with a new tax incentive for R&D and innovation.</p>	
Other Policy Instruments	
<p>Government-backed support to young and growing innovative companies is available in other forms in Poland.</p> <p>Like other countries in the region, Poland relies on public institutional investors to close the financing gap in the SME sector. This includes the EU’s instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint initiative of the European Investment Bank, the European Investment Fund and DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes, with the rest being channelled into loan and guarantee schemes.</p>	
Bankruptcy Law^{ix}	
<p>In 2016, insolvency resolution took 3 years in Poland, above the OECD average of 1.7 years.</p> <p>Insolvency costs in the country are substantially higher compared to the OECD average of 9.1%, amounting to 15% of estate.</p>	
Assessment	
Poland’s business angel market has grown steadily in recent years, with investment	



levels reaching a high of €12.35m in 2015. The venture capital market has shown volatility in recent years, with investments in 2015 almost €20m and targeted the computer and consumer electronics sector.

Poland operates one tax incentive scheme for venture capital and business angel investors. The Tax exemption on the disposal of stocks and shares ranked 44th in the benchmarking component of this study.

The scheme conforms to neutral practice in offering relief on both current and capital income, but shows not recommended practice by not offering upfront relief and disallowing losses. It displays mixed performance in terms of qualifying criteria, corresponding to good practice in business size and sector targeting, targeting equity investment, permitting cross-border investment and imposing size restrictions and minimum holding periods. However, it displays not recommended practice by not targeting on the basis of business age, only targeting corporate investors and not targeting new investment. There was insufficient information to assess performance against related party targeting. The scheme performs well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs, such as the EU JEREMIE fund to provide innovative SMEs with access to financing through loan guarantee schemes.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Polish authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Polish representatives.

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23. Portugal

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Portugal	31/125
	Country Sample Ranking	21/36
PwC Paying Taxes - Time to comply (hours) 2017	Portugal	243
	Country Sample Ranking	32/36
Venture Capital Investment as a Percentage of GDP 2015	Portugal	0.027%
	Country Sample Ranking	9/36
Average Venture Capital Investment per Company 2016	Portugal	€0.564m
	Country Sample Ranking	17/36
Business Angel Investment as a Percentage of GDP 2015	Portugal	0.0106%
	Country Sample Ranking	4/36
Average Business Angel Investment per Company 2015	Portugal	€0.403m
	Country Sample Ranking	24/36
SME Investment Environment		
<p>The SME sector is a key driver of the Portuguese economy, accounting for 99.7% of enterprises and employing 78.1% of the labour force in 2012.ⁱ</p> <p>Portugal has a strong and historically stable overall rating in World Bank's annual <i>Doing Business</i> report. However, in the 2016 edition of the report, Portugal's ranking declined on the starting a business indicator, moving down three places to 13/189.</p> <p>SME lending was affected by the financial and Eurozone crises, declining 24.6% over the period 2010-2014. The volume of equity investment in Portuguese SMEs also fell in response to increased investor risk aversion, falling from €41.9m in 2009 to €12.8m in 2011.</p> <p>As a consequence, the Government of Portugal has implemented measures to improve the stability, development and investment attractiveness of the SME sector. This has included the implementation of tax incentives and non-tax policies.</p>		
Venture Capital Market		
<p>Total business angel investment in was €23.4m in 2015, declining 16% on 2014.</p> <p>Venture capital investment volumes declined over the period 2007-2015 from €103m to €59m, a decline of 43%.</p> <p>Venture capital in Portugal has historically focused on start-up investment. Start-up investment accounted for 73% of total venture capital investment by volume and 72% of recipient companies in 2015.</p> <p>The main sources of cross-border private equity investment (including VC) into Portuguese companies are France and Spain. These two countries accounted for 10.5% of all private equity investment in 2015. This illustrates the low levels of dependence on cross-border and non-regional venture capital investment in Portugal.</p>		





General Characteristics of the Tax System ⁱⁱ		
Income Tax Rate	Corporate	<p>Corporate profits of tax-resident entities are taxed at 21% on their worldwide income. A reduced rate of 17% applies to SMEs on the first €15,000 of taxable profits.</p> <p>A municipal surcharge may also apply up to 1.5% of the taxable profit (the rates vary according to the municipality). A state surcharge may also apply as follows: 3% on the part of taxable profits between €1.5m and €7.5m; 5% on the part of taxable profit between €7.5m and €35m; 7% on exceeding part above €35m.</p> <p>Non-resident entities obtaining Portuguese-sourced income are subject to taxation in Portugal at a 25% rate.</p> <p>Loss relief is available. Losses generated on or after 1 January 2014 can be carried forward for 12 years. Losses generated on or after 1 January 2017 can be carried forward for five years (12 years for SMEs). The deduction of losses is capped at 70% of the current year taxable income. Losses cannot be carried back.</p>
	Individual	<p>Portuguese resident individuals are subject to Personal Income Tax (PIT) on the worldwide income at progressive rates up to 48%. Some surcharges are applicable.</p> <p>Special tax rates apply for individuals benefiting from the "Non-Habitual tax residents" regime.</p> <p>Loss relief is available for individuals for certain categories of income.</p> <p>Non-resident individuals obtaining Portuguese-sourced income are subject to PIT in Portugal at rates varying between 25% and 28% depending on the nature/category of the income.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains are treated as corporate income and taxed at a rate of 21% (17% if applicable), plus surcharges (as explained above).</p> <p>Exemption may be granted where the conditions for participation exemption are met.</p> <p>Capital losses in the sale of participations which fulfill the conditions to benefit from the participation exemption regime are not deductible. Otherwise, capital losses (including liquidation losses) should be deductible, with some exceptions.</p>
	Individual	<p>Taxed at a rate of 28%. Only 50% of capital gains</p>



		<p>arising on the disposal of shares held in non-listed SMEs will be subject to taxation.</p> <p>The gains arising from the sale of shares or other securities may be offset against losses of the same nature and, therefore, only the annual positive balance is liable to Portuguese income tax at a flat rate of 28%. Whenever there is an annual negative balance arising from these sales, there is no taxation on these transactions.</p> <p>However, a loss obtained with the sale of shares or other securities cannot be offset against other types of investment income (e.g. interest, dividends, income from redemption of investment funds, among others), which qualify under a different income category and should be liable to personal income tax at 28% or at progressive tax rates.</p> <p>It is possible to deduct the capital loss against the capital gains of the same nature during a period of five years, if the option for the "englobamento" is made. This option requires that the taxpayer also subjects to the progressive tax rates (currently up to 48% or up to 53% when we consider the additional solidarity surcharges) the income which is subject to flat tax rates (in general, dividends, interest, capital gains, among others).</p> <p>Special tax rates apply for individuals benefiting from the "Non-Habitual tax residents" regime</p>
Dividend Tax Rate	Corporate	<p>Taxed at a rate of 21% (plus surtaxes, as above).</p> <p>Exemption may be granted where the conditions for participation exemption are met. Dividend withholding tax applies at a rate of 25% and can be fully relieved under the parent/subsidiary directive or partial relieved under applicable double taxation treaties.</p>
	Individual	<p>Taxed at a rate of 28%, unless reduced under an applicable double tax treaty. The taxpayer can elect to be taxed at the PIT progressive rates, varying between 14.50% and 48% (only available to residents) or up to 53% when we consider the additional solidarity surcharges.</p>
Wealth and Inheritance Taxes	Individual	<p>Inheritances are taxed through Stamp Duty at a tax rate of 10%. However several exemptions apply namely to spouses, descendent and/or ascendant.</p>
Current Tax Incentives		
1) "Programa Semente" (Tax relief for investing in Startups)		
Overview	The Law of the State Budget for 2017 introduces a new tax	



	<p>incentive for individuals investing in Portuguese start-ups called "Programa Semente" ("Seed Programme").</p> <p>"Programa Semente" is part of the Portuguese Government's national strategy for promoting and fostering entrepreneurship known as Start-Up Portugal.</p>
Qualifying Criteria	<p><i>Business</i> – The recipient of the investment must be micro- and small companies. No limitation regarding business sectors.</p> <p><i>Investor</i> – Individual taxpayers subject to PIT.</p> <p><i>Investment</i> – Investments in cash in acquisition of share capital in qualifying micro/small companies up until €100,000 (per taxpayer), provided that the following conditions are met:</p> <ul style="list-style-type: none">(i) The recipient company has been incorporated for less than five years;(ii) Minimum investment of €10,000;(iii) The acquired shareholding does not exceed 30% of the voting rights or share capital of the recipient company in the moment of the acquisition and the during following three years;(iv) The shareholding is held for at least 48 months;(v) The shareholding held by corporate entities does not exceed in the moment of the acquisition and during the following 3 years 50% of the share capital or voting rights of the recipient company;(vi) The contribution in cash is invested during the 3 years after the acquisition of the recipient company in R&D expenses, intangible assets and tangible fixed assets (with exceptions).
Reliefs Available	<p><i>Tax relief on investment</i> – PIT deduction to the taxable income corresponding to 25% of qualifying investments, limited to 40% of the taxable income for a given year. A carry forward period of 2 years is also available.</p> <p>The gains arising from the sale of shares/quotas in companies in respect of qualifying investments are not subject to PIT (if the investor didn't sell the shares/quotas before 48 months), provided those gains are reinvested in new eligible investments in the same year or in the following year.</p> <p>This tax incentive will be applicable as of 1st January 2017.</p> <p><i>Tax relief on income received</i> – no relief on income received.</p> <p><i>Tax relief on disposal</i> – no relief on disposal</p>



Administration	No information available
Penalties	No information available
Impact	No information available
Generosity	B-Index value for a small investment (€50,000) – 0.769 B-Index value for a large investment (€500,000) – 0.954 Average B-Index value – 0.862
2) Tax Relief for Business Angels	
Overview	The tax relief for business angels was introduced in 2010 and is modelled on the design features of the United Kingdom's Enterprise Investment Scheme. ⁱⁱⁱ
Qualifying Criteria	<p><i>Business</i> – The recipient of investment must be an SME or start-up less than 3 years old carrying on a qualifying trade (real estate and financial services do not qualify). The business must not be an associate of the investor.</p> <p>This incentive does not apply to the following cases:</p> <p>a) investments in stock exchange companies, and in companies which share capital is controlled mainly by other companies, except the investments undertaken in venture capital entities or in VC funds; and</p> <p>b) investments in companies supervised by the Bank of Portugal and by the Portuguese Insurance and Pensions Funds Supervision Authority.</p> <p><i>Investor</i> – The investor must be certified by IAPMEI (Government Small and Medium Enterprise Agency) or the Security Exchange Authority (CMVM) and must be not be a related party.</p> <p><i>Investment</i> – The investment must be certified by IAMPEI and must be an equity investment.</p> <p><i>Duration</i> – There is no minimum period for which qualifying investments need to be held in order to attract tax relief. Qualifying investments must be held for a maximum period of 10 years.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Investors receive tax relief of 20% of the value of qualifying investments against their income tax liability up to a maximum of 15% of the income tax liability.</p> <p><i>Tax relief on income received</i> – No relief on dividend income received.</p> <p><i>Tax relief on disposal</i> – No relief on gains realised on disposal.</p>
Administration	No information available.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of an upper limit on the monetary value of tax relief



	available under the scheme.
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
Government-backed support to young and growing innovative companies is available in other forms in Portugal.	
The business angel and venture capital industry has been supported in recent years through a number of government initiatives, including the establishment of:	
<ul style="list-style-type: none">• COMPLETE, a business angel co-investment fund under the New Platform of Financing Business Angels.• The Call for Entrepreneurship initiative is part of the Ignition Programme (a programme that allows access to venture capital investment of innovative scientific and technological projects in the seed phase) of Portugal Ventures. It aims to provide access to venture capital investment by innovative scientific and technological projects in the nascent phases.• The Business Angels Financing line - Launched on 18th February 2014, and with a financial allocation of €36m, the new line of business angels reinforced its commitment to boosting entrepreneurship, strengthening the risk capital instruments and by stimulating the creation of companies and the realization of innovative projects.	
It is aimed at innovative SMEs in the creation or start-up phase, with growth and internationalization strategies, and with CAE (Classification of Economic Activities) in the sectors of Industry, Energy, Construction, Commerce, Tourism, Transport and Logistics and Services.	
<ul style="list-style-type: none">• Capital and quasi-Capital Fund to support business investment through the European Funds/FEEI (Decree-Law No. 225/2015 - October, 9) - having been identified market failures relating to instruments of equity and quasi equity, it should be a fund of funds, to be managed by IFD - Development Financial Institution, whose main function is co-finance the capitalization solutions companies, in order to strengthen its competitive capabilities, in particular by venture capital intervention and or business angels. As a fund of funds, the Capital Fund and Almost Capital does not raise funds from the public, counting only contributions of the Portuguese State and the Union European or other entities whose participation in fund will be accepted by its general counsel, attentive the established objectives.	
Bankruptcy Law^{iv}	
In 2016, insolvency resolution took 2 years in Portugal, above the OECD average of 1.7 years.	
Insolvency costs in the country amount to 9.0% of estate, almost on par with the OECD average of 9.1%.	
Assessment	
Business angel and venture capital investment in Portugal has declined in recent years. In 2014, business angel investment fell by 16% to €23.4m and venture capital	



investment volumes to €59m in 2015, a decline of 43% over the period 2007-2015.

Portugal currently offers two incentive schemes for venture capital and business angel investors. Both schemes target business angel investment in early-stage companies, providing upfront relief on investment and, in the case of the tax relief for business angels scheme, relief on capital gains. These were ranked as follows in the benchmarking component of this study:

- “Programa Semente” (Tax relief for investing in Startups) – 31st
- Tax Relief for Business Angels – 35th

In terms of scope, both of the schemes offer upfront relief, which conforms to good practice. However, there is mixed performance under the qualifying criteria, with recommended practice being followed under business age and size targeting together with practices that are not recommended under certain criteria, such as allowing existing shares to qualify for relief under both schemes. Good practice under this criteria would be to restrict eligibility to new investments (e.g. newly issued share capital). Collectively, the schemes allow for corporate and individual investors to participate.

The government also provides other forms of support to start-ups and SMEs. These include the FINICA program and PME initiative, which aim to promote SMEs’ access to finance, and the Development Finance Institution (IFD), a financial company whose purpose is to carry out operations aimed at bridging market failures affecting SME finance.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Portuguese authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Portuguese representatives.

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24. Romania

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Romania	46/125
	Country Sample Ranking	26/36
PwC Paying Taxes - Time to comply (hours) 2017	Romania	161
	Country Sample Ranking	18/36
Venture Capital Investment as a Percentage of GDP 2015	Romania	0.001%
	Country Sample Ranking	31/36
Average Venture Capital Investment per Company 2016	Romania	€0.457m
	Country Sample Ranking	21/36
Business Angel Investment as a Percentage of GDP 2015	Romania	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Romania	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>The value added by SMEs to non-financial business economy was below 50% in 2014, compared to the EU average of 58%, while employment hovered at around 67%, which was almost identical as the EU average. Both numbers were markedly lower than the pre-2008 levels.ⁱ Indeed, the sector has been hit hard by the financial crisis and the recovery was relatively slow.ⁱⁱ However, the sector is continuing to recover gradually since 2009 and is expected to stay on the right course through 2016.ⁱⁱⁱ</p> <p>Romania advanced impressively from position 73 to 36 between the 2014 and 2017 editions of World Bank's <i>Doing Business</i> report. Progress was observed especially in the area of taxation, where an enormous leap of 84 positions, from 134 to 50, reflects the government's efforts in digitalizing tax procedures and reducing social contribution. On the other hand, the <i>Starting a business</i> index fell by two positions in the same period, from 60 to 62, following changes that complicate the VAT registration procedure.^{iv}</p> <p>The SME environment has a favourable entrepreneurial climate, which is the most vibrant of all the EU countries according to a recent study by the European Commission.^v However, the country suffers from poor physical infrastructure, and the legal system requires further reforms. Bureaucratic red tape is still a challenge, resulting in the low absorption rate of the EU funds (56% as of 2014).^{vi} The level of innovativeness^{vii} has been assessed as insufficient,^{vii} although a large supply of skilled</p>		





labour in Romania is a substantial asset. Interestingly, the government has introduced an income tax exemption for skilled employees in the software development sector. The IT sector, which employs around 90,000 people and is largely export-oriented, is particularly strong.^{viii}

Access to debt finance for Romanian SMEs is a mixed picture. The country occupies 7th rank in the *Getting credit* sub-index of World Bank's 2017 *Doing Business*. On the other hand, the European Commission's 2015 *SBA Fact Sheet* for Romania rates access to debt finance for Romanian SMEs as falling close to the EU average. It also signals the need to diversify financing sources.^{ix} Banks and families have been quoted as the main source of financing for Romanian enterprises by local experts.^x

Venture Capital Market^{xi}

The value of the venture capital market in Romania was less than €2m in 2015, and it has oscillated within the €2-5m range since the financial crisis. Later-stage financing was particularly well represented, reaching anything in the range of 70-100% of the total venture financing for most of the reference period. The bulk of the investment has been in the sectors of communications, computer and consumer electronics, consumer goods, and retail, with some in real estate. In general, in the post-crisis years, risk capital can be described as scarce. In contrast, VC investment stood as high as €30-40m in the years 2007-2008.^{xii}

There are no data on business angel investment in the available sources: EBAN's *European Early Stage Market Statistics 2015*, EBAN's *Statistic Compendium 2014*, European Commission's *Access to finance. Business angels*, and national sources.

General Characteristics of the Tax System^{xiii}

Income Tax Rate	Corporate	<p>Corporate income is taxed at a flat rate of 16%.</p> <p>Reduced rates apply to microenterprises (companies with an annual turnover below €100,000, which operate outside of certain sectors (mainly oil, gambling and some financial ones), and which satisfy some other conditions). The applicable rates are: 3% for microenterprises with no employees (owner-operated companies), 2% for those with one employee, and 1% for those with 2 or more employees.</p> <p>Loss relief is available. Losses incurred prior to 2009 can be carried for a period of up to five years. Losses incurred after 2009 can be carried for a period of up to seven years. Losses cannot be carried back.</p>
	Individual	<p>Personal income is taxed at a flat rate of 16%.</p> <p>There is a personal income tax exemption for software developers, subject to some conditions (e.g. higher education diploma).</p> <p>Loss relief is not applicable for self-employed individuals, rather it is only applicable for employees of economic operators.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains are taxed together with other corporate income at a flat rate of 16%.</p> <p>Loss relief is available. Losses incurred prior to 2009</p>



		<p>can be carried for a period of up to 5 years. Losses incurred after 2009 can be carried for a period of up to 7 years. Losses cannot be carried back.</p> <p>A participation exemption applies if the selling company has held a minimum of 10% of shares in the subsidiary company for at least one year.</p>
	Individual	<p>Capital gains are taxed together with other personal income at a flat rate of 16%.</p> <p>Loss relief is available for losses realised in the sale of shares in listed companies. Such losses can be carried forward for a period of up seven years.</p>
Dividend Tax Rate	Corporate	<p>Income from dividends distributed by Romanian companies is exempt from taxation.</p> <p>Income from dividends distributed by other companies is subject to a 5% tax from January 2016. A participation exemption may apply along the conditions spelled out in the Parent-Subsidiary directive of the EU.</p> <p>Income from dividends distributed to non-resident companies is subject to a 5% withholding tax.</p>
	Individual	<p>The rate of 5% applies to dividend income as of January 2016.</p>
Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth taxation in Romania.</p> <p>Inheritance tax is charged on the transfer of property on death. Tax is charged at a rate of 1%.</p> <p>No inheritance tax due if the succession is completed within two years of death.</p>
Current Tax Incentives ^{xiv}		
Tax incentives granted to individual investors – “business angels”		
Overview	<p>In mid-2015, Romania adopted law no. 120/2015 on tax incentives granted to individual investors (“business angels”). According to this law, individual investors in micro-enterprises and small-sized enterprises can be exempted, under certain conditions, from tax on dividends and on capital gains.</p>	
Qualifying criteria	<p><i>Business</i> – The investee company must be:</p> <ul style="list-style-type: none"> ○ a limited liability company; ○ an autonomous enterprise as per law no. 346/2004; ○ solvent, not in bankruptcy or liquidation proceedings; ○ not active in one of the following areas: <ul style="list-style-type: none"> ▪ banking; ▪ insurance and reinsurance, capital market, financial intermediation or any activities related to the financial sector; ▪ real estate transactions, rental of real estate assets, real estate brokerage, real estate development; ▪ gambling and betting; ▪ steel production or trading; 	



	<ul style="list-style-type: none"> ▪ coal production or trading; ▪ construction of ships; ▪ production or trading of weapons, ammunition, explosives, tobacco, alcohol, substances under national control, plants, narcotic and psychotropic substances and preparations; ▪ advisory. <p><i>Investor</i> – The investor must be an individual. Investors are not permitted to have any relation with the investee company and must obtain tax clearance and have a clean criminal record. They cannot hold more than 49% of the share capital of the investee company (whether this be direct, or through intermediaries). In the case of multiple investors, the tax incentives can be granted for a maximum of 49% of the share capital.</p> <p><i>Investment</i> – The investment must be used exclusively for the main business activity and to implement the business plan and be formally recorded in the accounting books. The maximum investment amount attracting relief is the RON equivalent of €3,000- €20,000 (the amount of investment cumulates among all investors). Share premium, if any, is not to be used to increase the share capital or to be distributed to shareholders before three years from the date of the investment</p> <p><i>Duration</i> – To qualify for the exemption from the capital gains tax, the sale of shares must take place at least three years from the date of the investment.</p>
Reliefs available	<p><i>Tax relief on investment</i> – no relief on investment</p> <p><i>Tax relief on income received</i> – Exemption from tax on dividends for the first three years from the purchase of the shares. The exemption is granted up to the equivalent of the invested amount.</p> <p><i>Tax relief on disposal</i> – Exemption from tax on capital gains from the sale of shares, if the sale takes place at least three years after the purchase of the shares.</p>
Administration	<p>Investors can register for the incentive at the National Trade Register Office (<i>Oficiul Național al Registrului Comerțului</i>), Ministry of Justice.</p>
Penalties	<p>No information available.</p>
Impact	<p>No information available.</p>
Generosity	<p>It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.</p>



Impact of Current Tax Incentives
No information available.
Abolished Tax Incentives
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.
Other Policy Instruments
<p>Government-backed support to young and growing innovative companies is available in other forms in Romania.</p> <p>Like other countries in the region, Romania relies on public institutional investors to close the financing gap in the SME sector.^{xv} This includes the EU's instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint initiative of the European Investment Bank, the European Investment Fund and DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes, with the rest being channelled into loan and guarantee schemes.</p> <p>An initiative organised under by the Ministry of Economy, Trade, and Business Environment, known as Romania HUB, provides non-financial assistance to Romanian SMEs. The programme offers a unified platform that brings together various stakeholders including potential and existing enterprises, governmental institutions, educational institutions, and NGOs. Together, they work on increasing the competitiveness of national SMEs and help participants hone their entrepreneurial skills. Activities include training, mentoring, technical assistance, and other. Between June and December 2014, 120 events were organised, which were attended by 6,000 participants and resulted in 75 being partnerships forged.^{xvi}</p>
Bankruptcy Law xvii
<p>In 2016, insolvency resolution took 3.3 years in Romania, above the OECD average of 1.7 years.</p> <p>Insolvency costs in the country are slightly higher than the OECD average (9.1%), amounting to 10.5% of estate.</p>
Assessment
<p>Romania has a relatively small venture capital market, with investments of less than €2m in 2015 largely concentrated within the communications, computer and consumer electronics sectors.</p> <p>Romania currently offers one scheme for individual investors (business angels). The scheme targets investment in limited liability companies, providing an exemption on dividends and capital gains. The tax incentives granted to individual investors – "business angels" incentive was ranked 39th in the benchmarking component of this study.</p> <p>In terms of scope, the Romanian incentive scores at the lower end of the country sample due to certain criteria. The incentive does not provide upfront relief. It offers tax relief in the form of an exemption on investment returns, but distinguishes between investment income and capital gains. Recommended practice is to provide relief for capital gains. With this said, the incentive scores relatively well under qualifying criteria, conforming to good practice in over half of the set criteria (e.g. partial targeting on business size, sector exclusions, targeting equity investment,</p>



investment size limits and minimum holding periods), but displays not recommended practice in investor targeting by only targeting individual investors. There was insufficient information to assess performance in terms of cross-border and new investment targeting.

The scheme performs well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

The government provides other forms of support to start-ups and SMEs. For instance, support is provided through the JEREMIE funds and the Romania HUB initiative, which aims to advance the entrepreneurial skills of SMEs through training and mentoring

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Romanian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Romanian representatives.

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25. Slovak Republic

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Slovak Republic	61/125
	Country Sample Ranking	32/36
PwC Paying Taxes - Time to comply (hours) 2017	Slovak Republic	192
	Country Sample Ranking	24/36
Venture Capital Investment as a Percentage of GDP 2015	Slovak Republic	0.009%
	Country Sample Ranking	24/36
Average Venture Capital Investment per Company 2016	Slovak Republic	€0.550m
	Country Sample Ranking	18/36
Business Angel Investment as a Percentage of GDP 2015	Slovak Republic	0.0018%
	Country Sample Ranking	21/36
Average Business Angel Investment per Company 2015	Slovak Republic	€0.146m
	Country Sample Ranking	10/36
SME Investment Environment		
<p>The SME sector is particularly important to the Slovak economy,ⁱ accounting for 70.7% of employment in the non-financial business economy (4 percentage points over the EU average) and value added at 61.2% (3 percentage points over the EU average) in 2014.ⁱⁱ In the years 2015-2016, SME value added is expected to increase further, while employment in the sector is likely to drop marginally.ⁱⁱⁱ</p> <p>In the 2017 edition of World Bank's <i>Doing Business</i> report, Slovakia occupied rank 33, a decline of 4 places on 2016. This comes after an improvement of 20 places between 2014 and 2016. The <i>Starting a Business</i> indicator has not moved since the previous edition and is still in place 68, having improved by impressive 40 places between 2014 and 2016, in part due to the introduction of a one-stop court for registration of companies.^{iv} The <i>Paying Taxes</i> indicator reached position 73 from 102 between the 2014 and 2016 editions, reflective of the government's efforts to reduce compliance burdens. Although the corporate income tax rate of 22% (due to be reduced to 21% from 2017 onwards) is the highest of all CEE countries – even after a 1% decrease in 2014^v – it still below the euro-zone average of 25.3%. In the 2017 edition, the <i>Paying Taxes</i> score further improved to reach position 56, driven by the reduction of the number of property tax payments.</p>		





The access of Slovak SMEs to debt finance presents a mixed picture.^{vi} On the one hand, compared to other Member States, the cost of borrowing is much higher for small firms than for large firms.^{vii} Credit standards for SMEs remain restrictive, too, owing to banks' fragile liquidity positions.^{viii} On the other hand, the rate of rejected loan applications and unacceptable loan offers is close to the EU average and few businesses report deterioration in credit possibilities.^{ix}

Venture Capital Market

The value of the Slovak venture capital market stood at €4.7m in 2014, and it was spread almost evenly between the seed and start-up phase, with a small amount at the later stage.^x

For 2014, OECD quotes an alternative figure of €9m including public subsidies.^{xi} The European Commission quotes volumes in the range of €0.2-2.1m for the years 2007-2010.^{xii}

Business angel investment was €1.75m in 2015, an increase from €1.33m in 2014. In 2015, there were 55 recorded business angels, three business angel networks, and twelve companies in total were financed. The Slovak business angels helped create an early stage fund called Neulogy, in which they co-invest.^{xiii}

The European Commission rates the access of Slovakian SMEs to equity financing as inadequate and gives it the third lowest rank of the whole EU in the Equity Finance subcategory of its SMAF index.^{xiv} Still, like in neighbouring Czech Republic, the competitive edge of local business and the solid growth of national economy keep experts and stakeholders hopeful about the market's development in near future.^{xv} This data is only for Sub-index of SMAF index on access to equity finance per country for 2012 whereas at the same time the European Commission reported that the Slovak Republic has ranked at 8th best place from 30 evaluated countries in SMAF index per country for 2012."

Institutional investment in private equity is very limited in the Slovak Republic. Pension funds and insurance companies are restrained from investing in private equity, including venture capital^{xvi}

General Characteristics of the Tax System^{xvii}

Income Tax Rate	Corporate	Corporate income is taxed at a flat rate of 21%. From 1st January 2014, companies are subject to the tax license, a minimum corporate tax paid even in case of a net loss. The tax license ranges from €480 to €2,880 and is deductible from future tax liabilities in the subsequent three years. This obligation will be removed from 1st January 2018. Loss relief is available. Losses can be carried forward for a period of four subsequent years evenly. Losses may not be carried back.
	Individual	Personal income is taxed at a rate of 19% for income up to 176.8 times the subsistence level (approximately €35,022 in 2016). Income in excess of that amount is taxed at a rate of 25%. Tax losses generated from business activities and other independent professional activities may only be set off



		against income derived from those types of activity. The losses can be carried forward for a period of 4 subsequent years evenly.
Capital Gains Tax Rate	Corporate	Capital gains are treated as corporate income and taxed under the corporate income tax regime at a flat rate of 21%. Capital losses are in principle deductible, but the exact treatment is dependent on the nature of the asset.
	Individual	Capital gains are taxed under the personal income tax regime at rates of 19%. Capital gains from the sale of shares through regulated markets within the EU that have been held for at least a year are exempt from taxation. Certain types of capital gains below €500 are not subject to tax.
Dividend Tax Rate	Corporate	Dividends are generally tax-free. There are two exceptions, where; <ul style="list-style-type: none"> • A legal entity has dividend from non-contracting state; and • dividends paid out from the profit of a domestic legal entity to legal entity of non-contracting state
	Individual	Dividend income from profits arising in or after 2004 is not subject to tax. Dividend income is subject to health insurance contribution if the beneficiary is a subscriber to health insurance in Slovakia. This applies to dividends paid out of profits generated from 1 st January 2011 to 31 st December 2016. Withholding tax on dividends 7% is effective from 1 st January 2017. The dividends paid out from the profit earned by the legal entity of non-contracting state are taxed by 35 % rate.
Wealth and Inheritance Taxes	Individual	There is no form of wealth or inheritance taxation in Slovakia.
Current Tax Incentives		
The Slovak Republic does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
Government-backed support to young and growing innovative companies is available		



in other forms in Slovakia.

Like other countries in the region, Slovakia relies on public institutional investors to close the financing gap in the SME sector. This includes the EU's instrument called Joint European Resources for Micro to Medium Enterprises, commonly known as JEREMIE funds. A joint initiative of the European Investment Bank, the European Investment Fund, and the DG REGIO, JEREMIE funds draw on resources from the EU Structural Funds to provide flexible and efficient financing of SMEs through local intermediaries. Portions of that financing are earmarked for venture capital purposes,^{xviii} with the rest being channelled into loan and guarantee schemes. In 2014, the programme brought together six commercial banks and two investment companies and offered repayable funds to 174 SMEs for the total value of €52.8m.^{xix}

The National Business Centre is designed to be a one-stop support facility dedicated to innovation- and growth-oriented SMEs. Established initially as a pilot programme for the Bratislava region in 2015, it is going to offer a wide range of support activities across the whole country. They are going to include advice and mentorship, access to premises and technology, networking with institutions, associations, and other companies, assistance with obtaining financing, and other.^{xx}

The Commercial Code was amended in November 2015, which introduced the concept of the 'simple joint-stock company' (*jednoduchá akciová spoločnosť*, abbr. *j.a.s.*).^{xxi} The simple joint-stock company has a lean corporate structure, a capital requirement of €1, and it is connected to a public electronic register that features information on shareholders and actions in shares. Most importantly, its corporate governance system guarantees maximum flexibility when it comes to defining the contractual relationships of the parties.

Due to its accessibility and flexibility, the simple joint-stock company is likely to address the needs of start-ups and venture capitalists more closely than the regular joint-stock company. The first simple joint-stock companies started operating in January 2017.

Bankruptcy Law^{xxii}

In 2016, insolvency resolution took 4 years in the Slovak Republic, substantially above the OECD average of 1.7 years.

Insolvency costs in the country are double the OECD average of 9.1%, amounting to 18% of estate.

Assessment

The Slovak Republic has a growing business angel market, with financing for 12 companies reaching €1.75m in 2015. The venture capital industry is equally active, with investments levels reaching €4.7m in 2014.

The Slovak Republic does not currently grant any tax incentives for venture capital or business angel investment.

The government provides other forms of support to start-ups and SMEs. For instance, the government provides financial support for innovative SMEs through the EU's JEREMIE funds, which is earmarked for venture capital activity and loan guarantees schemes. In addition, the National Business Centre aims to encourage innovation and provide advice, mentorship and technology to expanding SMEs.



Comments from Member State review

The Slovakian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Slovakian representatives.

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26. Slovenia

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Slovenia	50/125
	Country Sample Ranking	28/36
PwC Paying Taxes - Time to comply (hours) 2017	Slovenia	245
	Country Sample Ranking	33/36
Venture Capital Investment as a Percentage of GDP 2015	Slovenia	0.003%
	Country Sample Ranking	27/36
Average Venture Capital Investment per Company 2016	Slovenia	€0.499m
	Country Sample Ranking	19/36
Business Angel Investment as a Percentage of GDP 2015	Slovenia	0.0039%
	Country Sample Ranking	12/36
Average Business Angel Investment per Company 2015	Slovenia	€0.080m
	Country Sample Ranking	2/36
SME Investment Environment		
<p>In 2014, the value added by Slovenian SMEs to the non-financial business economy was slightly more than the 63% mark, while the sectoral employment was at nearly 73%. Both numbers were around 5 percentage points above the respective EU averages. In the period 2009-2014, the value added has grown by around 10%, while sectoral employment has decreased by 7%. The sector is expected to continue on this two-pronged pattern through 2016, with value added forecast to grow by 3% and the employment to decrease by 0.6%.ⁱ</p> <p>Slovenia currently occupies 30th position in World Bank's <i>Doing Business</i> report, one place lower compared to the previous year's edition. At position 49, the <i>Starting a Business</i> sub-index is not as strong as it was a year ago (place 18). It now takes on average seven (instead of six) days to set up a company in Slovenia, and four (instead of two) procedures need to be fulfilled in the process. The <i>Paying Taxes</i> indicator, on the other hand, has improved from position 35 to 24.ⁱⁱ</p> <p>Slovenia occupies a distant 133th position in the <i>Getting Credit</i> sub-index of World Bank's <i>Doing Business</i> report. Similarly, the country holds the third lowest rank in the European Commission's Small Business Act for Europe (SBA) study. There had been a lending boom in Slovenia prior to the crisis with financial institutions suffering heavily during and post the crisis period. In particular, there was a high level of non-performing loans and bank lending to the SME sector more than halved in the period 2011-2014. In 2014, 26% of SME loan applications have been rejected or given</p>		





unacceptable conditions, compared to the EU average of 17%. In the same year, 40% SME respondents have reported deterioration in access to bank finance.ⁱⁱⁱ

Venture Capital Market

Business angel investment in Slovenia has grown from €1.58m in 2014 to €1.85m in 2015. The European Commission quotes values of €0.3m for the years 2007-2008 and €0.9m for the years 2009-2010. Taken together, the data show an upward trend in business angel investment in Slovenia during the last decade.

EVCA's (now InvestEurope) *Central and Eastern Europe Statistics 2014* quotes the value of the venture capital market in 2014 at €2.5m, corresponding to 0.007% of GDP.^{iv} The same report, backed by OECD, shows that in the previous year the investment was higher, at €4m, corresponding to 0.01% of GDP. The European Commission quotes values in the range of 0.01-0.08% for the years 2007-2012, without any particular trend to discern across the years.

General Characteristics of the Tax System

Income tax rate	Corporate	<p>Corporate income is taxed at a flat rate of 17%, but as of 1 January 2017 it will be at a rate of 19%.</p> <p>A special rate of 0% applies to investment funds, pension funds, and pension insurance companies, if they fulfil certain requirements.</p> <p>Loss relief is available. Losses may be carried forward indefinitely, but utilisation in any one year is restricted to 50% of the tax base for that year. Losses may not be carried back.</p>
	Individual	<p>Personal annual income is taxed at the following progressive rates:</p> <ul style="list-style-type: none"> • 16% for income below €8,021.34; • 27% for income in excess of €8,021.34 and below €18,960.28 (€20,400 from 1 January 2017); • 34% for income in excess of €20,400 but below €48,000 (from 1 January 2017) • 41% for income in excess of €18,960.28 but below €70,907.20 (39% for income in excess of €20,400 but below €70,907.20 from 1 January 2017); • 50% for income in excess of €70,907.20 <p>Loss relief is available for self-employed individuals in respect of self-employment income. Losses may be carried forward indefinitely but utilisation in any one year is restricted to 50% of the tax base for that year. Losses may not be carried back.</p>
Capital Gains tax rate	Corporate	<p>In general, capital gains are taxed at the corporate income tax rate of 19%.</p> <p>50% of capital gains from the disposal of shares are tax exempt if the shares represent 8% of the company</p>



		<p>participation, they have been held for a minimum of six months, the company had at least one full-time employee continuously during that time, and the company is not a resident of a low tax jurisdiction.</p> <p>In general, only 50% of capital losses derived from the disposal of such shares is tax deductible. This rule does not apply to capital losses from venture capital investment, which are not recognised for the purposes of capital loss tax relief.</p>
	Individual	<p>Capital gains realised by individuals are taxed at a flat rate of 25%. The rate is reduced by 10% after five years of holding the underlying asset and subsequently by 5% for each five years of holding the asset, up to the 0% rate after 20 years.</p> <p>Capital gains that originate from derivative instruments are taxed at the rate of 40% if held for up to one year. A decreased rate applies for longer holding periods.</p> <p>Capital losses can be deducted from capital gains, but not in the case of losses realised on the disposal of shares in venture capital investments.</p>
Dividend tax rate	Corporate	<p>Dividends received by shareholders liable to corporate income tax in Slovenia (residents and permanent establishments) are tax exempt if certain conditions are met.</p> <p>Dividend income received by corporate investors is taxed through a 15% withholding tax, unless investors (resident shareholders and permanent establishments) notify the payer of their tax identification number.</p>
	Individual	<p>Dividend income received by individual investors is taxed through a 25% withholding tax.</p>
Wealth and inheritance taxes	Individual	<p>There is no form of wealth taxation in Slovenia for investments in SMEs and start-ups.</p> <p>Inheritance and gift tax for investments in SMEs and start-ups is levied progressively depending on the value of the property and the category under which the relation to the deceased or donor is classified:</p> <ul style="list-style-type: none"> - Class II: 5-14 % - Class III: 8-17 % - Class IV: 12-39 % <p>Exemptions are set for Class I and for movable property up to a value of €5,000.</p>



Current Tax Incentives ^v	
Corporate Income Tax Regime for Investments in High-Risk Companies	
Overview	<p>The venture capital scheme, introduced with the Venture Capital Companies Act, is set to be abolished in November 2016. However, as the venture capital scheme has yet to be removed from the Slovenian CIT regime, transitional provisions remain in effect.</p> <p>Transitional provisions: For corporate investors that entered into state-aid schemes for the venture capital tax exemption, the scheme is still available until it expires. For individual investors, the tax exemption is available upon disposal of shares in the venture-capital company if they were acquired during the validity of state-aid schemes.</p>
Qualifying criteria	<p><i>Business</i> – The company must be established in accordance with the Venture Capital Act.</p> <p><i>Investment</i> – Investments (in the form of an increase in share capital by company or taxpayer investments) must be in accordance with the Venture Capital Act.</p> <p><i>Investor</i> – The personal investor is liable to PIT, and the corporate investor is liable to CIT.</p> <p><i>Duration</i> – The company must hold the status of a venture capital firm for the duration of the tax period, and the duration the investor held shares in the company.</p>
Reliefs available	<p><i>Tax relief on investment</i> – 100% tax relief on investments in R&D for corporate investors as a general measure.</p> <p><i>Tax relief on income received</i> – Tax exemption of dividends for corporate investors as a general measure as per the tax baseline.</p> <p><i>Tax relief on disposal</i> – Gains realised on disposal are tax exempt under the PIT Act and CIT Act, when derived from the disposal of shares, acquired on the basis of venture capital investment, and established in accordance with the Act, provided it has held venture capital status and investor shareholding over the duration of the period.</p> <p>Likewise, any capital losses arising from the disposal of such shares shall not be recognised for tax purposes.</p>
Administration	No specific requirements for venture capital activities.
Penalties	No information available
Impact	No information available
Generosity	It is not possible to calculate a B-Index value due to the lack of upfront tax relief.



Impact of current Tax Incentives
No information available.
Abolished Tax Incentives
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016, but the Slovenian Parliament plans to abolish the Corporate Income Tax Regime for Investments in High-Risk Companies in November 2016.
Other Policy Instruments
Government-backed support to young and growing innovative companies is available in other forms in Slovenia. The government actively supports SMEs through a number of initiatives. In particular, the <i>Start:up Slovenia</i> programme, which extends support to start-ups and is composed of several dedicated programmes. One of them is <i>Start:up Geek House</i> which provides available office facilities, features a number of training sessions, including marketing and freelancer, as well as a three-month long <i>Start:up Bootcamp</i> training. ^{vi} This programme also cooperates with the Slovene Enterprise Fund which offers €75,000 convertible loans to start ups and direct capital investments in the amount of up to €200,000. Another interesting programme within the <i>Start:up Slovenia</i> initiative is <i>Go:Global</i> , which focuses on channeling seed funds from the Slovene Enterprise Fund. Additionally, it offers trainings, mentorship programmes, networking, and a marketing platform. ^{vii} In the years 2009-2016, there also operated the so-called <i>Programme on Financial Engineering Instruments (PIFI)</i> . It offered debt instruments (loans, guarantees), equity instruments, and mixed instruments (mezzanine capital) to the SME sector. ^{viii}
Bankruptcy Law^{ix}
In 2016, insolvency resolution took 0.8 years in Slovenia, significantly below the OECD average of 1.7 years. Insolvency costs in the country amount to 4% of estate, substantially lower compared to the OECD average of 9.1%.
Assessment
Slovenia's business angel and venture capital market saw investment levels of €1.85m in 2015, and €2.5m in 2014 respectively. Slovenia operates one tax incentive scheme for venture capital and business angel investors. The scheme is set to be abolished in November 2016, although transitional measures will be put in place. The Corporate Income Tax Regime for Investments in High-Risk Companies regime ranked 18th in the benchmarking component of this study. The scheme targets both corporate and individual investors which conforms to good practice. In terms of scope, the scheme does not provide upfront relief and provides tax relief on investment returns without distinguishing between investment income or capital gains, both of which go against recommended practice. The scheme also broadly corresponds to good practice in terms of qualifying criteria (e.g. investor targeting, cross border investment, targeting new investment). However, there was not sufficient information to assess performance against all of the criteria (e.g. business age and size targeting, related party targeting, new investment targeting, investment size limits and minimum investment holding periods).



The scheme performs well in terms of administration on a non-discretionary basis, but is not subject to annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs. For instance, the government actively backs the Start:up Slovenia project, which consists of a number of initiatives designed to offer office facilities, training programs and marketing platforms, etc.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Slovenian authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Slovenian representatives.

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27. Spain

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Spain	26/125
	Country Sample Ranking	19/36
PwC Paying Taxes - Time to comply (hours) 2017	Spain	152
	Country Sample Ranking	16/36
Venture Capital Investment as a Percentage of GDP 2015	Spain	0.012%
	Country Sample Ranking	23/36
Average Venture Capital Investment per Company 2016	Spain	€1.932m
	Country Sample Ranking	7/36
Business Angel Investment as a Percentage of GDP 2015	Spain	0.0041%
	Country Sample Ranking	9/36
Average Business Angel Investment per Company 2015	Spain	€0.237m
	Country Sample Ranking	19/36
		
SME Investment Environment ¹		
<p>On average, 99.9% of total firms are SMEs and they employ 75% of the labour force. In 2015, Spanish SMEs were predominantly in the services sector (74.4%), while 8.6% were in construction and 8.3% in manufacturing.</p> <p>Access to investment financing became more difficult for SMEs during the financial crisis. In 2010 and 2011, 68.6% of SMEs tried to obtain bank financing. Of these only 24% obtained any due to a weaker financial environment. However, new lending to SMEs expanded by a robust 8.5% between 2013 and 2014. In fact, availability of bank financing to SMEs in Spain has substantially improved, so that Spain is among those countries that have recently indicated the largest improvement in the availability of bank loans, according to the ECB's Survey on the Access to Finance of Enterprises in the euro area April to September 2016. Consequently, access to finance now represents the least important problem for Spanish SMEs with percentages matching the euro area average. Last year, new bank lending to SME continued to grow, and supported economic activity.</p> <p>In terms of starting a business, Spain ranked 85/190 in 2017 compared to 78/189 in for starting a business. This is a three place drop on previous year. Overall in terms of how easy it is to do business, Spain ranked 32/190 (33 of 189 in 2016).</p>		
Venture Capital Market		



Business angel investment stood at €55m in 2015, with an average investment of approximately €20,000 per company. The Spanish business angel market contracted 9% in 2014, but grew 5% in 2015. According to EBAN, Spain has the second largest business angel market in Europe.

Venture capital investment volumes over the period 2007-2015, exhibited periods of growth and contraction. Investment volumes peaked in 2008, reaching €496m, before declining to €136m in 2009, a contraction of 73%. Investment volumes continued to decline, reaching €83m in 2014, but grew to €105m in 2015.

Historically, the Spanish VC market has focused on start-up and later stage funding, with seed funding accounting for a small proportion of venture capital investment. Start-up funding accounted for 59% of total VC investment by volume and 56% of companies in 2015. Later stage funding accounted for 38% of total VC investment by volume and 43% of companies in 2015.

The main sources of cross-border private equity investment (including VC) into Spanish companies investment are United Kingdom, France, Belgium and Netherlands. In addition, significant investment came from Australasia. These five sources accounted for 37.1% of all private equity investment in 2015.

General Characteristics of the Tax System ⁱⁱ

Income tax rate	Corporate	<p>Corporate income is taxed at a rate of 28% for tax periods starting in 2015 and 25% for tax periods starting on or after 1 January 2016.</p> <p>New created companies are taxed at 15% in the first two first years with positive taxable base.</p> <p>Loss relief is available. Losses can be carried forward indefinitely.</p> <p>For periods starting in 2016, tax losses of a company can be offset against positive income generated in ensuing tax periods, subject to a limit of 60% (70% onwards in 2017) of the tax base. However, for companies with a turnover above 20M the limit is reduced to 50% and for companies with a turnover above 60M the limit is 25%.</p> <p>Although, strictly speaking, losses cannot be carried back, small companies (turnover less than 10m) can reduce 10% of its Corporate Tax Base on the account of future tax losses. The reduction should be refunded if there is no losses in the following five years.</p>
	Individual	<p>Personal income is taxed at progressive rates varying from 19% to 45%. However, regions can modify these rates: top rate rises to 48% in Andalucía and Cataluña while in Madrid is 43.5%.</p> <p>Individuals starting an economic activity can reduce its net income a 20% during the first two years in which it would be positive.</p> <p>Tax losses of self-employed individuals can be offset with profits obtained in the following 4 years.</p>



Capital Gains tax rate	Corporate	<p>Capital gains are treated as normal corporate income.</p> <p>Since capital gains/losses are taxed jointly with the ordinary income same tax losses carry forward scheme is applicable.</p> <p>There is a further 99% tax exemption for private equity funds/companies for capital gains from the sale of shares in their subsidiaries (Article 50.1 Law 27/2014). Therefore, (i) the sale must generally take place between the second and the 15th year of investment; (ii) the acquirer must not be resident in a tax haven or be a related party (except for other private equity funds/companies), and (iii) the shares must not have been acquired from a related party.</p> <p>In general terms, capital gains linked to the transfer of shares are not taxable (5% interest held for at least one year), and that is also the case of private equity funds/companies.</p> <p>Since 2017, in general terms, tax losses linked to the transfer of shares are not deductible. Liquidation loss is still tax allowable.</p> <p>For prior years, there were special rules that apply to capital losses arising from transfers of shares, which may reduce the amount of the loss by the amount of the dividends that have been received from the company whose shares are transferred during the holding period.</p>
	Individual	<p>Capital gains are considered taxable income subject to personal income tax. Capital gains on the sale of a main residence are exempt if certain requirements are met.</p> <p>The personal income tax rate for capital gains as a result of the sale of wealth goods is a progressive rate between 19.50% and 23.50% (2015). For 2016 onwards, the rates are reduced to 19% and 23%.</p> <p>Capital losses can be carry forward 4 years.</p>
Dividend tax rate	Corporate	<p>Dividends received from companies in which at least a 5% interest has been held for at least one year, including ownership by other group companies, (or with an acquisition value of over €20m) are exempt from tax. In the event of nonresident companies, it is also required that it would be subject to Corporate Tax at 10% nominal tax rate or that it would be resident in a country with a tax treaty signed with Spain.</p> <p>Dividends not meeting the above requirements are taxable in their entirety for the recipient.</p>
	Individual	<p>Dividends paid to individuals are subject to a progressive rate between 19.50% and 23.50% (2015). For 2016 onwards, the rates were reduced to 19% and 23%.</p>



		Dividends paid to non EEC residents are subject to a 24% tax. The withholding tax rate may be reduced under the relevant double tax treaties.
Wealth and inheritance taxes	Individual	<p>Wealth tax is levied on Spanish tax residents' worldwide assets and on Spanish non-residents' goods and rights that are located, may be exercised, or should be complied with in Spain. Wealth tax is charged at progressive rates from 0.2%-2.5% but each region can modify this rates.</p> <p>Gift and inheritance tax is charged on lifetime transfers and transfers on death. The tax liability will depend on different matters such as the relationship between the taxpayer and the donor/deceased, or the taxpayer's previous wealth. Each region can modify the rates and terms.</p>
Current Tax Incentives		
1) Deduction for investments in newly or recently created companiesⁱⁱⁱ		
Overview		In 2013, Spain enacted a 20% tax credit for business angel investors in new or recently created companies.
Qualifying criteria		<p><i>Business</i> – The incentive is only for the investment in Spanish Companies (in the form of an S.A., S.L., S.A.L o S.L.L.) and not be admitted to trade on any organised market during each of the years of the tenure of the shares. It must exercise an economic activity with the personnel and material for that activity. Management of a property or real estate is excluded.</p> <p>The own funds of the entity cannot exceed €400,000 at the beginning of the tax period in which the contributor acquires the shares. No special provisions are applicable due to the company's activity</p> <p><i>Investor</i> – In addition to providing investment, the investor must provide adequate business or professional knowledge for the development of the firm in the terms agreed between the contributor and the entity.</p> <p><i>Investment</i> – The investment must be made when the business is first started or in the first three years. The maximum deduction base is €50,000 per year. The direct or indirect share of the contributor can never be over 40% of the social capital of the entity or its voting rights.</p> <p><i>Duration</i> – The investment must be held by the investor for a duration of over three years and less than 12 years.</p>
Reliefs available		<p><i>Tax relief on investment</i> – Qualifying investors are eligible for an income tax credit of 20% of the value of the investment, capped at a maximum deduction of €50,000 annually.</p> <p><i>Tax relief on income received</i> –No relief on income received.</p> <p><i>Tax relief on disposal</i> – There is relief on capital gains realised on the sale of the shares for the above deduction, provided that the sale is made between the 3rd and 12th year and the amount</p>



	obtained in the sale is reinvested in the acquisition of shares or similar entities.
Administration	The investor must obtain a certificate issued by the entity indicating the fulfillment of the requirements.
Penalties	If the relief would have been improperly used a 50% penalty might be imposed.
Impact	No information available.
Generosity	B-Index value for a small investment (€50,000) – 0.808 B-Index value for a large investment (€500,000) – 0.981 Average B-Index value – 0.894
2) Regional incentives for business angels	
Overview	<p>A number of Spain's autonomous communities have introduced tax incentives for individual investors making qualifying investments in start-ups.</p> <p>This type of incentive is available in Aragon, the Balearic Islands, Cantabria, Catalonia, Galicia, Madrid and Murcia.^{iv}</p> <p>Typically, these incentives are incompatible with the deduction for investments in newly or recently created companies.</p>
Qualifying criteria	<p><i>Business</i> – Typically the business must be new or newly created Sociedad Anónima, Sociedad de Responsabilidad Limitada, Sociedad Anónima Laboral or Sociedad de Responsabilidad Limitada Laboral with a registered office in autonomous community in question. The schemes typically require that the business must carry on an economic activity other than property or real estate and must have at least one registered employee. In the event that the business is not a start-up, the schemes typically require that it must have been incorporated 3 years prior to the date of investment. A number of schemes place restrictions on the annual turnover of the business (e.g. the scheme operated by Catalonia states that annual turnover must not exceed €1m).</p> <p><i>Investor</i> – The investor must be a natural person.</p> <p><i>Investment</i> – The investment must be made in ordinary share capital, limited to a maximum interest of 35-40%. The investor is typically permitted to join the board of the business, but is prohibited from performing management or executive functions.</p> <p><i>Duration</i> – Qualifying investments must be held for a minimum period of time in order to maintain eligibility for relief. The minimum holding period ranges from three to four years.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Qualifying investors are permitted to deduct a percentage of the value of investments in qualifying companies made during the tax year from their personal income tax liability. The rate of deduction ranges from 15-30% and is capped at a monetary value of €600-€20,000 (Galicia caps the maximum value of relief at €20,000 but this is based on the cost of investment and personal guarantees made by the investor to the business).</p> <p>It is interesting to note that the scheme operated by Catalonia</p>



	<p>includes provisions to increase the deduction to 50% (from 30%) capped at €12,000 (from €6,000) for investments in companies established by universities or research centres.</p> <p><i>Tax relief on income received</i> – No relief on investment income.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
Administration	The relief is claimed through the personal income tax return of the investor.
Penalties	Failure to comply with the qualifying criteria of the relief will generally result in withdrawal of relief.
Impact	No information available.
Generosity	<p>For business angels in Catalonia (ES): B-Index value for a small investment (€50,000) – 0.889 B-Index value for a large investment (€500,000) – 0.989 Average B-Index value – 0.939</p> <p>For business angels in Catalonia for technology transfer (ES): B-Index value for a small investment (€50,000) – 0.778 B-Index value for a large investment (€500,000) – 0.978 Average B-Index value – 0.878</p>
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
<p>Government-backed support to young and growing innovative companies is available in other forms in Spain.</p> <p>The Official Credit Institute (ICO) is the main public body involved in the provision of financial support to Spanish SMEs. According to the EC, currently, ICO is boosting its subsidiary "Axis" that manages several private equity funds that aim to promote venture capital industry in Spain, support the expansion of start-ups and mid-caps, and finance infrastructure projects. A seventh tender has been launched in July 2016, bringing the total approved funds to 39, with financing commitments of up to €950m.</p> <p>A SME loan guarantee programme was launched in 2013 with funding from the Ministry of Industry, Energy and Tourism. The programme guarantees 50% of loans up to €1m per SME or group and aims to provide guarantees to 10,000 SMEs.</p> <p>The Horizon 2020 SME instrument funding programme was launched in Spain in 2014. Since its launch, 311 Spanish SMEs have received funding totalling €92m concentrated in the ICT, energy efficiency and sustainable food production sectors.^v</p>	
Bankruptcy Law^{vi}	
<p>In 2016, insolvency resolution took 1.5 years in Spain, below the OECD average of 1.7 years.</p> <p>Insolvency costs in the country amount to 11.0% of estate, higher than the OECD average of 9.1%.</p>	
Assessment	
Spain has a substantial business angel market, with investments of €55m in 2015. Venture capital investment grew in 2015 to reach investment levels of €105m. The	



market benefits from cross-border investment, which contributed to 37% of all private equity investment in 2015.

Spain currently offers two incentive schemes for venture capital and business angel investors, with one of these being implemented at the subnational level in a number of autonomous communities. These were ranked as follows in the benchmarking component of this study:

- Deduction for investments in newly or recently created companies – 7th
- Regional incentives for business angels – 15th

The schemes provide tax incentives to individual business angel investors. In terms of scope, both of the schemes correspond to good practice in that they provide upfront relief. The Deduction for investments in newly or recently created companies also provides relief on returns (also recommended practice). For both schemes, loss relief is allowed as per the baseline tax system.

The schemes perform well in terms of qualifying criteria (e.g. business age, size and sector targeting restriction of related parties, targeting equity over debt investment and stipulating minimum holding periods). However, performance is hindered in terms of investor targeting (individual investors only) and not restricting investments to newly issued shares.

The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs. For instance, the Official Credit Institute has initiated loan programmes designed to help fund SMEs and promote growth in the sector.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Spanish authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Spanish representatives.

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28. Sweden

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Sweden	15/125
	Country Sample Ranking	10/36
PwC Paying Taxes - Time to comply (hours) 2017	Sweden	122
	Country Sample Ranking	8/36
Venture Capital Investment as a Percentage of GDP 2015	Sweden	0.030%
	Country Sample Ranking	7/36
Average Venture Capital Investment per Company 2016	Sweden	€0.494m
	Country Sample Ranking	20/36
Business Angel Investment as a Percentage of GDP 2015	Sweden	0.0040%
	Country Sample Ranking	10/36
Average Business Angel Investment per Company 2015	Sweden	€0.240m
	Country Sample Ranking	20/36
SME Investment Environment		
<p>SMEs are a key driver of the Swedish economy. In 2013, SMEs accounted for 94.6% of all enterprises in Sweden (concentrated in services, wholesale trade, and retail and construction), 59% of value added and 66% of employment.ⁱ</p> <p>Unlike many EU countries, SME lending in Sweden increased during the financial crisis. SME bank debt grew by 18% between 2007 and 2009, but has since moderated. Venture capital investment in SMEs peaked in 2008 but declined by 38% in 2009, reaching a low in 2012 and remaining below pre-crisis levels. The ability to attract external financing and service interest costs is one of the main barriers to the growth of SMEs in Sweden.ⁱⁱ</p> <p>Despite challenges in accessing external finance, Sweden has a very high ranking in the World Bank's 2017 Doing Business report (9/189 in 2017) and has also achieved improvements in the ease of setting up a business, moving from 16 to 15 on the Starting a Business Indicator in 2017.</p>		
Venture Capital Market		
<p>Total business angel investment in Sweden was €21.8m in 2015, growing 6% on 2014.</p> <p>Venture capital investment volumes declined over the period 2007-2015 from €412m to €163m, a decline of 44%.</p> <p>Venture capital in Sweden has historically focused on start-up and later stage</p>		





investment. Start-up investment accounted for 55% of total venture capital investment by volume and 87% of recipient companies in 2015. Later stage investment accounted for 44% of total venture capital investment by volume and 12% of recipient companies in 2015, indicating a high level of investment per company. The main sources of cross-border private equity investment (including VC) into Swedish companies are the United Kingdom, Norway, Germany, France, and Finland. These five countries accounted for 45.9% of all private equity investment in 2015.

General Characteristics of the Tax Systemⁱⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits are taxed at a rate of 22%.</p> <p>Loss relief is available. Net operating losses can generally be carried forward indefinitely, but may not be carried back. Restrictions may apply following change of ownership and certain restructurings.</p>
	Individual	<p>Individuals are Taxed progressively at rates from 30% - 57%. Swedish source income generated by non-residents may be taxed at 20% under certain conditions.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains are treated as corporate income and taxed as such at 22%. However, with respect to unquoted shares in Swedish companies or foreign equivalents to a Swedish company, the Swedish participation exemption regime holds that capital gains are tax exempt and capital losses nondeductible. As regards quoted shares, these can also qualify for participation exemption provided mainly that the shareholding exceeds 10% and the holding period exceeds one year.</p> <p>Deductible losses may be carried forward indefinitely, but can only be offset against capital gains of the same kind. Capital losses may not be carried back.</p>
	Individual	<p>Generally taxed at a rate of 30%. A rate of 25% applies to gains realised from the disposal of unquoted shares as only 5/6 of the gain is taxable. Special regulations apply to active owners of closely held companies (tax rates 20 - 57%).</p> <p>Generally, capital losses are fully deductible against capital gains of the same kind. Normal loss relief is generally only available for 70% of capital losses.</p>
Dividend Tax Rate	Corporate	<p>Dividend income is treated as corporate income and taxed as such at 22 %. However, the Swedish participation exemption regime normally provides that dividend income received on unquoted shares in Swedish companies or foreign equivalents are tax exempt. As for quoted shares, the shareholding must exceed 10% during a minimum holding period of at least one year.</p> <p>Dividends to foreign companies are generally</p>



		exempt from WHT according to Swedish legislation, provided that the criteria under the participation exemption regime are met. Double tax treaties may also provide for elimination or reduction of the withholding tax.
	Individual	Generally taxed at a rate of 30%. A rate of 25% applies to dividend from unquoted shares as only 5/6 of the dividend is taxable. Special regulations apply to active owners of closely held companies (tax rates 20-~57%).
Wealth and Inheritance Taxes	Individual	The Swedish wealth tax was abolished as of 1 January 2007.
Current Tax Incentives		
1) New Investment Incentive		
Overview	The New Investment Incentive is designed to stimulate investment in small companies in early development phases and to support access to external financing. ^{iv}	
Qualifying criteria	<p><i>Business</i> – Cannot be a holding company and must have salary costs exceeding SEK 300,000. The business must be small sized” i.e. a staff headcount less than 50 and a turnover less than or equal to €10m or a balance sheet total less than or equal to €10m.</p> <p>The recipient of the investment must be a Swedish limited liability company (Swe: aktiebolag), a Swedish co-operative (Swe: ekonomisk förening) or a foreign company (equivalent to a Swedish limited liability company or co-operative) that has a permanent establishment in Sweden. Furthermore, the foreign company must be established within the European Economic Area or in a country that Sweden has signed a tax treaty with including an exchange of information article.</p> <p>The tax incentive is available for investments in all sectors except companies doing business (wholly or partially) within the shipbuilding, coal and steel industry.</p> <p><i>Investor</i> – Must be an individual and cannot be previous owner (or related to owner) of the company.</p> <p><i>Investment</i> – Investments in share capital up to a maximum value of SEK 20m per company per year. A maximum investment of SEK 1.3m per investor will attract tax relief.</p> <p><i>Duration</i> – Investments must be held for a minimum holding period of five years. If shares are sold or dividends exceeding certain levels are received during a five year period after the investment, the tax relief (deduction) must be reversed.</p>	
Reliefs available	<i>Tax relief on investment</i> – Investors receive tax relief for up to 50% of the value of qualifying investments against their capital income (gain) tax liability up to a maximum of SEK 650,000 per person per tax year. Tax relief is given as a deduction of capital income.	



	<p><i>Tax relief on income received</i> – No relief on dividend income received.</p> <p><i>Tax relief on disposal</i> – No relief on gains or losses realised on disposal.</p>
Administration	No information available.
Penalties	No information available.
Impact	<p>An impact assessment is not available due to the recent implementation of the tax incentive.</p> <p>The timing of the tax relief offered by this incentive was informed by research which stated that in the Swedish SME sector, it would be more effective to reduce the initial financial costs of investment than to provide a result-based tax benefit.^v</p>
Generosity	<p>B-Index value for a small investment (€50,000) – 0.337</p> <p>B-Index value for a large investment (€500,000) – 0.819</p> <p>Average B-Index value – 0.578</p>
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
<p>Government-backed support to young and growing innovative companies is available in other forms in the Sweden.</p> <p>Access to external finance is managed primarily by state-owned enterprises. ALMI Företagspartner AB (ALMI) provides the majority of government support to SMEs. ALMI offers advisory services, loans, and venture capital through all phases of business growth. Its main activity is the provision of SME loans but also provides business development.</p> <p>In 2015, Sweden appointed a special investigator to analyse the effectiveness of policy measures to support SMEs' access to finance.</p>	
Bankruptcy Law^{vi}	
<p>In 2016, insolvency resolution took two years in Sweden, higher than the OECD average of 1.7 years.</p> <p>Insolvency costs in the country amount to 9.0% of estate, which is almost on par with the OECD average of 9.1%.</p>	
Assessment	
<p>Sweden's business angel market exhibited growth of 6% in 2015. In contrast, the Swedish venture capital market has declined in recent years, falling to investment levels of €163m in 2015. Sweden benefits from strong cross-border investment within its private equity industry.</p> <p>Sweden operates one tax incentive scheme for venture capital and business angel investors. The new investment incentive was ranked 37th in the benchmarking component of this study.</p> <p>The scheme provides upfront relief, which is considered good practice. However, it displays neutral practice in maintaining loss relief as per the baseline tax system and providing relief to both capital and current returns. It carries a mixed performance</p>	



against the principles of good practice for qualifying criteria, displaying good practice for a number of the criteria as well as not recommended practice in several of the criteria (e.g. business age, investor targeting, related parties targeting and new investment targeting).

The scheme performs well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs. For instance, the government also supports innovative, growth-orientated companies through ALMI Företagspartner AB (ALMI), which offers advisory services, loans and business development.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The Swedish authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Swedish representatives.

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29. The Netherlands

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	The Netherlands	16/125
	Country Sample Ranking	11/36
PwC Paying Taxes - Time to comply (hours) 2017	The Netherlands	199
	Country Sample Ranking	26/36
Venture Capital Investment as a Percentage of GDP 2015	The Netherlands	0.020%
	Country Sample Ranking	18/36
Average Venture Capital Investment per Company 2016	The Netherlands	€0.806m
	Country Sample Ranking	15/36
Business Angel Investment as a Percentage of GDP 2015	The Netherlands	0.0015%
	Country Sample Ranking	23/36
Average Business Angel Investment per Company 2015	The Netherlands	€0.151m
	Country Sample Ranking	12/36
SME Investment Environment		
<p>In the Netherlands, SMEs comprised 99.8% of Dutch enterprises, with the majority operating as micro-enterprises, and employed 66.5% of the labour force in 2014.ⁱ</p> <p>The Netherlands is positioned at 22/189 in the Starting A Business on the Starting a Business Indicator in the World Bank's 2017 Doing Business report. This is a decline of 6 places on last year.</p> <p>Rates of new SME loans has remained steady in the wake of the financial crisis, but have yet to return to pre-crisis levels. Demand for bank loans for SMEs has fluctuated in the wake of the financial and Eurozone crises, but have approval rates have increased, growing from 49% in 2009 to 64% in 2014.</p>		
Venture Capital Market		
<p>Total business angel investment in the Netherlands was €12.2m in 2015, growing 4% on 2014.</p> <p>Venture capital investment volumes declined over the period 2007-2015 from €281m to €163m, a decline of 42%.</p> <p>Venture capital in the Netherlands has historically focused on start-up investment. Start-up investment accounted for 75% of total venture capital investment by volume and 70% of recipient companies in 2015. Whereas, later stage investment accounted for 21% of total venture capital investment by volume and 20% of recipient companies in 2015, indicating a high level of investment per company.</p> <p>The main sources of cross-border private equity investment (including VC) into Dutch companies are the United Kingdom, Belgium, France, China, and Germany. These five countries accounted for 57% of all private equity investment in 2015.</p>		





General Characteristics of the Tax System ⁱⁱ		
Income Tax Rate	Corporate	<p>Corporate profits are taxed at 25%. A lower rate of 20% applies to the first €200,000 of taxable income.</p> <p>Loss relief is available. Losses can be carried back 1 year and carried forward nine years. Loss offset may be limited in case of a change in shareholders or due to passive holding and financial activity.</p>
	Individual	<p>Taxed at rates up to 52%.</p> <p>Loss relief is available. Losses derived from business activities can be carried back three years and carried forward nine years.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains are taxed at a rate of 25% corporate income tax. Gains realised on the sale of shares may be exempt from tax if participation exemption criteria are met. Gains included in the taxable base may be eligible for a tax credit if the participation credit criteria are met.</p> <p>Loss relief is available. Losses can be carried back one year and carried forward nine years.</p>
	Individual	<p>Gains realised on the disposal of business assets – which may possibly include shareholdings – are subject to up to 52% income tax. Loss relief is available, with losses able to be carried back three years and carried forward nine years.</p> <p>Gains realised on the disposal of assets in which the taxpayer has a substantial interest (e.g. shareholdings of at least 5% of a company's issued share capital) are taxed as income at a flat rate of 25%.</p> <p>Loss relief is available. Losses may be carried back one year and carried forward nine years. If the taxpayer no longer holds a substantial interest, provided conditions are met, outstanding losses may be converted into a tax credit which can be offset against income tax due, e.g. on profits.</p> <p>Gains realised on the disposal of shares not belonging to a business or a substantial interest are not taxed as such. The return on this assets – provided they are in the hands of the taxpayer on 1 January – are deemed to be 4% per annum and taxed at 30% income tax. The fictitious income is not calculated if the aggregated amount of the taxpayer's assets is negative; therefore, losses do not occur for tax purposes.</p>



Dividend Tax Rate	Corporate	<p>Dividend income is subject to withholding tax. Dividends paid to both residents and non-residents are generally subject to 15% withholding tax. Dividend tax can be offset against the corporate income tax due.</p> <p>Reductions may apply under applicable double taxation treaties. Dividends meeting the criteria of the participation exemption are exempted from dividend and corporate income taxation. Dividends not meeting the above criteria are taxable in full at the main rate of corporate income tax (25%).</p>
	Individual	<p>Dividend income is subject to a withholding tax. Dividends paid, to residents and to non-residents are generally subject to 15% withholding tax. Dividend tax can be offset against the corporate income tax due</p> <p>Dividend income may form part of the profits derived from business activities. Such income is taxed at a rate of up to 52%.</p> <p>Dividend income received from shareholdings of at least 5% of a company's issued share capital are taxed as income at a flat rate of 25%.</p> <p>Shareholdings of less than 5% are subject to the scope of the net wealth tax, and taxed at a flat rate of 30% on a deemed rate of return of 4% per annum.</p>
Wealth and Inheritance Taxes	Individual	<p>Although there is no form of wealth taxation in the Netherlands, a deemed rate of return of 4% per annum on the net assets held by an individual (including shares) is treated as income and taxed at a flat rate of 30%.¹⁷</p> <p>Gift and inheritance is charged on the fair market value of the transferred property, less an exempt amount dependent on the relationship between parties. The rate of tax ranges from 10% to 40%, depending on the relationship between the parties.</p>
Current Tax Incentives		
The Netherlands does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		

¹⁷ The deemed return on investment is expected to change as of 1 January 2017. According to proposed legislation three different deemed rates of return (2.9%, 4.7% and 5.5%) will apply, depending on the value of the net assets held.



Prior to 1st January 2010, loss relief was available for losses realised on specified venture capital investments held by individual investors. The losses were relieved against employment and property income. The provision was abolished because of budgetary and simplification considerations.

Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in the Netherlands.

The Government recently announced the Additional SME Finance Action Plan, which aims to take further steps to support access to finance for SMEs. The Plan seeks to generate €2.5bn in new finance for SMEs, with an extra €50m being made available to encourage start-ups and SMEs from 2017.

Currently, direct financial support is provided through a number of programmes offering loans, grants and loan guarantees to SMEs. The Guarantee Scheme for SMEs (BMKB) provides loan guarantees up to €1.5m. The Innovation Fund for SMEs (MKB+) provides seed capital, innovation loans and a fund-of-funds facility.

Non-financial support is also available to SMEs. The Small Business Innovation Research programme (SBIR) is a competition that awards contracts to companies looking to develop new products and bring them to the market in a short period of time. Contracts are awarded based on the results of feasibility studies.

The government has put in place several targeted financing facilities (2 fund of funds with EIF (regional development agencies, the growth facility), and introduced in the SME action plan additional ones such as an early-stage instrument (vroegefasefinanciering) and the business angels co-investment facility with EIF. The fund of funds and co-investment approaches are considered good practice by the OECD owing to their reliance on private investors' expertise, incentives and resources (see OECD reviews of innovation policy). This year, the government will introduce in the SEED capital instrument also a business angel facility.ⁱⁱⁱ

Bankruptcy Law^{iv}

In 2016, insolvency resolution took 1.1 years in the Netherlands, considerably lower than the OECD average of 1.7 years.

Insolvency costs in the country amount to 3.5% of estate, which is under half of the OECD average of 9.1%.

Assessment

Venture capital investment in the Netherlands fell to €163m in 2015. In contrast, investment levels in the business angel market grew by 4% to €12.2m in 2015. The private equity market relied on overseas investors for more than half of all investment in 2015.

The Netherlands does not currently grant any tax incentives for venture capital or business angel investment.

The government provides other forms of support to start-ups and SMEs. For instance, the new additional SME Finance Action Plan aims to produce €2.5bn in financing for SMEs and is seeking to fund an extra €50m in 2017 to encourage further activity in the sector.



Comments from Member State review

The Dutch authorities provided comments to the country fiche as part of the review and validation process. This did not result in any conflicting information or interpretations. The final version of the country fiche includes the changes and supplementary information contributed by the Dutch representatives.

References

ⁱ **OECD**, 2016. Financing SMEs and Entrepreneurs 2016: An OECD scoreboard. OECD [online]. Available URL: http://www.keepeek.com/Digital-Asset-Management/oecd/industry-and-services/financing-smes-and-entrepreneurs-2016_fin_sme_ent-2016-en#.WBH_QtLruM8#page3 [Accessed on 27 October 2016].

ⁱⁱ **PricewaterhouseCoopers**, 2016. Worldwide Tax Summaries. PricewaterhouseCoopers [online]. Available URL: <http://www.pwc.com/gx/en/services/tax/corporate-tax/worldwide-tax-summaries.html> [Accessed on 27 October 2016].

ⁱⁱⁱ **European Investment Fund**, 2016. European Investment Fund [online]. Available URL: http://www.eif.org/what_we_do/resources/dvi/ [Accessed on 10 January 2017].

^{iv} **World Bank**, 2016. Doing Business. World Bank [online]. Available URL: <http://www.doingbusiness.org/> [Accessed on 10 January 2017].



30. United Kingdom

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	United Kingdom	2/125
	Country Sample Ranking	2/36
PwC Paying Taxes - Time to comply (hours) 2017	United Kingdom	110
	Country Sample Ranking	7/36
Venture Capital Investment as a Percentage of GDP 2015	United Kingdom	0.027%
	Country Sample Ranking	8/36
Average Venture Capital Investment per Company 2016	United Kingdom	€3.832m
	Country Sample Ranking	5/36
Business Angel Investment as a Percentage of GDP 2015	United Kingdom	0.0030%
	Country Sample Ranking	14/36
Average Business Angel Investment per Company 2015	United Kingdom	€0.169m
	Country Sample Ranking	14/36
SME Investment Environment		
<p>The United Kingdom has an attractive SME investment environment. It has achieved improvements in the ease of setting up a business, moving to 16/189 on the starting a business indicator in the World Bank’s 2017 Doing Business report, an improvement of 1 place on last year.</p> <p>Despite this, there is evidence of a funding gap for SMEs in the United Kingdom, an issue which the UK Government has considered extensively in the wake of the Global Financial Crisis. Lending to SMEs increased in 2013 and 2014, but remains below pre-crisis levels. Research undertaken by the Department for Business, Innovation and Skills estimated that the funding gap for SMEs could reach £22bn by 2017.ⁱ It was also reported that bank lending is the most important source of finance for UK SMEs and that 70% of SMEs that receive a loan rejection are not able to secure other sources of external finance. Equity finance is used by approximately 1% of SMEs in the United Kingdom and is concentrated in higher-risk businesses.</p> <p>The United Kingdom’s funding gap may be driven, in part, by a lack of public</p>		





awareness. It was found that only 52% of SMEs were aware of the main bank and government initiatives aimed at improving access to finance.

Venture Capital Market

The United Kingdom has a well-developed financial services sector, featuring a large business angel and venture capital industry.

The United Kingdom is the leading European business angel market, with €84.4m of investment and reporting 24% growth in 2014.ⁱⁱ

It is also the leading venture capital market in Europe. After a period of decline following the financial crisis, venture capital activity has been growing steadily in recent years, reaching €858m in 2015.

Historically, the UK VC market has focused on start-up and later stage funding. Start-up funding accounted for 40% of total VC investment by volume and 60% of companies in 2015. Later stage funding accounted for 58% of total VC investment by volume and 38% of companies in 2015.

VC investment is geographically concentrated in London and the South East of England, and sectorally concentrated in technology and life sciences.

Cross-border private equity investment (including VC) into UK companies accounted for 15.5% of all private equity investment in 2016. The main sources of cross-border private equity investment are US, China, Germany, France and Belgium.

General Characteristics of the Tax System

Income Tax Rate	Corporate	Corporate profits taxed at 20%.
	Individual	Taxed at rates up to 45%. Individuals receive a tax-free personal allowance of £11,000.
Capital Gains Tax Rate	Corporate	Chargeable gains taxed at 20%. Substantial Shareholding Exemption exempts the gains realised on disposal of shares in UK trading companies in which the vendor has held a 10% interest for a period of at least 12 months at the date of disposal.
	Individual	Taxed at rates up to 20%. Individuals receive an Annual Exempt Amount of £11,100. A rate of 10% applies to the first £10m of capital gains on the disposal of business assets eligible for Entrepreneurs' Relief.
Dividend Tax Rate	Corporate	Generally exempt.
	Individual	Taxed at rates up to 38.1%. A tax-free dividend allowance of £5,000 was introduced on 6 th April 2016. Dividends received from foreign companies are mostly treated in the same way.
Wealth and Inheritance Taxes	Individual	Inheritance Tax is charged at a rate of 40% on the value of the death estate over the nil rate band of £325,000, immediately chargeable lifetime gifts and certain gifts made within 7 years of death. A reduced rate of 36% is applicable if 10% or more of the net value of the death estate has been donated to a qualifying charity. A number of exemptions and reliefs are available. Transfers between spouses are exempt.



Current Tax Incentives	
1) Enterprise Investment Scheme	
Overview	The Enterprise Investment Scheme (EIS) offers tax incentives to investors in new shares issued by smaller higher-risk trading companies.
Qualifying Criteria	<p><i>Business</i> – At the time of issuing the shares, the company must have gross assets below £15m, have less than 250 full-time employees, have company capital actively engaged in the company in the last 24 months, be unlisted and without intention of listing at the time of investment and have either commenced, or plan to commence, a qualifying trade. A trade does not qualify if it consists, at any time in the relevant period, of certain activities or if such activities amount, in aggregate, to a 'substantial part' of it. (no more than 20% of the activities of the trade as a whole) Most trades qualify for EIS, the excluded activities are:</p> <ul style="list-style-type: none"> • Dealing in land, in commodities or futures or in shares, securities or other financial instruments; • Dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution; • Banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities; • Leasing (including letting ships on charter or other assets on hire); • receiving royalties or licence fees; • providing legal or accountancy services; • property development; • farming or market gardening; • holding, managing or occupying woodlands, any other forestry activities or timber production; • shipbuilding; • producing coal; • producing steel; • operating or managing hotels or comparable establishments or managing property used as an hotel or comparable establishment; • operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home; and • the subsidised generation or export of electricity. <p>Providing services or facilities for any business carried on by another person (other than the parent of the company) is an excluded activity where:</p> <ul style="list-style-type: none"> • that other business consists to a substantial extent of any activities mentioned above, and • a controlling interest in that other business is held by a person who also has a controlling interest in the business carried on by the company. <p>The issuing company must have a permanent establishment in the UK for the period beginning with the issue of the shares and ending immediately before the termination date. Most trades</p>



	<p>qualify for EIS, but those that do not are termed 'excluded activities' and include – but are not limited to – dealing in land and financial activities.</p> <p>In the Summer Budget 2015 the qualifying criteria for EIS businesses were reformedⁱⁱⁱ; reforms included the introduction of a lifetime limit for funds raised of £12m (£20m for 'knowledge-intensive companies'), a time limit of seven years for businesses to raise their first EIS investment, new conditions for existing trade companies, and a limit of 499 members or staff for 'knowledge-intensive companies'. In addition, companies can no longer use EIS investments to acquire a business.</p> <p>Knowledge-intensive companies are those whose R&D is at least 15% of operating costs in one of previous three years or at least 10% in each of the previous three years, and which either creates IP or has employees with relevant Masters degrees engaged in R&D who comprise at least 20% of the workforce.</p> <p><i>Investor</i> – EIS is open to UK resident and overseas natural persons with sufficient UK tax liabilities. Business Angels are eligible to participate in EIS if they are unpaid directors and were not involved in the same trade as the company at the time the shares were issued.</p> <p><i>Investment</i> – Fully paid up ordinary share capital issued by a qualifying company up to an annual limit of £12m (£20m for knowledge-intensive. The investment should not amount to more than a 30% interest in the company.</p> <p><i>Duration</i> – Qualifying investments must be held for a period of 3 years starting from the later of the date of issue or the commencement of trade.</p>
<p>Reliefs Available</p>	<p><i>Tax relief on investment</i> - Investors receive tax relief 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. A Capital Gains Tax liability arising on the disposal of any asset can be deferred if reinvested in shares in an EIS qualifying company within one year before or three years after the gain arose.</p> <p><i>Tax relief on income received</i> – No relief on dividend income received.</p> <p><i>Tax relief on disposal</i> – Capital gains arising on disposal are exempt from Capital Gains Tax if Income Tax relief was granted on investment. Capital losses arising on the disposal of shares can be set against Income Tax or Capital Gains Tax liabilities in the current or previous tax year.</p>
<p>Administration</p>	<p>Companies issuing shares eligible for EIS are required to apply to HMRC that they meet the qualifying criteria. Once this has been granted, investors can then claim tax relief through their annual tax return. Alternatively, income tax relief can be received at source through Pay As You Earn (PAYE).</p>



	HMRC provides a non-statutory service known as 'advance assurance'. This allows companies to make an application for confirmation that they will be eligible for EIS prior to the issuance of shares. This service does not provide confirmation that the investor will be eligible for EIS.
Penalties	Relief will be withdrawn if shares are disposed of within three years of investment, if the investor receives value from the company (e.g. loan or sale of assets at undervalue) or if the investor becomes an employee, paid director or associate of the company.
Impact	EIS is forecast to generate a fiscal cost of £375m for 2015-16, down from £480m in 2014-15. A 2008 study commissioned by HMRC analysed the impact of Venture Capital Trust relief and EIS together. The results of this study are discussed below.
Generosity	B-Index value for a small investment (€50,000) – 0.755 B-Index value for a large investment (€500,000) – 0.755 Average B-Index value – 0.755
2) Seed Enterprise Investment Scheme	
Overview	The Seed Enterprise Investment Scheme (SEIS) is designed to help small, early stage companies raise equity finance. SEIS is intended to recognise the particular difficulties which very early stage companies face in attracting investment.
Qualifying Criteria	<i>Business</i> – At the time of investment, the company must have fewer than 25 employees and gross assets of not more than £200,000, have been trading for less than 2 years, must not have raised any funds through EIS or VCT investors and must be either conducting research and development in support of, preparing to commence, or have commenced a new qualifying trade. The issuing company must have a permanent establishment in the UK for the period beginning with the issue of the shares and ending immediately before the termination date. A trade does not qualify if it consists, at any time in the relevant period, of certain activities or if such activities amount, in aggregate, to a 'substantial part' of it. (no more than 20 percent of the activities of the trade as a whole) Most trades qualify for SEIS, the excluded activities are: <ul style="list-style-type: none"> • Dealing in land, in commodities or futures or in shares, securities or other financial instruments; • Dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution; • Banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities; • Leasing (including letting ships on charter or other assets on hire); • receiving royalties or licence fees; • providing legal or accountancy services; • property development; • farming or market gardening; • holding, managing or occupying woodlands, any other forestry activities or timber production; • shipbuilding;



	<ul style="list-style-type: none"> • producing coal; • producing steel; • operating or managing hotels or comparable establishments or managing property used as an hotel or comparable establishment; • operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home; • the subsidised generation or export of electricity; and • providing services to another person where that person's trade substantially consists of excluded activities, and the person controlling that trade also controls the company providing the services. <p><i>Investor</i> – SEIS is open to UK resident and overseas natural persons with sufficient UK tax liabilities. Business angels are eligible to participate in SEIS if they are directors of the company.</p> <p><i>Investment</i> – Fully paid up ordinary share capital issued by a qualifying company up to a limit of £150,000. The investment should not amount to more than a 30% interest in the company.</p> <p><i>Duration</i> - Qualifying investments must be held for a period of three years from the date of issue.</p>
<p>Reliefs Available</p>	<p><i>Tax relief on investment</i> – Investors receive tax relief for up to 50% of the value of qualifying investments against their income tax liability for the current or previous tax year up to a maximum of £50,000. A Capital Gains Tax liability arising on the disposal of any asset can be deferred if reinvested in shares in an SEIS qualifying company within one year before or three years after the gain arose.</p> <p><i>Tax relief on income received</i> – No relief on dividend income received.</p> <p><i>Tax relief on disposal</i> - Capital gains arising on disposal are exempt from Capital Gains Tax if Income Tax relief was granted on investment. Capital losses arising on the disposal of shares can be set against Income Tax or Capital Gains Tax liabilities in the current or previous tax year.</p>
<p>Administration</p>	<p>Companies issuing shares eligible for SEIS are required to apply to HMRC that they meet the qualifying criteria at the earlier of four months since the commencement of trade or when 70% of the total investment has been spent. Once this has been granted, investors can then claim tax relief through their annual tax return. Alternatively, income tax relief can be received at source through PAYE.</p>
<p>Penalties</p>	<p>Breaches of qualifying criteria by investors or the recipients of investment will result in the withdrawal or reduction of tax relief.</p>
<p>Impact</p>	<p>SEIS is forecast to generate a fiscal cost of £185m in 2015-16, up from £180m in 2014-15.</p> <p>Analysis of the broader impacts generated by the SEIS is not available.</p>



Generosity	B-Index value for a small investment (€50,000) – 0.591 B-Index value for a large investment (€500,000) – 0.904 Average B-Index value – 0.747
3) Venture Capital Trust	
Overview	Venture Capital Trust (VCT) tax relief is designed to promote investment into VCTs, professionally managed investment funds that invest in a range of small unlisted companies.
Qualifying Criteria	<p><i>Business</i> – Only investments in an HMRC-approved VCT will attract tax relief for individual investors. The VCT must invest in businesses that, at the time of investment, carry on a qualifying trade, have fewer than 250 full-time employees (fewer than 500 employees for knowledge-intensive companies), have gross assets of not more than £15m before investment and not more than £16m after investment, and must not be in financial difficulty. Reforms made to EIS, as outlined above, in the Summer Budget 2015 about the seven year time limit for businesses to raise their first investment apply equally to VCT. Furthermore, the reforms prohibit the use of VCT money to fund management buyouts and acquisitions. The requirement is that the relevant company must have a permanent establishment in the United Kingdom at any time on or after the issue of the relevant holdings.</p> <p>A trade does not qualify if it consists, at any time in the relevant period, of certain activities or if such activities amount, in aggregate, to a 'substantial part' of it. (no more than 20 percent of the activities of the trade as a whole) Most trades qualify for EIS, the excluded activities are:</p> <ul style="list-style-type: none">• Dealing in land, in commodities or futures or in shares, securities or other financial instruments;• Dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution;• Banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities;• Leasing (including letting ships on charter or other assets on hire);• receiving royalties or licence fees;• providing legal or accountancy services;• property development;• farming or market gardening;• holding, managing or occupying woodlands, any other forestry activities or timber production;• shipbuilding;• producing coal;• producing steel;• operating or managing hotels or comparable establishments or managing property used as an hotel or comparable establishment;• operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home;• the subsidised generation or export of electricity; and• providing services to another person where that person's trade substantially consists of excluded activities, and the



	<p>person controlling that trade also controls the company providing the services.</p> <p><i>Investor</i> – VCT is open to UK resident and overseas natural persons with sufficient UK tax liabilities. The VCT must be approved by HMRC.</p> <p><i>Investment</i> – Investors in VCTs will attract tax relief on subscription of shares up to a permitted maximum of £200,000 per tax year. The VCT is permitted to make a maximum investment in equity or debt instruments of £12m per business (£20m for knowledge-intensive companies). Two restrictions are placed on the holdings of the VCT itself. At least 70% of the value of the VCT’s holdings must be in qualifying businesses. No single holding of the VCT may exceed 15% of the value of the VCTs other holdings.</p> <p><i>Duration</i> – Shares in approved VCTs must be held for a period of five years to retain income tax relief. There is no minimum holding period for the investments of the VCT itself.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Investors in VCTs receive tax relief for up to 30% of the value of qualifying investments against their income tax liability for the current tax year up to a permitted maximum investment of £200,000.</p> <p><i>Tax relief on income received</i> – Dividend income attributable to the permitted maximum investment is exempt from Income Tax for natural persons.</p> <p><i>Tax relief on disposal</i> – Gains arising from the disposal of shares attributable to the permitted maximum investment 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.</p>
Administration	<p>The HMRC Small Company Enterprise Centre are responsible for approving VCTs.</p> <p>Approved VCTs issue tax certificates to investors, which are then used to claim tax relief through their annual tax return. Alternatively, income tax relief can be received at source through PAYE.</p>
Penalties	<p>Income tax relief will be withdrawn if VCT shares are disposed of or if the VCT loses HMRC approved status within 5 years.</p>
Impact	<p>VCT relief is forecast to generate a fiscal cost of £80m in 2015-16, down from £135m in 2014-15.</p> <p>A 2008 study commissioned by HMRC analysed the impact of VCT relief and EIS together. The results of this study are discussed below.</p>
Generosity	<p>Investor side: B-Index value for a small investment (€50,000) – 0.755 B-Index value for a large investment (€500,000) – 0.885 Average B-Index value – 0.820</p>



4) Social Investment Tax Relief	
Overview	Social Investment Tax Relief (SITR) provides tax relief on qualifying investments in social enterprises.
Qualifying Criteria	<p><i>Business</i> – At the time of investment, and for the following 3 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). To be qualifying, a trade must be run commercially and with a view to making a profit. The trade doesn't have to be carried on in the UK to qualify</p> <p>During the whole of the qualifying period for the investment (that is, not only at the point when the investment was made), the social enterprise must be one or more of the following:</p> <ul style="list-style-type: none">• a community interest company;• a community benefit society, with an asset lock; and• a charity - which can be a company or a trust. <p>A trade does not qualify if it consists, at any time in the relevant period, of certain activities or if such activities amount, in aggregate, to a 'substantial part' of it. (no more than 20% of the activities of the trade as a whole) Most trades qualify for EIS, the excluded activities are:</p> <ul style="list-style-type: none">• dealing in land, in commodities or futures, in shares, securities or other financial instruments;• banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities (with the exception of lending money to another social enterprise);• property development;• activities in the fishery and aquaculture sector that are covered by Council Regulation (EC) No 104/2000 of 17 December 1999 on the common organisation of the markets in fishery and aquaculture products;• the primary production of products listed in Annex I to the Treaty on the Functioning of the European Union (agricultural products);• generating or exporting electricity which will attract a Feed-in-Tariff;• road freight transport for hire or reward; and• providing services to another person where that person's trade substantially consists of excluded activities, and the person controlling that trade also controls the company providing the services. <p><i>Investor</i> – SITR is open to UK resident and overseas natural persons with sufficient UK tax liabilities. The investor must not be a partner, trustee or a paid director or employee of the social enterprise. Business angels may be eligible to participate in SITR if they are unpaid directors.</p>



	<p><i>Investment</i> – Newly issued unlisted ordinary share capital or debt investments, paid for in full and in cash at the time of investment. Equity investment should not amount to more than a 30% interest in the company.</p> <p><i>Duration</i> – Qualifying investments must be held for a continuous period of three years to be eligible for tax relief.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Investors receive tax relief 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.</p> <p><i>Tax relief on income received</i> – No relief on dividend or interest income received.</p> <p><i>Tax relief on disposal</i> – Full relief of capital gains generated on disposal of qualifying investments.</p>
Administration	<p>Social enterprises are required to apply to HMRC that they meet the qualifying criteria of SITR. Once this has been granted, investors can then claim tax relief through their annual tax return. Alternatively, income tax relief can be received at source through PAYE.</p>
Penalties	<p>Breaches of qualifying criteria by investors or the recipients of investment will result in the withdrawal or reduction of tax relief.</p>
Impact	<p>HMRC does not estimate the annual fiscal cost for SITR.^{iv}</p> <p>Analysis of the broader impacts generated by the SITR is not available.</p>
Generosity	<p>B-Index value for a small investment (€50,000) – 0.755 B-Index value for a large investment (€500,000) – 0.755 Average B-Index value – 0.755</p>
5) Private Placement Withholding Tax Exemption	
Overview	<p>This relief provides an exemption from the duty to deduct income tax at source on annual interest payments from qualifying private placements.^v</p>
Qualifying Criteria	<p><i>Business</i> – The business must be a trading company.</p> <p><i>Investor</i> – Investors must be an unconnected to the business, must be a UK-regulated financial institution or overseas equivalent and must be UK resident or resident in a qualifying territory (country with a double taxation treaty with the UK). Only the ultimate beneficiary of the investment is eligible for tax relief. Tax relief will not be granted to intermediaries.</p> <p><i>Investment</i> – The availability of tax relief is restricted to issuances of debt instruments, not listed on a stock exchange, with a minimum value of £10m. The instruments must be issued in denominations of at least £100,000, with interest payable annually at a normal commercial rate.</p> <p><i>Duration</i> – The security must have a term not exceeding 50 years. It must be held for a minimum period of 3 years to attract tax relief.</p>



Reliefs Available	<p><i>Tax relief on investment</i> – No relief granted upon initial investment.</p> <p><i>Tax relief on income received</i> – Annual interest income is received gross of withholding tax.</p> <p><i>Tax relief on disposal</i> – No relief granted upon disposal of investment.</p>
Administration	<p>A creditor must issue a creditor certificate to relevant debtors, confirming that they meet the qualifying criteria and are entitled to the interest on the security. HMRC does not provide specific guidance on the format for creditor certificates.</p> <p>The creditor must notify the relevant debtor as soon as practicable once it becomes aware that the confirmation granted by the creditor certificate is no longer correct.</p>
Penalties	<p>Breaches of qualifying criteria by investors will result in the withdrawal of the exemption to deduct income tax from any interest payments.</p>
Impact	<p>HMRC has yet to estimate the fiscal cost of this relief.</p> <p>Analysis of the broader impacts generated by the relief is not available.</p>
Generosity	<p>It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.</p>
6) Business Property Relief	
Overview	<p>Business Property relief (BPR) provides tax relief on chargeable transfers of shares in unlisted businesses for Inheritance Tax purposes.</p>
Qualifying Criteria	<p><i>Business</i> – The business must be unlisted and cannot be an investment or property company, not-for-profit organisation, or is in the process of being sold or wound up unless this is to allow the business of the company to carry on. No sector targeting.</p> <p>You can't claim Business Relief if the company:</p> <ul style="list-style-type: none"> • mainly deals with securities, stocks or shares, land or buildings, or in making or holding investments • is a not-for-profit organisation • is being sold, unless the sale is to a company that will carry on the business and the estate will be paid mainly in shares of that company • is being wound up, unless this is part of a process to allow the business of the company to carry on <p>You can't claim Business Relief on an asset if it:</p> <ul style="list-style-type: none"> • also qualifies for Agricultural Relief • wasn't used mainly for business in the 2 years before it was either passed on as a gift or as part of the will • isn't needed for future use in the business <p>If part of a non-qualifying asset is used in the business, that part might qualify for Business Relief.</p> <p><i>Investor</i> – BPR is open to UK resident and overseas natural</p>



	<p>persons with sufficient UK inheritance tax liabilities.</p> <p><i>Investment</i> – The investment must be in share capital of an unlisted company. There is no limit placed on the size of shareholding.</p> <p><i>Duration</i> – Qualifying business property must be held for at least 2 years before the time of gift or death.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – No relief granted upon initial investment.</p> <p><i>Tax relief on income received</i> – No relief on dividend or interest income received.</p> <p><i>Tax relief on disposal</i> – Relief of 50% or 100% of the Inheritance Tax liability is available on the lifetime gift and transfer upon death of shares in an unlisted company. Relief of 100% is available for transfers of minority interests in unlisted companies. Relief of 50% is available for transfers of majority interests in unlisted companies. BPR cannot be claimed if the company also qualifies for Agricultural Relief.</p>
Administration	<p>BPR is claimed through Inheritance Tax forms that can be submitted to HMRC in paper-based or electronic format, along with required documentary evidence to support the claim.</p>
Penalties	<p>Breaches of qualifying criteria by investors or the recipients of investment will result in the withdrawal or reduction of tax relief.</p>
Impact	<p>BPR is forecast to generate a fiscal cost of £590m in 2015-16, up from £575m in 2014-15. These estimate include the cost of relief on other forms of qualifying business property.^{vi}</p> <p>Analysis of the broader impacts generated by BPR is not available.</p>
Generosity	<p>It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.</p>
Impact of Current Tax Incentives	
<p>HM Revenue & Customs (HMRC) prepares annual estimations of the fiscal costs of principal tax expenditures and structural reliefs. However, a 2014 report by the NAO found that HMRC does not routinely assess the effectiveness of tax incentives in terms of benefits generated, the cost of abuse or the value of tax at risk.^{vii} It was also found that HMRC does not report to the legislature on whether tax reliefs are achieving their objectives.</p> <p>A 2008 study commissioned by HMRC found that EIS and VCT generated a positive, but small, impact on capacity building in recipient companies.^{viii} 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.</p> <p>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.^{ix} 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. 60% of respondents reported that their investment would</p>	



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.

Abolished Tax Incentives

From 2000-2010 the United Kingdom operated the Corporate Venturing Scheme, which granted tax relief to companies investing directly in a minority shareholding in small independent higher-risk companies. Its structure was closely aligned to Enterprise Investment Scheme and Venture Capital Trust relief. Take up of the scheme was low due to, in part, the potential for adverse interaction with Entrepreneurs' Relief and the Substantial Shareholding Exemption arising from uncertainty over the impact of the investment on trading status.

Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in the United Kingdom.

The Start Up Loan Scheme is a government-funded scheme providing loans up to £25,000, business advice and mentoring for start-ups. Loan guarantees for SMEs seeking loans of £1,000 to £1m are provided through the Enterprise Finance Guarantee.

The Funding for Lending Scheme, introduced in 2012, has recently been refocused to promote bank lending to SMEs. The Scheme allows banks to borrow from the Bank of England at a reduced rate of interest for the purpose of lending to SMEs. The Scheme will remain in place until 31st January 2018.^x

There are a number of government-backed venture capital funds, such as Enterprise Capital Funds, which combine private and public funds to invest up to £5m in high-potential businesses.

Business advice for SMEs can be obtained from a number of government-backed sources, such as UK Shared Business Services which was established with funding from the Department for Business, Skills and Innovation.

Bankruptcy Law^{xi}

In 2016, insolvency resolution took 1 year in the United Kingdom, significantly lower than the OECD average of 1.7 years.

Insolvency costs in the country amount to 6% of estate, which also lower than the OECD average of 9.1%.

Assessment

The United Kingdom is the leading business angel and venture capital market in Europe, with venture capital activity reaching €858m in 2015.

The United Kingdom currently offers six incentive schemes for venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study:

- Enterprise Investment scheme – 2nd
- Seed Enterprise Investment Scheme – 1st
- Venture Capital Trust – 5th (joint)
- Social Investment Tax Relief – 4th
- Private Placement Withholding Tax Exemption – 42nd
- Business Property Relief – 35th



The schemes provide a number of different tax incentives to venture capital and business angel investors, including four of the schemes in the top five of the country sample. The Enterprise Investment scheme, Seed Enterprise Investment Scheme, Venture Capital Trust and Social Investment Tax Relief all correspond to good practice in that they provide upfront relief.

The Enterprise Investment scheme and the Seed Enterprise Investment Scheme are two of only four schemes to score maximum scores in terms of scope.

The schemes perform relatively well in terms of qualifying criteria (e.g. business size and sector targeting, investor targeting, targeting cross border investments, new investment targeting and minimum holding periods). However, performance is low in terms of business age targeting with only the Seed Enterprise Investment Scheme following good practice. The United Kingdom provides a good amount of available information with only a small portion of missing information across all of the schemes with the majority under the related parties targeting criteria.

The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

In particular, two of these schemes have been highlighted as a good practice cases. The Venture Capital Trust 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. The Social Investment Tax Relief scheme was highlighted because of the novelty of its approach and to provide diversity to the selection of good practice cases. SISR is the only scheme in the country sample to specifically target social enterprises and, as such, displays a novel and diverse approach.

The government also provides other forms of support to start-ups and SMEs. For instance, the Start-up loan scheme, one of many, provides loans of up to £25,000 as well as advice and mentoring.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

Comments from Member State review

The country fiche was validated by the UK authorities. It was confirmed that the country fiche provides an accurate reflection of the situation as at 31st October 2016.

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European Commission

*Effectiveness of tax incentives for venture capital and
business angels to foster the investment of SMEs and start-ups*

Selected OECD Country Fiches



31. Australia

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Australia	6/125
	Country Sample Ranking	4/36
PwC Paying Taxes - Time to comply (hours) 2017	Australia	105
	Country Sample Ranking	6/36
Venture Capital Investment as a Percentage of GDP 2015	Australia	0.015%
	Country Sample Ranking	20/36
Average Venture Capital Investment per Company 2016	Australia	€0.830m
	Country Sample Ranking	14/36
Business Angel Investment as a Percentage of GDP 2015	Australia	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Australia	-
	Country Sample Ranking	N/A

SME Investment Environment
<p>SME's play a prominent role in Australia. SMEs accounted for 99.8% of all enterprises in Australia in 2013/14, with just over 2m SMEs.¹ Indeed, the Australian Government's Economic Action Strategy aims to create an SME sector that can drive innovation, investment and growth in the economy.</p> <p>Australia has achieved the same ranking as the previous year in the ease of setting up a business, maintaining a score of 7/189 on the starting a business indicator in the World Bank's 2017 Doing Business report.</p> <p>The share of SME lending against total business lending peaked in 2011 at 33.1%, growing from 27.1% in 2007. The share of SME lending has since fallen to 32.2% by the end of 2014.</p> <p>Bankruptcies in Australia grew from 47 to 53 per 100,000 enterprises from 2007 to the end of 2012. By the end of 2014, they had reached a historic low of 39, demonstrating some signs of improvement in the economy.</p>
Venture Capital Market
<p>Historical data on Australian business angel investment is not available.</p> <p>Venture capital investment levels peaked in 2007/08 prior to the financial crisis. Investment levels declined from AUD \$901m in 2007/08 to AUD \$262m in 2012/13. Investments grew to AUD \$295m in 2013/14, but still remained well below pre-crisis levels.</p> <p>Venture capital investment has been historically concentrated in the start-up and early expansion phases. In 2013/14, start-up investment represented 32% and 36% of total venture capital investment by volume and number of companies respectively. In 2013/14,</p>



early expansion investment represented 61% and 35% of total venture capital investment by volume and number of companies respectively.

Cross-border venture capital investment in Australian companies mainly comes from the USA and is concentrated in businesses in the ICT sector. Indeed, the Australian ICT sector accounted for approximately two thirds of venture capital investment value in 2015.ⁱⁱ

General Characteristics of the Tax Systemⁱⁱⁱ

Income Tax Rate	Corporate	<p>Corporate income is taxed at a rate of 30%. A small company rate of 28.5% applies to companies carrying on business with turnover below AUD \$2m per year. There are current government proposals to reduce the company rate progressively over a 10 year period.</p> <p>Loss relief is available, subject to satisfying tests to utilise carried-forward losses. Losses can be carried forward indefinitely. Losses may not be carried back.</p>
	Individual	<p>For residents, personal income is taxed at progressive rates between 19%-46%, subject to a tax-free threshold of AUD \$18,200 per year. For non-residents, there is no tax-free threshold and rates commence at 32.5%</p> <p>Tax losses can be carried forward for offset against assessable income derived in future years. Individuals are not permitted to carry back losses for Australian tax purposes.</p>
Capital Gains Tax Rate	Corporate	<p>Gains realised on the disposal of assets acquired after 20th September 1985 are included in taxable corporate income and taxed under the corporate income tax regime.</p> <p>Capital losses are allowable as deductions only against capital gains and cannot be offset against other income. Unused capital losses are carried forward and available for offset against future capital gains subject to satisfying tests to utilise carried forward losses.</p> <p>For non-residents, capital gains and losses are only recognised on the disposal of "taxable Australian property" (e.g. real property in Australia).</p>
	Individual	<p>Capital gains realised on the disposal of assets acquired on or after 20th September 1985 are included in a taxpayer's assessable personal income and taxed along with their other assessable income at their marginal rate of income tax. For assets held for at least 12 months, a 50% discount applies to resident individuals.</p> <p>Capital losses are allowable as deductions only against capital gains and cannot be offset against other income. For non-residents, capital gains and losses are only recognised at the disposal of "taxable Australian property" (e.g. real property in Australia).</p>
Dividend Tax Rate	Corporate	<p>Dividend income received by Australian companies from Australian-source profits (franked dividends) are paid with a notional tax credit, which is used to offset</p>



		<p>corporate income tax.</p> <p>Unfranked dividend income received by an Australian company is taxable under the corporate income tax regime.</p> <p>Franked dividends paid to non-residents are exempt from dividend WHT. Unfranked dividends paid to non-residents are subject to withholding tax at 30% (this can be reduced where a treaty applies).</p>
	Individual	<p>Franked dividends received by an Australian resident are paid with a notional tax credit, which is then used as a personal income tax offset.</p> <p>Non-residents receiving franked dividend income are exempt from withholding tax.</p> <p>Non-residents receiving unfranked dividend income are subject to withholding tax at 30% (this can be reduced where a treaty applies).</p>
Wealth and Inheritance Taxes	Individual	Australia does not have any form of net wealth or inheritance taxation.

Current Tax Incentives

1) Early Stage Venture Capital Limited Partnership programme^{iv}

Overview	The Early Stage Venture Capital Limited Partnership (ESVCLP) programme aims to stimulate venture capital investment in early stage Australian companies.
Qualifying criteria	<p><i>Business</i> – Tax relief is granted on investments made by the ESVCLP in Australian businesses (companies or trusts):</p> <ul style="list-style-type: none"> • That are in early stage of development; • where the total value of its assets is no more than AUD \$50m; • does not represent more than 30% of the ESVCLP's committed capital; • that does not have property development, land ownership, finance, or construction as their predominant activity; and • that are unlisted. <p>Each recipient of the investment (i.e. the Trust or Company that the ESVCLP/VCLP invests in) must be an Australian tax resident except where all the investments made by the ESVCLP/VCLP that are in entities that are not Australian residents do not exceed 20% of the partnership's committed capital.</p> <p>The predominant activities of a recipient of the investment from an ESVCLP/VCLP (i.e. the Trust or Company that the ESVCLP invests in) cannot be "ineligible activities" this includes property development or land ownership, finance activities (to the extent that it is banking; providing capital to others; leasing; factoring; or securitisation), insurance, construction or acquisition of</p>



	<p>infrastructure facilities or passive investment (that is, investments, whether made directly or indirectly, that are directed to deriving income in the nature of interest, rents, dividends, royalties or lease payments).</p> <p>To determine these activities are not the predominant activities of the investee, the entity must satisfy at least two of the following three requirements.</p> <p>(1) More than 75% of the assets (determined by value) of the company or any entity controlled by the company are used primarily in activities that are not ineligible activities.</p> <p>(2) More than 75% of the employees of the company or any controlled entities are engaged primarily in activities that are not ineligible activities.</p> <p>(3) More than 75% of the total income of the company and each of its controlled entities are from activities that are not ineligible activities.</p> <p>This requirement is ongoing, i.e. it is not limited to the time when the investment is made.</p> <p><i>Investor</i> – The ESVCLP programme is only open to venture capital funds that are new entities incorporated as a limited partnership, are established in Australia or a foreign country that has a double tax agreement with Australia, have a general partner who is a resident of either Australia or a foreign country that has a double tax agreement with Australia, have at least AUD \$10m and not more than AUD \$200m committed capital, with no single investor contributing more than 30% of the partnership’s committed capital, and have an appropriate investment plan which is likely to be implemented, and have access to appropriate management expertise.</p> <p><i>Investment</i> – The venture capital fund must invest in new shares, options or units, or convertible notes that have an equity characteristic in eligible Australian businesses (companies or trusts). As noted earlier, the investment must not represent more than 30% of the ESVCLP’s committed capital.</p> <p><i>Duration</i> – The ESVCLP must hold the investment for a minimum of 12 months to access capital gains tax relief.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Limited partners are, in broad terms, entitled to a non-refundable carry forward tax offset of up to 10% of their eligible contributions.</p> <p><i>Tax relief on income received</i> – ESVCLPs are entitled to flow-through tax treatment on income received from portfolio companies. Limited partners of an ESVCLP are exempt from tax on their share of income from an eligible venture capital investment, such as a dividend.</p> <p><i>Tax relief on disposal</i> – Limited partners (both Australian and foreign) are exempt from income tax on some or all of the revenue or capital gains and losses from the disposal of eligible venture capital investments made through an ESVCLP. However, when the assets of an eligible venture capital investment exceed a cap of AUD \$250m, the limited partners are not entitled to a</p>



	<p>full CGT exemption on disposals (a partial exemption applies).</p> <p>The interests of general partners (managers) are taken to be held on capital account rather than revenue account.</p>
Administration	Venture capital funds can apply for ESVCLP status to Innovation Australia's Innovation Investment Committee.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
2) Venture Capital Limited Partnership programme^v	
Overview	The Venture Capital Limited Partnership (VCLP) programme is designed to increase the amount of foreign investment by providing tax incentives to certain foreign VCLP investors.
Qualifying criteria	<p><i>Business</i> – Eligible investors in VCLPs are entitled to tax relief on investments made by the VCLP in early stage Australian business with no more than AUD \$250m assets. At least 50% of the business' employees or assets must be located in Australia. The businesses must not listed on a stock exchange and its predominant activity must not be in property or land development, finance, insurance, construction or infrastructure or making investments</p> <p>Each recipient of the investment (i.e. the Trust or Company that the ESVCLP/VCLP invests in) must be an Australian tax resident except where all the investments made by the ESVCLP/VCLP that are in entities that are not Australian residents do not exceed 20% of the partnership's committed capital.</p> <p>The predominant activities of a recipient of the investment from an ESVCLP/VCLP (i.e. the Trust or Company that the ESVCLP invests in) cannot be "ineligible activities" including property development or land ownership, finance activities (to the extent that it is banking; providing capital to others; leasing; factoring; or securitisation), insurance, construction or acquisition of infrastructure facilities or passive investment (that is, investments, whether made directly or indirectly, that are directed to deriving income in the nature of interest, rents, dividends, royalties or lease payments)..</p> <p>To determine these activities are not the predominant activities of the investee, the entity must satisfy at least two of the following three requirements.</p> <p>(1) More than 75% of the assets (determined by value) of the company or any entity controlled by the company are used primarily in activities that are not ineligible activities.</p> <p>(2) More than 75% of the employees of the company or any controlled entities are engaged primarily in activities that are not ineligible activities.</p> <p>(3) More than 75% of the total income of the company and each of its controlled entities are from activities that are not ineligible activities.</p> <p>This requirement is ongoing, i.e. it is not limited to the time when the investment is made.</p>



	<p><i>Investor</i> – The eligible investor in the VCLP must be an ‘eligible venture capital partner’, being a partner in the limited partnership and with a ‘tax-exempt foreign resident’ or a ‘foreign venture capital fund of funds’ (FVCF) with total committed capital in the limited partnership that 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 FVCF having committed capital in the partnership of less than 10% of the partnership’s committed capital.</p> <p>The VCLP must be registered and remained registered under the provisions of the Venture Capital Act 2002. Fund managers can apply to ‘Innovation Australia’ to register as a VCLP.</p> <p>VCLPs must be a new entity structured as a limited partnership, be established in Australia or a country with which Australia has a double tax agreement, and have a partnership agreement that:</p> <ul style="list-style-type: none"> • remains in existence for not less than five years and not more than 15 years; • requires partners to contribute capital when required; • prohibits the addition of new partners except as provided for in the agreement; • prohibits increases in the committed capital except as provided for in the agreement; • confers on a general partner the right to require partners to contribute their committed capital to the partnership; • includes a plan which outlines its intended investment activities; • has a general partner that is a resident of either Australia or a foreign country that has a double tax agreement with Australia; • has at least AUD \$10m committed capital (a partnership that does not satisfy this requirement may be eligible for conditional registration); and • does not hold any investments that are not eligible venture capital investments. <p><i>Investment</i> – The venture capital fund must invest in new shares, options to acquire shares, units, or convertible notes that are equity interests in eligible Australian businesses (companies or trusts). The investment must not represent more than 30% of the ESVCLP’s committed capital.</p> <p><i>Duration</i> – The VCLP must hold the investment for a minimum period of 12 months to access capital gains tax relief.</p>
<p>Reliefs available</p>	<p><i>Tax relief on investment</i> – No tax relief on investment.</p> <p><i>Tax relief on income received</i> – Eligible investors in VCLPs are entitled to flow-through tax treatment on income received from portfolio companies.</p>



	<i>Tax relief on disposal</i> – 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.
Administration	<p>Venture capital fund manager can apply for VCLP status with Innovation Australia. The application must be accompanied by:</p> <ul style="list-style-type: none"> • a Limited Partnership Deed with a certificate of registration as an Incorporated Limited Partnership from the relevant State Government authority • individual investor Subscription Deeds (if seeking unconditional registration) • the partnership’s Information Memorandum and any public offer documents.
Penalties	No information available
Impact	No information available
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
3) Tax incentive for Early Stage Investors^{vi}	
Overview	As part of the National Innovation and Science Agenda, a tax incentive to promote investment in early stage innovation companies was announced in 2015 and enacted in 2016.
Qualifying criteria	<p><i>Business</i> – To qualify as an early stage innovation company (ESIC), the business must meet the requirements of the ‘100 point innovation test’ or the principles-based innovation test immediately after the issuance of shares. To qualify under the principles-based innovation test, the company must meet five requirements - these are:</p> <ul style="list-style-type: none"> • The company must be genuinely focused on developing one or more new or significantly improved innovations for commercialisation; • The business relating to that innovation must have a high growth potential; • The company must demonstrate that it has the potential to be able to successfully scale up that business; • The company must demonstrate that it has the potential to be able to address a broader than local market, including global markets, through that business; and • The company must demonstrate that it has the potential to be able to have competitive advantages for that business. <p>To qualify as an ESIC, companies are required to be incorporated in Australia (note that incorporation of a company in Australia results in tax residency, subject to the application of any Double Taxation Agreement (DTA) or registered in the Australian Business Register (ABR)). A foreign company can be registered on the ABR, but to do so they must be carrying on an enterprise in Australia. Given these conditions it is likely any companies entitled to this incentive will be Australian tax residents or constitute a permanent establishment in Australia</p> <p>No restrictions on sectors.</p>



	<p><i>Investor</i> – Resident and non-resident investors are eligible to participate. The scheme is open to individuals and non-listed corporate investors. The investor must not have more than a 30% equity interest in the ESIC immediately after the investment. The investor and the ESIC cannot be affiliates of each other.</p> <p><i>Investment</i> – Newly issued share capital. Investors meeting the requirements of the Sophisticated Investor test are not restricted on the amount that they can invest in an ESIC in a tax year, except that it cannot represent greater than a 30% interest. Those investors that do not meet the requirements of the Sophisticated Investor test are restricted to a maximum investment of AUD \$50,000 in one or more ESICs per tax year.</p> <p><i>Duration</i> – Qualifying investments must be held for a period of between 12 months and 10 years to attract full capital gains tax relief.</p>
Reliefs available	<p><i>Tax relief on investment</i> – Qualifying investors received a non-refundable carry forward offset equal to 20% of the value of their qualifying investments. The value of the tax offset is capped at AUD \$200,000 per tax year.</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – Shares in qualifying ESIC are taken to be held on capital account rather than revenue account. Capital gains realised on the disposal of qualifying investments held for between 12 months and 10 years are exempt from tax. Capital losses realised on disposal of qualifying investments held for less than 10 years are not allowable.</p> <p>For investments held for less than 12 months, capital gains realised are taxable. However any capital losses are disregarded. For investments held for greater than 10 years, the cost base for a share will become its market value on the 10th anniversary of the share being issued. Any capital gains or losses that happen from this point in time will be recognised.</p>
Administration	<p>The company must report to the Australian Tax Office when new shares have been issued to investors who may be eligible for early stage investor tax incentives. The report also contains a statement that the company meets the requirement of an ESIC. The report should be submitted electronically no later than 31st July in the year following the issuance of shares.</p> <p>The investor claims the tax relief in their annual tax returns. Tax relief is not deducted at source.</p>
Penalties	No information available.
Impact	No information available.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.830 B-Index value for a large investment (€500,000) – 0.953 Average B-Index value – 0.891</p>



Impact of Current Tax Incentives
No information available.
Abolished Tax Incentives
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.
Other Policy Instruments
Government-backed support to young and growing innovative companies is available in other forms in Australia. The Australian Small Business Advisory Service (ASBAS) programme is the Government's primary vehicle for delivering support to SMEs. ASBAS provides grant funding to a variety of organisation that provide support to SMEs, such as chambers of commerce and not-for-profits. The Australian Government's Economic Action Strategy delivers support to SMEs in a number of ways. ^{vii} Regulatory compliance burdens have been reduced for small businesses through the repeal of redundant legislation. The Entrepreneurs' Infrastructure Programme provides business advice and networking support to small businesses. A number of programmes provide support to small businesses to meet their training and staffing needs. The Industry Skills Fund is designed to support SMEs' training needs. Restart provide a wage subsidy to Australian businesses employing over 50s for 12 months or more who have been on income support for a minimum period of 6 months.
Bankruptcy Law viii
In 2016, insolvency resolution took 1 year in Australia, below the OECD average of 1.7 years. Insolvency costs in the country amount to 8.0% of estate, also lower than the OECD average of 9.1%.
Assessment
Venture capital investment stood at €224m in 2015, and a large proportion of investment has historically focused on start-ups as well as the ICT sector specifically. Australia currently offers three tax incentives to venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study: <ul style="list-style-type: none">• Early Stage Venture Capital Limited Partnership program – 15th• Venture Capital Limited Partnership program – 38th• Tax incentive for Early Stage Investors – 21st Collectively, the schemes target both venture capital and business angel investment. In terms of scope, the Early Stage Venture Capital Limited Partnership program and Tax incentive for Early Stage Investors scheme provide upfront relief (recommended practice), but none provide loss relief on a more favourable basis than the baseline tax system. The schemes broadly correspond to good practice in terms of qualifying criteria (e.g. investment limits, minimum holding periods, targeting new investment), but do not use business age targeting. The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring. The Venture Capital Limited Partnership (VCLP) program has been selected as a good



practice case 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. The VCLP program entitles investors to a flow-through tax treatment and tax exemptions for foreign investors. It provides an interesting example of how tax incentives can attract foreign investors in order to develop a domestic VC market.

The Australian government has also implemented alternative means to support young businesses such as direct finance or programs that provide support for SMEs to fulfil their training and staffing needs.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

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32. Canada

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Canada	3/125
	Country Sample Ranking	3/36
PwC Paying Taxes - Time to comply (hours) 2017	Canada	131
	Country Sample Ranking	13/36
Venture Capital Investment as a Percentage of GDP 2015	Canada	0.106%
	Country Sample Ranking	3/36
Average Venture Capital Investment per Company 2016	Canada	€6.762m
	Country Sample Ranking	3/36
Business Angel Investment as a Percentage of GDP 2015	Canada	0.0086%
	Country Sample Ranking	5/36
Average Business Angel Investment per Company 2015	Canada	€0.524m
	Country Sample Ranking	26/36

SME Investment Environment
<p>At the end of 2014, 99.8% of all Canadian businesses were small businesses with 1-99 employees. Of these, 75% were employed in the services sector with the remaining 25% in the goods sector.ⁱ</p> <p>The country has achieved the same score in the ease of setting up a business, remaining at an excellent score of 2/189 on the Starting a Business Indicator in the World Bank's 2017 <i>Doing Business</i> Report.</p> <p>There is a stable level of SME lending in Canada. The economy has shown signs of stability since 2011 after the financial crisis. This is supported by figures such as the business risk premiums dropping from 2.3% to 2.1% over the period 2011 – 2014.</p> <p>Since 2011, the request rate for lease financing has varied between 7 and 11%, with an approval rate higher than 95% each year. Equity financing reached a higher level in 2014 than in 2007 prior to the financial crisis with an increase of 21.8% to reach C\$ 2.4bn.</p>
Venture Capital Market
<p>Business angels invested over C\$133m in 2015 according to the National Angel Capital Organisation (NACO).ⁱⁱ Angel investment has increased since 2012, achieving 48% growth in 2015. This growth has been driven by a combination of increased follow-on investments and higher average investment per target business. Angel investment has been historically concentrated in the ICT sector, accounting for 50% of 2015 investment, and geographically concentrated in Central Canada (Quebec and Ontario), and accounting for 70% of 2015 investment.</p> <p>Venture capital investment stood at approximately US\$1.5bn in 2014 according to the OECD.ⁱⁱⁱ The Canadian Venture Capital & Private Equity Association highlights that venture capital investment is concentrated in the ICT sector, accounting for C\$1.3bn of investment in 2014, followed by the life sciences sector. Investment activity has been historically</p>



concentrated in early stage and later stage finance.

The Government of Canada launched its Venture Capital Action Plan (VCAP) in 2013. The VCAP aims to develop C\$400m of new venture capital over the next 7-10 years through the recapitalization of private funds and limited direct investment.

General Characteristics of the Tax System^{iv}

Income Tax Rate	Corporate	<p>Corporate income is taxed at the Federal and Provincial / Territorial level. Federal corporate income tax is charged at a rate of 15%; 10.5% on the first C\$500,000 of active business income of certain Canadian-Controlled Private Corporations (CCPCs). Provincial or Territorial corporate income tax is charged at rates ranging from 2.5% to 16%, and from 0% to 8% for certain CCPCs.</p> <p>Loss relief is available. Losses can be carried back for a period of three years and carried forward for a period of 20 years.</p>
	Individual	<p>Personal income is taxed at the Federal and Provincial / Territorial level. Federal personal income tax is charged at progressive rates of 15% - 33%. Provincial or territorial personal income tax is charged at progressive rates up to 21%; 25.75% in Quebec where the federal rate is reduced for a 16.5% abatement. Two provinces also charge a surtax.</p> <p>An Alternative Minimum Tax (AMT) of about 25% (combined federal and provincial / territorial) is charged on adjusted taxable personal income in excess of C\$ 40,000.</p> <p>Loss relief is available for self-employed individuals. Business losses from self-employment can be offset against income from the self-employment. Business losses can be carried back for a period of three years and carried forward for a period of 20 years.</p>
Capital Gains Tax Rate	Corporate	<p>Half of a capital gain constitutes a taxable capital gain, which is included in the corporation's income and taxed under the corporate income tax regime.</p> <p>Loss relief is available. Capital losses can only be offset against capital gains. Capital losses can be carried back for a period of three years and carried forward indefinitely.</p>
	Individual	<p>Half of a capital gain constitutes a taxable capital gain, which is included in the individual's income and taxed under the personal income tax regime.</p> <p>Loss relief is available. Capital losses can only be offset against capital gains. Capital losses can be carried back for a period of three years and carried forward indefinitely.</p>
Dividend Tax Rate	Corporate	<p>Dividends received by a Canadian corporation from another Canadian corporation generally can be deducted in full when determining taxable income.</p>



		Dividends on most preferred shares are subject to a 10% tax in the hands of a corporate recipient, unless the payer elects to pay a 40% tax (instead of a 25% tax) on the dividends paid.
	Individual	For 2016, non-eligible and eligible dividends from Canadian corporations are grossed up by 17% and 38%, respectively, for inclusion in income. A federal dividend tax credit can then be claimed for 10.52% (non-eligible) or 15.02% (eligible) of the grossed-up dividend, in addition to a provincial or territorial dividend tax credit. A non-resident's Canadian-source dividends are subject to WHT of 25%, which can be reduced by a tax treaty.
Wealth and Inheritance Taxes	Individual	There are no form of wealth or inheritance taxation in Canada. However, an individual who dies is deemed to have disposed of any capital property immediately before his death, which can result in any accrued capital gains being subject to income tax. In addition, provincial or territorial probate or estate administration fees may apply for probating a will in the province or territory.
Current Tax Incentives		
1) Provincial Labour-Sponsored Venture Capital Corporation Tax Credit		
Overview	A number of provincial governments grant tax credits to individual investors in Labour-Sponsored Venture Capital Corporations (LSVCCs).	
Qualifying Criteria	<p><i>Business</i> – Investors must invest in a registered LSVCC. The LSVCC must invest in target companies meeting the requirements of the provincial legislation in question. Qualifying criteria for target companies usually are based on financial size, number of employees and sector. Generally, investment in a broad range of industry sectors is permitted. However, investment for certain purposes is prohibited; for example, in British Columbia, investment used for lending and investment outside the province are prohibited investments. Numerous other qualifying criteria may have to be met. For example, in British Columbia, the target company must generally pay at least 75% of its wages to employees who regularly report to work at operations located in British Columbia.</p> <p><i>Investor</i> – Individual or corporate investors with personal/corporate income tax liabilities in the province of the LSVCC.</p> <p><i>Investment</i> – Investors are generally required to make equity investments in LSVCCs. The LSVCC is generally required to invest in the ordinary share capital of target businesses, subject to restrictions on investment values.</p> <p><i>Duration</i> – Investors are generally required to hold qualifying investments for a minimum period of time. For instance, in British Columbia the minimum holding period is five years.</p>	



<p>Reliefs Available</p>	<p><i>Tax relief on investment</i> – Qualifying investors are entitled to an upfront tax credit which can be claimed against their provincial personal / corporate income tax liability. The value of the tax credit is usually set with reference to the value of the qualifying investment, is generally capped and may be carried forward or back. For instance, in British Columbia:</p> <ul style="list-style-type: none"> i. individual investors are entitled to a 30% refundable tax credit, up to an annual maximum tax credit of C\$60,000; and ii. Corporate investors are entitled to a 30% non-refundable tax credit, however, there is no annual tax credit limit. <p>In both cases, unused tax credits can be carried forward for four taxation years.</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
<p>Administration</p>	<p>The LSVCC is required to issue certificates to investors showing the amount of the tax credit.</p> <p>Investors claim the tax credit through their provincial online or paper-based income tax returns and include copies of the LSVCC certificate.</p>
<p>Penalties</p>	<p>No information available.</p>
<p>Impact</p>	<p>See below.</p>
<p>Generosity</p>	<p>B-Index value for a small investment (€50,000) – 0.911 B-Index value for a large investment (€500,000) – 0.991 Average B-Index value – 0.951</p>
<p>2) Federal Labour-Sponsored Venture Capital Corporation Tax Credit^v</p>	
<p>Overview</p>	<p>Budget 2016 reintroduced Federal tax credits for individual investors in provincially registered LSVCCs. Budget 2013 previously announced that LSVCC tax credits (for both federal and provincial LSVCCs) would be phased out. The federal LSVCC tax credit for federally registered LSVCCs will still be eliminated after 2016.</p>
<p>Qualifying Criteria</p>	<p><i>Business</i> – The investor must hold approved shares in an LSVCC. The LSVCC must invest in businesses meeting the criteria of the LSVCC regulation in question. Targeted businesses are small and mid-sized Canadian companies in a broad range of industry sectors.</p> <p><i>Investor</i> – Individual investors in prescribed LSVCCs with federal income tax liabilities.</p> <p><i>Investment</i> – Investors must invest in approved shares of LSVCCs. Approved shares are those in a prescribed LSVCC, not including federally registered LSVCCs that discontinued their venture capital business before the shares were issued and shares in LSVCCs that do not attract provincial tax credits at the time of issuance.</p> <p><i>Duration</i> – No information available.</p>



Reliefs Available	<p><i>Tax relief on investment</i> – Qualifying investors are entitled to claim a 15% tax credit against federal income tax liabilities. The credit is capped at a maximum credit C\$750 p.a. and is calculated with reference to the net cost of the investment (i.e. acquisition cost less government financial support received in respect of the acquisition of the shares).</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
Administration	<p>The LSVCC is required to submit two paper copies of form T5006 Statement Of Registered Labour-Sponsored Venture Capital Corporation Class A Shares to the investor and a copy of the T5006 summary to the Canada Revenue Agency.</p>
Penalties	<p>No information available.</p>
Impact	<p>Federal LSVCC tax credits had a fiscal cost of C\$145m in 2013 and 325,000 individuals claimed the credit.^{vi}</p> <p>Budget 2016 estimated that the fiscal cost of Federal LSVCC Tax Credits will be C\$815m over the period 2015/16 – 2020/21.^{vii}</p>
Generosity	<p>B-Index value for a small investment (€50,000) – 0.999 B-Index value for a large investment (€500,000) – 1.000 Average B-Index value – 1.000</p>
3) Provincial Investment Tax Credits	
Overview	<p>A number of provincial governments grant tax credits to individual and corporate investors in qualifying businesses.</p>
Qualifying Criteria	<p><i>Business</i> – Businesses may be targeted based on financial size, sector and provincial residence. A broad range of industry sectors are eligible. Various qualifying criteria apply. For instance, to be eligible for Nova Scotia’s Equity Tax Credit, the target business must, among other things, pay at least 25% of its wages in Nova Scotia, have under 500 employees and have less than C\$25m in assets and revenue (including those of associated companies).</p> <p><i>Investor</i> – Individual investors with personal income tax liabilities in the province of the target business.</p> <p><i>Investment</i> – Qualifying criteria on the investment generally target newly issued shares in qualifying businesses. Annual permitted investment values may be subject to an upper limit.</p> <p><i>Duration</i> – Investments are generally subject to a minimum holding period. For instance, Nova Scotia’s Equity Tax Credit stipulates a minimum holding period of four or five years depending on the date of issuance.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Qualifying investors are entitled to an upfront tax credit which can be claimed against their provincial personal income tax liability. The value of the tax credit is usually set with reference to the value of the qualifying investment, is generally capped and may be carried forward or back. For instance, the Equity Tax Credit offered in Nova Scotia provides a 35% tax credit up to C\$17,500 which may be carried forward for seven years and carried back for three years.^{viii}</p>



	<p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – No relief on disposal.</p>
Administration	<p>Investors claim the tax credit through their provincial online or paper-based income tax return.</p> <p>Pre-approval of eligibility may be required by provincial governments.</p>
Penalties	No information available.
Impact	No information available.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.970</p> <p>B-Index value for a large investment (€500,000) – 0.997</p> <p>Average B-Index value – 0.983</p>

Impact of Current Tax Incentives

The Quebec Business Investment Company (QBIC) programme is evaluated and found to not produce the desired results by Carpentier and Suret (2007).^{ix} The failure of this programme is attributed to the programme design which does not incentivize active engagement of business angels in the firms and also fails to account for the adverse selection problem. The Labor Sponsored Venture Capital Corporation (LSVCC) is another Canadian tax incentive which has been criticised for crowding out private VC by Cumming and MacIntosh (2006).^x However, Cumming (2014)^{xi} makes a strong claim against over generalization of crowding out especially for the tax incentives in Europe.

Abolished Tax Incentives

In recent years, the Federal Government and a number of provincial governments have sought to reduce or phase out LSVCC tax credits.

Budget 2013 announced the Federal Government’s intention to gradually reduce the federal LSVCC tax credits and that qualifying investments made after 2016 would no longer receive tax relief. Budget 2013 also announced plans to end new federal registrations of LSVCCs and to limit the availability of tax credits in respect of LSVCCs registered or established under provincial legislation after 20 March 2013.^{xii} These changes were made because the economic environment and the structure of the venture capital market have changed significantly since the 1980s when the Federal LSVCC tax credit was introduced, and the credit is now believed to be an ineffective means of stimulating a healthy venture capital sector.

However, Budget 2016 reintroduced Federal tax credits for individual investors in provincially (not federally) registered LSVCCs, to help support provinces that use LSVCC programmes to facilitate access to venture capital for small- and medium-sized enterprises.

Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in Canada.

The Export Market Development Programme aims to provide US\$500m to SMEs wishing to develop and expand their current exports. Export market development support is also provided by Export Development Canada (EDC), Canada’s export credit agency. EDC provides financial support, such as 100% loan guarantees, and non-financial support, such as business mentoring, to SMEs.

Canada Small Business Financing Programme facilitates private sector loans for small



businesses investing in property and equipment. The Programme has supported C\$9.4bn in loans over the past 10 years.^{xiii} A comprehensive review of the Programme for the period 2009-2014 found that for every C\$5 of benefits are created for every C\$1 of programme costs.^{xiv}

Bankruptcy Law^{xv}

In 2016, insolvency resolution took 0.8 years in Canada, below the OECD average of 1.7 years.

Insolvency costs in the country are also below the OECD average, at 7.0% of estate.

Assessment

Canada's business angel market has shown significant growth in 2015, with investment levels growing by 48%. The Canadian venture capital market is one of the largest in the world, reaching US\$1.5bn of investment in 2014. Both business angel and venture capital investment is largely focused on the ICT sector.

Canada offers three tax incentives to venture capital and business angel investors, with two of these being offered at the provincial level. These were ranked as follows in the benchmarking component of this study:

- Provincial Labour-Sponsored Venture Capital Corporation Tax Credit – 12th (joint)
- Federal Labour-Sponsored Venture Capital Corporation Tax Credit – 8th
- Provincial Investment Tax Credits – 12th (joint)

The schemes provide upfront relief via a tax credit (recommended practice), but do not provide relief on returns and provide loss relief as per the baseline tax system. The design of the schemes corresponds to good practice in terms of business age, size and sector targeting. They also permit cross-border investment, restrict the size of investment attracting relief and solely target equity investment (recommended practice). Information was not available to assess related parties targeting, new investment targeting (federal and provincial LSVCC schemes) and investment duration for the federal LSVCC scheme.

The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

The government provides other forms of support to start-ups and SMEs. These include programmes to fund the development and expansion of current exports and provide financial support, such as 100% loan guarantees.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

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33. Israel

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Israel	19/125
	Country Sample Ranking	14/36
PwC Paying Taxes - Time to comply (hours) 2017	Israel	235
	Country Sample Ranking	31/36
Venture Capital Investment as a Percentage of GDP 2015	Israel	0.351%
	Country Sample Ranking	1/36
Average Venture Capital Investment per Company 2016	Israel	€7.373m
	Country Sample Ranking	2/36
Business Angel Investment as a Percentage of GDP 2015	Israel	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Israel	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>In 2013, SMEs accounted for 99.8% of Israeli businesses, with the majority being microenterprises (employing up to nine people).ⁱ</p> <p>The country experienced a recent lift in the Starting a business indicator, moving to 41/189 on the starting a business indicator in the World Bank's 2017 Doing Business report, a rise of 15 places on last year.</p> <p>Bank credit is the main source of SME finance in Israel. SME bank credit has grown over the period 2007-2014, rising to NIS 212bn of outstanding loans in 2014. However, there was a sharp dip in 2009 with outstanding SME loans contracting 5.6% on 2008. During the same period, a number of government-backed loan guarantee funds for small and medium businesses were in operation.</p>		
Venture Capital Market		
<p>Israel has an active venture capital market and a growing business angel sector. Israel is ranked as having one of the highest R&D spends as a portion of GDP in the world.ⁱⁱ</p> <p>The development of the Israeli venture capital market was driven by the introduction of government-backed support programmes in the 1990s. One of the more notable programmes, the Yozma Programme offered tax incentives and matched funding to investments in high-tech industries. The programme is thought to have driven a 60-fold increase in venture capital investment volumes over the period 1991-2000.ⁱⁱⁱ</p>		





Israel has a well-developed financial services sector, featuring over 70 venture capital funds including 14 offices of international funds.

Venture capital investment stood at US\$2.3bn in 2013, growing 18% on 2012. Approximately 25% of venture capital funding came from Israeli venture capital funds in 2013. Investments in 2007 amounted to approximately US\$1.8bn, declining to \$1.1bn in 2009. Over the period 2011-2012, the level of investment climbed to pre-crisis levels and then up to a high of US\$ 2.3bn in 2013.

General Characteristics of the Tax System^{IV}

Income tax rate	Corporate	<p>As of 2016, corporate profits are taxed at a flat rate of 25%. It should be noted that as of 2017, the corporate tax rate shall be 24% and it will be further decreased to 23% as of 2018.</p> <p>Loss relief is available. Business Losses can be offset against income from any source in the same year. Losses can be carried forward indefinitely and offset against business income or against business related capital gain. Loss carry backs are not allowed.</p>
	Individual	<p>Personal income is taxed at progressive rates up to 48%. Surplus tax may apply (at a rate of 2% in 2016 and 3% as of 2017).</p> <p>Loss relief is available for self-employed individuals. Losses can be offset against income from any source in the same year. Losses can be carried forward indefinitely and offset against business income. Loss carry backs are not allowed.</p>
Capital Gains tax	Corporate	<p>Chargeable gains are treated as corporate income and taxed at a flat rate of 25%.</p> <p>Non-resident corporations not having a permanent establishment in Israel are exempt from tax on capital gains from a sale of shares of an Israel based company traded on the Israeli or a foreign stock exchange, as well as the shares of private companies (detailed rules apply).</p> <p>Loss relief is available. Generally speaking, capital losses may be offset only against capital gains.</p> <p>Capital losses derived from the sale of securities may also be offset against interest and dividend income generated from the sold security and also against interest and dividend income received from other securities (where the income was not subject to tax of more than 25%).</p> <p>Capital losses from the sale of shares are generally reduced by any dividends received by the selling corporation during the 24 months preceding the sale, unless tax on the dividends of at least 15% was paid.</p>
	Individual	<p>Capital gains tax is charged on gains realised on the disposal of assets. Gains realised upon the sale of shares purchased on or after 1 January 2003 is generally taxed at a rate of 25%. This rate is increased to 30% where the seller was a 10% or more shareholder at the date of sale</p>



		<p>or during any of the 12 months preceding the sale; detailed definitional rules apply (hereinafter '10% or more shareholder').</p> <p>Non-residents not having a permanent establishment in Israel are exempt from tax on capital gains from a sale of shares of an Israel based company traded on the Israeli or a foreign stock exchange as well as the shares of private companies (detailed rules apply).</p> <p>Loss relief is available. Capital losses can only be used to offset capital gains. Capital losses derived from the sale of securities in a certain tax year may also be offset against interest and dividend income generated from the sold security and also against interest and dividend income received from other securities (where the income was not subject to tax of more than 25%), in the same year.</p> <p>Capital losses from the sale of an asset outside of Israel that had it been a capital gain it would have been liable to capital gain tax in Israel, should first be offset against foreign-source capital gains arising in the same year.</p> <p>Capital losses can generally be carried forward indefinitely and set off only against capital gains.</p> <p>Capital losses carried forward from the sale of an asset outside of Israel should first be offset against foreign-source capital gains arising in the carry forward year.</p>
<p>Dividend tax rate</p>	<p>Corporate</p>	<p>Dividends distributed between Israeli resident companies are generally exempt from Israeli tax (detailed rules apply).</p> <p>Dividends distributed from Israeli resident companies to a foreign resident company, are subject to withholding tax at a rate of 25%.</p> <p>Withholding tax of 30% applies to dividends received by a 'substantial shareholder', which is, in general, a shareholder that holds 10% or more of the rights of the company (detailed rules apply). Reduced withholding tax rates may apply under double taxation treaties</p> <p>A 15% - 20% rate (or a reduced rate subject to an applicable treaty) applies for dividends distributed to foreigners from approved/benefitted/preferred enterprises (this is a special regime applicable for certain enterprises qualifying under The Law for the Encouragement of Capital Investments).</p>
	<p>Individual</p>	<p>Dividends distributed from Israeli resident companies to an individual one are generally subject to withholding tax at the rate of 25% (or 30% in the case of a 'substantial shareholder' – a 10% or more shareholder). Surplus tax may apply (at a rate of 2% in 2016 and 3% as of 2017).</p>



		<p>For a non-resident, the tax rate for dividend income from Israeli resident companies, may be reduced by an applicable tax treaty.</p> <p>A 15% - 20% rate (or a reduced rate subject to an applicable treaty) applies for dividends distributed from approved / benefitted / preferred enterprises (this is a special regime applicable for certain enterprises qualifying under The Law for the Encouragement of Capital Investments).</p>
Wealth and inheritance taxes	Individual	Israel does not have any form of wealth or inheritance taxation.
Current Tax Incentives ^v		
1) Plan for Encouragement of Institutional Investment in Hi-Tech		
Overview	The Plan for Encouragement of Institutional Investment in Hi-Tech introduced tax-transparent status for venture capital funds making qualifying investments in Israeli hi-tech companies.	
Qualifying criteria	<p><i>Business</i> – The target business must be in operation for at least 3 years and must be located in Israel or headquartered in Israel. For those business not incorporated in Israel, the majority of the company’s assets must be located in Israel. The business must be a R&D company which is mainly engaged in setting up or expanding enterprises in Israel that operate in:</p> <ul style="list-style-type: none"> • industry; • production; • agriculture; • tourism; • transportation; • construction (except real estate); • water; • energy; • technology; • media and communication; • computerisation; • security; • medicine; and • bio-technology and nano-technology. <p><i>Investor</i> – Resident and non-resident individuals investing in a venture capital fund with at least 50% of the funds in an Israeli business.</p> <p><i>Investment</i> – The venture capital fund must raise at least US\$10mn, of which at least 50% must be from foreign investors.</p> <p><i>Duration</i> – The programme is not relevant for new applicants. Only institutional corporations which were approved on previous rounds are eligible for those benefits.</p>	
Reliefs available	<p><i>Tax relief on investment</i> – No tax relief on investment.</p> <p><i>Tax relief on income received</i> – Dividend income received by the venture capital fund from portfolio companies is exempt from tax.</p>	



	<i>Tax relief on disposal</i> – Capital gains realised by the venture capital fund on the disposal of qualifying investments are exempt from tax.
Administration	No information available.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
2) The Angels Law^{vi}	
Overview	Changes to the income tax legislation introduced in 2016 provide tax relief to business angel investors in order to promote investment in Israeli start-ups. This law extended a previous Angels Law which promoted investments made during the years 2011-2016.
Qualifying criteria	<p><i>Business</i> – The business must satisfy one of two sets of criteria. (A) To qualify under 'the target company' criteria, a business must be a not listed for trade Israeli business carrying on qualifying R&D activity, while at least 75% of qualifying investment amount is for R&D activity, and at least 75% of R&D expenditures being incurred in Israel, and while company's revenues do not exceed 50% of R&D expenditures, and total amount of R&D expenditures through the Benefit Period account for at least 70% of total expenses. No specific sector targeting information available.</p> <p>(B) To qualify under 'the start-up' criteria, a business must be a start-up incorporated in Israel at most for 48 months and during that period a qualifying investment is made, with sales not exceeding NIS 2m per year or NIS 4.5m in total, with expenses not exceeding NIS 3m per year or NIS 12m in total, with cash deposits (including the qualifying investment) not exceeding NIS 12m, with at least 70% of expenditure on qualifying R&D activities, with activity stemming from R&D and retaining ownership of intellectual property developed and with the majority of expenditure being incurred in Israel.</p> <p><i>Investor</i> – The investor must be an individual or a partnership of individuals. The tax residency status of the investor is not restricted.</p> <p><i>Investment</i> – Newly issues ordinary share capital up to an aggregated maximum value of NIS 5m of the investor's investments in all companies combined.</p> <p><i>Investment Period</i>- For Target company criteria – between 2011 and 2019. For Start-up criteria – between 2016 and 2019.</p> <p><i>Duration</i> – Shares must be held during The 'benefit period' which is defined as the investment year and two subsequent tax years.</p>
Reliefs available	<p><i>Tax relief on investment</i> – Qualifying investors are entitled to a tax deduction equal to the value of the qualifying investment (up to NIS 5m) from their taxable income in the investment year and two subsequent tax years.</p> <p><i>Tax relief on income received</i> – No tax relief on income received.</p> <p><i>Tax relief on disposal</i> – Gains arising on the disposal of qualifying</p>



	investments are taxed under the capital gains tax regime. However, the acquisition price for the gains calculation is reduced by the amount claimed as a deduction against taxable income during the benefit period.
Administration	No information available.
Penalties	Start-ups failing to meet the above terms might be taxed on the investments it received from the Investor.
Impact	No information available.
Generosity	B-Index value for a small investment (€50,000) – 0.000 B-Index value for a large investment (€500,000) – 0.000 Average B-Index value – 0.000
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
<p>Government-backed support to young and growing innovative companies is available in other forms in Israel.</p> <p>In 2016, a loan guarantee programme was agreed between the European Investment Fund (EIF) and Bank Leumi.^{vii} The loan guarantee programme, known as the InnovFin SME Guarantee Facility, will provide a total of US\$100m in guarantees over the next 2 years for SME loans between €25,000 and €7.5m.</p> <p>The Ministries of Finance and Industry, Trade and Labour operate a scheme whereby the government participates in up to 20% of the risk of investments in Israeli R&D companies made by Israeli institutional investors. NIS 200m was allocated to this scheme, which should promote NIS 1bn of investment by institutional investors.^{viii}</p> <p>The R&D Fund operated by the National Authority for Technological Innovation (NATI), formerly known as the Office of the Chief Scientist provides conditional grants of up to 50% of a company's qualifying R&D expenditure (in some cases the grants are up to 85%). The company then makes royalty payments in respect of approved projects that are commercially successful, until the entire grant is repaid.</p> <p>The Tnufa Programme provides pre-seed financing for individuals or companies of up to 85% of approved expenditure, capped at a maximum of US\$ 52,000 per project.</p> <p>Tax incentives for <i>Companies</i> - Technology and software companies, and R&D centers (that usually work on a 'cost plus' basis) may be entitled to: (a) reduced corporate tax rates of 9%/16% (based on the location of the activities within Israel); (b) Withholding tax on dividends – 20%; and (c) Accelerated depreciation.</p> <p>Furthermore, a proposed amendment to the law (still under deliberation) offers additional benefits for technology companies, such as lower corporate tax rates of 6%/12%; 4% withholding tax on dividends distributed to a foreign parent company; lower capital gains tax rates for sale of IP in certain circumstances.</p>	
Bankruptcy Law^{ix}	
In 2016, insolvency resolution took two years in Israel, above the OECD average of 1.7 years.	
Insolvency costs in the country amount to 23.0% of estate, significantly higher than the	



OECD average of 9.1%.

Assessment

Israel has a highly dynamic venture capital market worth US\$2.3bn in 2013, which benefits from the legacy of government initiatives in the 1990s. Israel's business angel market is also growing.

Israel currently offers two incentive schemes for venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study:

- Plan for Encouragement of Institutional Investment in Hi-Tech – 46th
- The Angels Law – 9th

The schemes display mixed performance in terms of scope. The Angels Law scheme displays good practice in terms of offering upfront relief and relief on capital gains, but does not correspond to good practice in the treatment of losses. By contrast, the Plan for Encouragement of Institutional Investment in Hi-Tech displays not recommended practice in upfront relief and loss relief and displays neutral practice in targeting both capital and current investment returns.

Both schemes generally perform well in terms of qualifying criteria (e.g. business age targeting, investor targeting, equity targeting). However, the Plan for Encouragement of Institutional Investment in Hi-Tech displays not recommended practice in a number of areas, such as business size and sector targeting. The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

In particular, The Angels Law scheme features in our ten highest ranked schemes in the benchmarking component of this study due to good practice in the areas of upfront relief and business size targeting.

The government provides other forms of support to start-ups and SMEs. For instance, the 'InnovFin SME Guarantee Facility' which aims to provide SMEs with US\$100m, in guarantees, over the next two years.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

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34. Japan

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Japan	7/125
	Country Sample Ranking	5/36
PwC Paying Taxes - Time to comply (hours) 2017	Japan	175
	Country Sample Ranking	22/36
Venture Capital Investment as a Percentage of GDP 2015	Japan	0.023%
	Country Sample Ranking	14/36
Average Venture Capital Investment per Company 2016	Japan	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Japan	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Japan	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>SMEs account for a high majority of all enterprises in Japan. Out of these, micro-enterprises dominate in both the number of firms as well as the number of employees.</p> <p>Japan remained in its position of 89 in the 'Starting a Business' indicator in the World Bank's 2017 <i>Doing Business</i> report.</p> <p>The global financial crisis was not the only economic crisis that Japan has faced over recent years. The earthquake in 2011 caused another economic recession. SME lending continuously decreased through the years 2007 to 2012, with a total decrease of 6.6%. By the end of 2014, SME lending increased 1.8% but was still below 2007 levels.ⁱ</p>		
Venture Capital Market		
<p>The value of venture capital investment in 2014 was JPY 117bn. Venture capital investments peaked in 2007 at JPY 193bn, but decreased by 29.5% in 2008 and 36% in 2009. Investment levels were close to the highs of 2007 in 2013 at JPY 181bn, but declined 35.4% in 2014 to reach 2012 levels.</p> <p>In recent years, the Japanese venture capital industry has focused on seed and early stage investment, accounting for 57% of total venture capital investment in 2014. However, over the period 2009-2011, the investment was concentrated in the expansion and later stages, accounting for 63.2%, 67.5% and 55.7% of total venture</p>		





capital investment in 2009, 2010 and 2011 respectively.

General Characteristics of the Tax System ⁱⁱ

Income Tax Rate	Corporate	<p>Corporate income is taxed at a rate of 15% on the first JPY 8m of income per annum and 23.4% thereafter (with an additional 4.4% local corporate tax).</p> <p>Enterprise Tax is charged on corporate income at the prefecture level at progressive rates from 3.4% to 6.7% (with a local corporate special tax). For corporations with paid-in capital over JPY 100m, a size-based enterprise tax is charged over different tax bases. Inhabitant's Tax is also charged on corporate income at the prefecture and municipal level.</p> <p>The combination of corporate income taxes results in effective tax rates of 34.81% for SMEs and 30.86% for large businesses operating in Tokyo.</p> <p>Loss relief is available for corporation and enterprise tax purposes. Losses can be carried forward for a period of 9 years, but large companies are subject to a limitation ration of 60%.</p>
	Individual	<p>Personal income is taxed at progressive rates of from 5% - 45%. A surtax of 2.1% is charged on national income tax.</p> <p>Local income tax is generally charged at a rate of 10%.</p> <p>Business enterprise tax is charged at the prefecture level on self-employment income. In general, business enterprise tax is assessed on business income in excess of JPY 2.9m at a rate of 3%, 4%, or 5%, depending on the type of business.</p> <p>A resident taxpayer who earns income from employment is eligible for an earned income deduction for purposes of both the national income and local inhabitant's tax.</p> <p>There is a three-year loss carryforward for national and local tax purposes (or a one-year carryback for national tax purpose), which is available for self-employed individuals if certain conditions are met.</p>
Capital Gains Tax Rate	Corporate	<p>Capital gains are treated as corporate income and taxed under corporate income tax regimes.</p> <p>Loss relief is available for corporation and enterprise tax purposes. Capital losses can be carried forward for a period of 9 years, but large companies are subject to a limitation ration of 60%.</p>
	Individual	<p>Capital gains are, in principle, aggregated with other income after deductions for necessary expenses and after a statutory deduction of a maximum of JPY</p>



		<p>500,000.</p> <p>The tax rate for listed shares in Japan is 20% (15%-income tax, 5%-local tax). The tax rate for sale of other shares is generally 20%. A surtax of 2.1% is charged on national income tax. For real estate, when the asset has been held for 5 years or more, only 50% of the net capital gain is taxable.</p> <p>Capital losses derived from the sale of listed shares may be offset against dividends from listed shares for the same year up to the amount of the dividends. Losses after offset against dividends may be carried forward for a period of three years.</p>
Dividend Tax Rate	Corporate	<p>Dividend income is taxed under the corporate income tax regimes.</p> <p>95% of dividends received by a company from a foreign company in which it has held at least 25% of the outstanding shares for a continuous period of six months or more, ending on the date on which the dividend is declared, can be excluded from the company's taxable income.</p>
	Individual	<p>Dividend income is taxed under the personal income tax regimes.</p> <p>Certain capital losses may be used to offset taxable dividend income.</p>
Wealth and Inheritance Taxes	Individual	<p>There is no form of wealth taxation in Japan.</p> <p>Inheritance tax is charged at the national level at rates of 10% to 55% depending on the value of the deceased's estate.</p>
Current Tax Incentives		
1) Tax Incentives to Promote Venture Investmentⁱⁱⁱ		
Overview	Corporate investors are entitled to accelerated loss relief for qualifying investments in an accredited venture fund.	
Qualifying Criteria	<p><i>Business</i> – No information available.</p> <p><i>Investor</i> – Participation is restricted to corporate investors.</p> <p><i>Investment</i> - Shares or other interests in an investment business limited partnership (venture fund) accredited by the government on or before 31 March 2017.</p> <p><i>Duration</i> – No information available.</p>	
Reliefs Available	<p><i>Tax relief on investment</i> – No relief on investment.</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – Investors can claim accelerated loss relief for corporation tax purposes. The allowable loss is limited to 80% of the book value of the investment.</p>	



Administration	Current guidance states that investors must apply for the relief through their income tax return.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
2) Angel Tax System^{iv}	
Overview	Business angels are entitled to tax relief on investment and disposal of qualifying investments in start-ups and SMEs.
Qualifying Criteria	<p><i>Business</i> – 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.</p> <p><i>Investor</i> – Individual investors.</p> <p><i>Investment</i> – Shares must be acquired directly, or indirectly through a venture fund, in a qualifying business.</p> <p><i>Duration</i> – No information available.</p>
Reliefs Available	<p><i>Tax relief on investment</i> – Investors are entitled to deduct a proportion of the value of the investment from their taxable income at the time of investment.</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – Investors can deduct the value of the investment on acquisition from any gains realised on disposal. Capital losses realised on disposal can be carried forward for a period of three years.</p>
Administration	No information available.
Penalties	No information available.
Impact	It has been reported that investments in 48 businesses were made through the Angel Tax System in 2013. ^v
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	
Other Policy Instruments	
Government-backed support to young and growing innovative companies is available in other forms in Japan.	
<p>The Government of Japan operates both loan guarantee and direct loan programmes for SMEs. As of 2015, the loan guarantee programme had JPY 27.7tn outstanding covering 1.4m SMEs. As of 2015, the direct loan programme had JPY 21.9tn outstanding covering 1m SMEs. In response to the financial crisis, the government decreased the interest rate on direct loans to 0.5% and the guarantee ratio to 100% in many sectors.</p>	



The Japan Financial Corporation and the Shoko Chukin Bank jointly operate a loan programme designed to support start-ups to expand overseas. The programme offers two types of loans; 1) Loans to Foster Growth of New Businesses, which have maximum value of JPY 600m and a maximum term of 15 years; and 2) Loans for Overseas Investment, which have maximum value of JPY 720m and a maximum term of 15 years.

Bankruptcy Law^{vi}

In 2016, insolvency resolution took 0.6 years in Japan, below the OECD average of 1.7 years.

Insolvency costs in the country amount to 4.5% of estate, much lower than the OECD average of 9.1%.

Assessment

Japan has an active venture capital market. Investment levels reached JPY117bn in 2014, mostly targeted to seed and early stage phases, after a steady decline in previous years.

Japan currently offers three incentive schemes for venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study:

- Tax Incentives to Promote Venture Investment – 18th
- Angel Tax System – 9th

Overall, the schemes perform well in terms of scope, with all schemes conforming to good practice with the exception of the absence of upfront relief for Tax Incentives to Promote Venture Investment.

Performance diverges in terms of qualifying criteria. There was insufficient information to assess a number of the qualifying criteria of the Tax Incentives to Promote Venture Investment (e.g. business age, size and sector targeting, related party targeting, investment size restrictions and investment holding periods). The scheme conformed to good practice by permitting cross-border investment and targeting equity investment.

In contrast, the information availability for the Angels Tax system scheme was generally good. The scheme display good practice in using a combination of business age and size targeting, cross-border investment and targeting equity investment. It displays not recommended practice by not targeting new investment, not restricting the size of investment attracting tax relief and not imposing minimum holding periods.

The schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

In particular, the Angel Tax System appears in the ten highest ranked schemes in the benchmarking and has been highlighted as a good practice case as a result. The scheme 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 government provides other forms of support to start-ups and SMEs, including loan



guarantees for SMEs, with a 100% guarantee ratio in certain sectors, as well as a decreased interest rate on direct loans.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

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35. South Korea

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	South Korea	20/125
	Country Sample Ranking	15/36
PwC Paying Taxes - Time to comply (hours) 2017	South Korea	188
	Country Sample Ranking	23/36
Venture Capital Investment as a Percentage of GDP 2015	South Korea	0.071%
	Country Sample Ranking	4/36
Average Venture Capital Investment per Company 2016	South Korea	€1.370m
	Country Sample Ranking	10/36
Business Angel Investment as a Percentage of GDP 2015	South Korea	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	South Korea	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>The SME sector is a significant driver of the Korean economy. In 2013, SMEs accounted for 99.9% of all businesses, with many being micro enterprises (those employing 1-9 individuals).ⁱ Korea moved up 12 places, from 23 to 11, in the Starting a business indicator in the World Bank's 2017 Doing Business report.</p> <p>Early stage SMEs typically rely more on bank loans than venture capital investments for start-up financing. SMEs share of business loans declined from 86.6% in 2007 to 74% in 2014, showing the clear impact the recession had on the country and SME sector. However, it is important to recognise that this proportion high by international standards.</p>		
Venture Capital Market		
<p>Venture capital investment stood at KRW 1.64tn in 2014, growing 18% on 2013. This growth was driven, in part, by the introduction the Creative Economy fund of funds. Although venture capital declined between 2007 and 2008 in line with the recession, it rebounded past 2007 levels in 2011.</p> <p>Venture capital investment is concentrated in the information technology, general manufacturing and cultural sectors. These three sectors accounted for 35.2%, 22.5% and 35.2% of venture capital investment in 2013 respectively.ⁱⁱ</p> <p>In 2013, the information technology sector received the most investment (35.2%), followed by general manufacturing (22.5%), and cultural contents (20.6%).</p>		





Venture capital investment in South Korea SMEs has been historically concentrated in the early and expansion finance stages. However, this has changed over time, with 44% of venture capital investment being concentrated in later stage finance in 2014.

General Characteristics of the Tax System ⁱⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits are taxed at the national level at 10% on the first KRW 200m, 20% for profits between KRW 200m and KRW 20bn, and 22% thereafter.</p> <p>An additional tax of 10% is charged to companies falling below certain thresholds of expenditure and profit distribution.</p> <p>Corporate income tax is also charged at the local level. Local income tax rates for corporations are 1% on the first KRW 200m, 2% for between KRW 200m and KRW 20bn, and 2.2% for the excess.</p> <p>Loss relief is available. Losses can be carried forward for a period of 10 years, restricted to 80% of taxable income. In general, losses cannot be carried back. However, SMEs are permitted to carry back losses to the prior year.</p> <p>Under the Corporate Income Tax Law ("CITL"), in case a foreign corporation carries out its business wholly or partly by having a fixed place in Korea, it is regarded to have a permanent establishment in Korea. In addition, if a foreign corporation provides services through its employees for more than six months during consecutive 12 months or similar services are provided continuously and repeatedly for more than two years, it is deemed to have a Korean PE. Korea has also a deemed permanent establishment concept that carries out business through an agent.</p>
	Individual	<p>Personal income is taxed at the national level at progressive rates between 6% and 38% before applying the local income tax (approximately 10% of income tax liability).</p> <p>Personal income is also taxed at the local level at 10% of the marginal national rates.</p> <p>Loss relief is available. Business losses, excluding rental losses, are deductible against employment income, pension income, other income, interest income, and dividend income. Losses can be carried forward for a period of 10 years, but cannot be carried back.</p>
Capital Gains Tax Rate	Corporate	<p>For resident companies, capital gains are treated as ordinary business income and taxed under the corporate income tax regime. For nonresident</p>



		<p>companies, Korean-source capital gains are taxed at either 11% of proceeds or 22% of gains (whichever is less).</p> <p>Loss relief is available. Losses can be carried forward for a period of 10 years, restricted to 80% of taxable income. In general, losses cannot be carried back. However, SMEs are permitted to carry back losses to the prior year.</p>
	Individual	<p>Capital gains are treated as personal income, but are taxed at different rates. The rate of tax varies between non-residents and residents and is increased by 10% for residents, resulting in effective tax rates of 11% and 22% respectively.</p> <p>Loss relief is available. Capital losses are deductible against capital gains. However, unused losses cannot be carried forward.</p>
Dividend Tax Rate	Corporate	<p>All distributions to shareholders are taxed as dividend income under the corporate income tax regime, whether paid in cash or in stock.</p> <p>Dividend income received by resident corporations is not subject to withholding tax.</p>
	Individual	<p>Dividend income received from both domestic and foreign corporations are taxable. Most dividend income earned from Korean sources is subject to 15.4% tax withholding at source.</p>
Wealth and Inheritance Taxes	Individual	<p>There are currently no form of wealth taxation in South Korea.</p> <p>Inheritance tax is charged in transfers of property on death and lifetime gifts at rates from 10% to 50% on the taxable income excluding local income tax.</p>
Current Tax Incentives ^{iv}		
1) Tax exemptions for venture capital companies		
Overview	<p>Venture capital funds are granted a tax-transparent status for corporate income tax purposes.</p>	
Qualifying criteria	<p><i>Business</i> – The Special Tax Treatment Control Act does not specify business sector that is eligible for tax incentive.</p> <p>No information on permanent establishment requirements – In the case that it does apply – please refer to corporate income tax for definition of PE in Korea.</p> <p><i>Investor</i> – Venture capital company structured as a partnership.</p> <p><i>Investment</i> – Equity investment made through primary markets.</p> <p><i>Duration</i> – No information available.</p>	
Reliefs available	<p><i>Tax relief on investment</i> – No information available.</p>	



	<p><i>Tax relief on income received</i> – Dividend income received by qualifying venture capital funds are exempt from corporate income tax for dividend income arising from shares acquired directly or indirectly.</p> <p><i>Tax relief on disposal</i> – Qualifying venture capital funds also receive an exemption from capital gains taxes arising from the disposal of qualifying investments.</p>
Administration	No information available.
Penalties	No information available.
Impact	No information available.
Generosity	It is not possible to calculate a B-Index value due to the lack of upfront tax relief.
2) Tax deductions and exemption from capital gains tax for individual investors in venture capital funds	
Overview	Individual investors in venture capital funds are eligible for a number of tax incentives.
Qualifying criteria	<p><i>Business</i> – Under the Special Act for Promotion of Venture Business, the business of accommodation, beverage, property, gambling, hair salon, etc. shall not qualify for venture business.</p> <p>No information on permanent establishment requirements – In the case that it does apply – please refer to corporate income tax for definition of PE in Korea.</p> <p><i>Investor</i> – Individual investors.</p> <p><i>Investment</i> – No information available.</p> <p><i>Duration</i> – No information available.</p>
Reliefs available	<p><i>Tax relief on investment</i> – No information available.</p> <p><i>Tax relief on income received</i> – Qualifying investors are granted a tax deduction in respect of dividend income received, subject to the minimum holding period.</p> <p><i>Tax relief on disposal</i> – Qualifying investors are granted a tax exemption in respect of capital gains arising on the venture capital fund’s disposal of qualifying investments.</p>
Administration	No information available.
Penalties	No information available.
Impact	No information available.
Generosity	It is not possible to calculate a B-Index value due to the lack of upfront tax relief.
Impact of Current Tax Incentives	
No information available.	
Abolished Tax Incentives	
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.	



Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in South Korea.

The government offers various forms of financial support to SMEs, including loan guarantees and other assistance programmes.

The Small Business Corporation (SBC) is a non-for-profit, government-funded organisation dedicated to providing financial and non-financial support to Korean SMEs. As well as providing training and consulting services to SMEs, the SBC also administers a number of policy funds. These funds are targeted to different SME financing needs, including a fund dedicated to start-ups established by young entrepreneurs (under 39 years old).^v Direct loans made by the SBC-administered policy funds totaled KRW 3.8 tn in 2014.

Bankruptcy Law^{vi}

In 2016, insolvency resolution took 1.5 years in South Korea, below the OECD average of 1.7 years.

Insolvency costs in the country amount to 3.5% of estate, also a way lower than the OECD average of 9.1%.

Assessment

South Korea has a highly active and growing venture capital market. Investment levels reached KRW 1.64tn in 2014, largely concentrated in the IT, manufacturing and cultural sectors.

South Korea currently offers two incentive schemes for venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study:

- Tax exemptions for venture capital companies – 23rd (joint)
- Tax deductions and exemption from capital gains tax for individual investors in venture capital funds – 23rd (joint)

Collectively, the schemes target both corporate and individual. In terms of scope, there is a mix of missing information, neutral practice and not recommended practices being followed, with none of the criteria conforming to good practice.

There is a lack of available information across the criteria and is a reason the incentives sit around the midway point of the country sample. We should note that on the majority of the information available, the schemes generally conform to recommended practice (e.g. Investor targeting, Cross-border investments targeting and debt vs. equity targeting).

Both schemes do perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs, such as the Small Business Corporation (SBC), which contributes to fulfilling the financial needs of start-ups and provides training for SMEs.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.




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36. Switzerland

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Switzerland	10/125
	Country Sample Ranking	7/36
PwC Paying Taxes - Time to comply (hours) 2017	Switzerland	63
	Country Sample Ranking	2/36
Venture Capital Investment as a Percentage of GDP 2015	Switzerland	0.035%
	Country Sample Ranking	6/36
Average Venture Capital Investment per Company 2016	Switzerland	€3.952m
	Country Sample Ranking	4/36
Business Angel Investment as a Percentage of GDP 2015	Switzerland	0.0020%
	Country Sample Ranking	20/36
Average Business Angel Investment per Company 2015	Switzerland	€0.339m
	Country Sample Ranking	22/36



SME Investment Environment ¹
<p>SMEs in Switzerland accounted for 99.6% of Swiss enterprises and 66.6% of jobs in 2013.</p> <p>The impact of the financial crisis was less profound in Switzerland than it was for other OECD countries. The number of SME loans continuing to grow through the crisis years, although at a slower rate, growing 24.5% over the period 2007-2014. However, the share of SME loans in total business loans decreased 0.6% in 2014.</p> <p>Switzerland is positioned at 72/189 in the ease of Starting a business on the starting a business indicator in the World Bank's 2017 Doing Business report. This is a 2 place decline on last year.</p>
Venture Capital Market
<p>Total business angel investment in Switzerland was €14.9m in 2015, growing 6% on 2014. 'Informal' venture capital from friends and high-net worth individuals is popular among Swiss early stage companies.</p> <p>Venture capital investment volumes declined sharply during the financial crisis years, falling from €277m in 2007 to €170m in 2008, a 38% decline. Investment levels have been volatile over the period 2007-2015 and are yet to return to pre-financial crisis levels. Venture capital investment stood at €261m in 2015.</p> <p>Venture capital in Switzerland has historically focused on start-up investment. Start-</p>



up investment accounted for 84% of total venture capital investment by volume and 70% of recipient companies in 2015. Indeed, a limited number of venture capital funds invest in seed financing for Swiss early-stage companies.ⁱⁱ

Venture capital investment is concentrated in the information technology sector, and the life sciences sector to a lesser extent.

The main sources of cross-border private equity investment (including VC) into Swiss companies investment are United Kingdom, United States, Sweden, France and Netherlands. These five countries accounted for 82.1% of all private equity investment in 2015.

General Characteristics of the Tax Systemⁱⁱⁱ

Income tax rate	Corporate	Switzerland levies a direct federal CIT at a flat rate of 8.5% on profits after tax. Accordingly, CIT is deductible for tax purposes and reduces the applicable tax base (i.e. taxable income), resulting in a direct federal CIT rate on profit before tax of approximately 7.83%. In addition, to the direct federal CIT, each canton has its own tax law and levies cantonal and communal income and capital taxes at different rates. Therefore, the tax burden of income (and capital) varies from canton to canton. Some cantonal and communal taxes are imposed at progressive rates. The overall effective corporate income tax rate is between 12.32% and 24.16%. Loss relief is available. Losses can be carried forward for a maximum of seven years. There is no carryback of tax losses in Switzerland.
	Individual	Personal income is taxed at progressive rates at the federal, cantonal and community levels. The effective tax rates varies from 22% to 45%. Loss relief is not available.
Capital Gains tax rate	Corporate	Generally treated as corporate income and taxed under the corporate income tax regimes. However, capital gains may be exempt provided that specific participation exemption conditions are met. Loss relief is available. Losses can be carried forward for a maximum of seven years. There is no carryback of tax losses in Switzerland.
	Individual	Capital gains on movable assets (e.g. shares) are generally tax exempt, providing the individual does not qualify as a professional securities dealer. Capital losses from the sale of movable assets are not allowable for tax purposes.
Dividend tax rate	Corporate	Generally treated as corporate income and taxed under the corporate income tax regimes. However, if participation exemption conditions are met then exemptions can be applied.



		Dividend withholding tax rate at 35% may be reduced under Swiss-EU directive and or applicable double taxation treaties.
	Individual	Dividend income derived from investments is taxed under the personal income tax regimes.
Wealth and inheritance taxes	Individual	<p>A net wealth tax is charged at the canton level on an individual's worldwide net assets at progressive rates. For instance Zurich canton charges rates of 0%-0.3%.</p> <p>Inheritance tax is charged on transfers of property on death at the canton level. The tax rate is progressive and is determined by the relationship between the deceased and the recipient. Spousal transfers are exempt.</p>
Current Tax Incentives		
Switzerland does not currently offer tax incentives to venture capital and business angel investors.		
Impact of Current Tax Incentives		
Not applicable.		
Abolished Tax Incentives		
There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.		
Other Policy Instruments		
<p>Government-backed support to young and growing innovative companies is available in other forms in Switzerland.</p> <p>Four guarantee cooperatives support Swiss SMEs to obtain bank loans up to CHF 500,000. Three of the cooperatives operate at the cantonal level, with only one operating nationally but restricted to female entrepreneurs.</p> <p>The Commission for Technology and Innovation (CTI) provides coaching and training to young entrepreneurs and scientists.^{iv} The CTI operates a number of programmes targeted to different groups and contexts. These include:</p> <ul style="list-style-type: none"> • CTI Entrepreneurship, which provides information related to starting up a new company. • CTI Start-up, which provides coaching on market entry. Upon successful completion, the young businesses are awarded the CTI Start-up Label. Companies receiving the CTI Start-up Label have a survival rate of 85%, above the Swiss national average. 		
Bankruptcy Law^v		
In 2016, insolvency resolution took three years in Switzerland, significantly higher than the OECD average of 1.7 years.		
Insolvency costs in the country amount to 4.5% of estate, which is under half of the OECD average of 9.1%.		
Assessment		
<p>Switzerland has an active venture capital market which, despite contractions in recent years, invested €261m in 2015, largely within the IT sector. By contrast, the business angel market has shown growth of 6% in 2015 to reach investment levels of €14.9m.</p> <p>Switzerland does not currently grant any tax incentives for venture capital or business</p>		



angel investment.

The government provides other forms of support to start-ups and SMEs, such as the Commission for Technology and Innovation (CIT), which provides training to young entrepreneurs.

References

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37. Turkey

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	Turkey	33/125
	Country Sample Ranking	22/36
PwC Paying Taxes - Time to comply (hours) 2017	Turkey	217
	Country Sample Ranking	28/36
Venture Capital Investment as a Percentage of GDP 2015	Turkey	-
	Country Sample Ranking	N/A
Average Venture Capital Investment per Company 2016	Turkey	-
	Country Sample Ranking	N/A
Business Angel Investment as a Percentage of GDP 2015	Turkey	-
	Country Sample Ranking	N/A
Average Business Angel Investment per Company 2015	Turkey	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>SMEs in Turkey are the most important part of business economy. They provide most jobs, account for 99.9 % of all businesses and produce 53% of the value added in the whole economy. Turkey has moved up the ranking on World Bank's <i>Doing Business</i> report's Starting a Business index, rising 15 places to 79/189 in 2017.</p> <p>SME lending has grown rapidly in recent years and has been unaffected by the financial crisis. The number of SME loans grew 324% over the period 2007-2014. Equity financing for SMEs has also exhibited significant growth during the period, but has been volatile in recent years.</p>		
Venture Capital Market		
<p>Turkey has a developing market for both formal and informal (business angel) venture capital.</p> <p>Business angel investment in 2015 was €31m, achieving growth of 38% relative to 2014. This places Turkey above many European countries in terms of business angel market size. Indeed, Turkey has recently introduced a legal framework to regulate and promote business angel investment. During the period February 2013 to June 2015, 308 individuals have been granted a business angel license and of those, 16 investment applications have been approved.¹</p> <p>Venture capital investment has undergone significant, if volatile, growth over the period 2007-2014. Following a decline of 94% in 2008, the level of investment has grown, but has exhibited volatility in recent years, falling 63% in 2014 relative to</p>		





2013.

General Characteristics of the Tax Systemⁱⁱ

Income Tax Rate	Corporate	<p>Corporate profits taxed at 20%. Loss relief is permitted and unutilised losses can be carried forward for a period of five years. Losses cannot be carried back. Start-up expenses are deductible as incurred or can be capitalised and depreciated over a five year period. Turkish resident companies are entitled to a deemed interest deduction on capital increases paid in cash.</p> <p>Loss relief is available for corporate losses. Losses may be carried forward for a period of five years, but cannot be carried back.</p>
	Individual	<p>Taxed at rates of 15%-35% depending on income determination. The losses declared on reportable income can be carried forward for a period of five years.</p>
Capital Gains Tax Rate	Corporate	<p>Chargeable gains are treated as corporate income and taxed as such at a rate of 20%. Gains realised on the disposal of shares in a company may be eligible for a 75% tax relief. Gains derived by non-resident corporates are subject to 20% CIT and 15% WHT (which may be protected via bilateral tax treaties).</p> <p>Loss relief is available for corporate losses. Losses may be carried forward for a period of five years, but cannot be carried back.</p>
	Individual	<p>Gains arising on the disposal of certain categories of assets, such as listed shares, are taxed through withholding tax at rates of 0% or 10%. Gains outside the scope of the withholding tax regime are taxed under the income tax regime at rates from 15% to 35%. Gains arising on the disposal of Turkish joint stock company shares by Turkish individuals may be exempt from income tax if conditions are met (i.e. a two year holding period).</p> <p>Capital losses cannot be deducted from other types of taxable income, but can be deducted from the same type of capital gains. Capital losses cannot be carried forward.</p>
Dividend Tax Rate	Corporate	<p>Dividend income received is treated as corporate income and taxed as such at a rate of 20%. In dividend distribution's between Turkish resident companies, the dividend payer is exempt from withholding tax and the recipient is exempt from corporate income tax. Local tax rate on dividend distribution by Turkish-resident companies to non-residents is 15%.</p>
	Individual	<p>Local tax rate on a dividend distribution is 15%.</p> <p>Dividend income is taxed under the income tax regime at rates of 15% - 35%. Half the gross amount</p>



		of dividends obtained from resident entities is exempt from income tax. If the remaining amount, together with other income (i.e. salaries, income from movable property, and real estate income subject to withholding tax), exceeds the threshold of TL30,000, this amount should be declared with the annual tax return.
Wealth and Inheritance Taxes	Individual	There are no wealth taxes in Turkey. Inheritance tax is charged at rates of up to 10% on the transfer of real property upon death.
Current Tax Incentives		
1) Business Angel Scheme		
Overview	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. ⁱⁱⁱ	
Qualifying criteria	<p><i>Business</i> – At the time of investment, the company must be an unlisted Turkish joint stock company with no more than 50 employees, turnover below TL 5m for the two years prior to investment, carrying on a trade approved by the Ministry of Finance and should not be under the control of another company.</p> <p><i>Investor</i> - The investor is required to obtain an Angel Investor License, which is valid for five years, from the Ministry of Finance. Investors must meet income/wealth and relevant business experience criteria. The investor must not be a majority shareholder of the company. The investor is permitted to be involved in the management of the company but only through official management structures, such as the board of directors. Investors may invest in up to 20 companies during the 5 year duration of their license.^{iv}</p> <p><i>Investment</i> – Investments in share capital from TL 20,000 to a maximum of TL 1m per company. Co-investments are subject to a limit of TL 2m per company.</p> <p><i>Duration</i> - Qualifying investments must be held for a continuous period of two years to be eligible for tax relief.</p>	
Reliefs available	<p><i>Tax relief on investment</i> – Investors receive 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 TL 1m. Unutilised deduction can be carried forward to the next tax year. The rate of deduction is increased to 100% of capital invested in companies with projects are supported by Ministry of Science, Industry, and Technology.</p> <p><i>Tax relief on income received</i> – No relief on income received from the investment.</p> <p><i>Tax relief on disposal</i> – No relief on gains or losses realised on disposal.</p>	
Administration	Prior to investment, a licensed business angel should make an application for authorisation to the Ministry of Finance, submitting a number of pieces of documentary evidence,	



	<p>including the business plan and articles of association of the target enterprise.</p> <p>Once authorisation has been granted, the investor is permitted to make the investment, which must be reported to the Ministry of Finance with the submission of a bank receipt showing the transfer of funds. The Ministry of Finance then lodge notice with the Tax Administration, who then apply the tax relief automatically.</p>
Penalties	Breaches of qualifying criteria by investors will result in the withdrawal of tax relief. Taxes that should have been paid will become payable in addition to tax penalties and interest normally charged on late tax payments.
Impact	During the period February 2013 to June 2015, 308 individuals have been granted a business angel license and of those, 16 investment applications have been approved.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.596 B-Index value for a large investment (€500,000) – 0.782 Average B-Index value – 0.689</p> <p>For approved investments: B-Index value for a small investment (€50,000) – 0.462 B-Index value for a large investment (€500,000) – 0.710 Average B-Index value – 0.586</p>
2) Venture Capital Investment Trust Tax Exemption	
Overview	The Council of Ministers Decree 2009/14594 exempts profits generated by venture capital investment funds from the scope of corporate income tax. ^v
Qualifying criteria	<p><i>Business</i> – There are no requirements relating to the eligibility of the investee company.</p> <p><i>Investor</i> – The investor must be a venture capital investment trust (VCIT) registered with the Capital Markets Board (CMB) with (ordinarily) taxable profits in Turkey.</p> <p><i>Investment</i> – There are no requirements on the nature of the investments undertaken by the venture capital investment fund.</p> <p><i>Duration</i> – There is no specified minimum or maximum investment holding period.</p>
Reliefs available	<p><i>Tax relief on investment</i> – No relief on investment.</p> <p><i>Tax relief on income received</i> – Dividend income received by the venture capital investment fund is exempt from corporation tax.</p> <p><i>Tax relief on disposal</i> – Gains arising on the disposal of investments held by the venture capital investment fund is exempt from corporation tax.</p>
Administration	No information available.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to



	the lack of upfront tax relief.
3) Private Equity Investment Fund	
Overview	Private Equity Investment Funds (PEIFs) were introduced in 2014 to create a tax-incentivised, closed-end investment vehicle to promote investment in early and development stage businesses. ^{vi}
Qualifying criteria	<p><i>Business</i> – PEIFs are able to invest in securities and any type of business regardless of size or sector. However, restrictions are placed on the proportion of private equity in the PEIF’s investment portfolio.</p> <p><i>Investor</i> – PEIFs can only be established by Turkish Portfolio Management Companies or Private Equity Portfolio Management Companies under license from the Capital Markets Board. Only Qualified Investors (QIs) are permitted to invest in PEIFs. QIs are those investors that meet the angel investor criteria or own at least TL 1m of financial assets.</p> <p><i>Investment</i> – PEIFs are permitted to make equity or debt investments in target companies. At least 80% of the Total Fund Value should consist of private equity investments. This requirement is reduced to 51% where at least 10% of the Total Fund Value consists of investments in SMEs.</p> <p><i>Duration</i> – No required minimum holding period for investors in the PEIF or the PEIF itself.</p>
Reliefs available	<p><i>Tax relief on investment</i> – Resident investors (individuals and corporates) are able to claim an income/corporate tax deduction. The concept of a Private Equity Reserve (PER) allows investors in PEIFs to reserve up to 10% of their annual taxable income or the corporate tax base of the relevant year and 20% of their equity. PERs can be deducted from the corporate or income tax base providing the reserve is used solely for investment in PEIFs by the end of the year in which the reserve is created.</p> <p><i>Tax relief on income received</i> – PEIFs are exempt from corporation tax. Dividend distributions to investors made by a PEIFs is exempt from the requirement to deduct withholding tax.</p> <p><i>Tax relief on disposal</i> – Gains realised by the PEIF are exempt from corporate tax. Tax relief is not available for gains or losses realised by investors on the disposal of investments in PEIFs.</p>
Administration	No information available.
Penalties	In the event of disposal of investments in a PEIF, tax relief granted in respect of the PER is clawed back if reinvestment is not made within six months from the date of disposal.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
Impact of Current Tax Incentives	
No information available.	

**Abolished Tax Incentives**

There are no known tax incentives that were abolished during the period 2006-2016.

Other Policy Instruments

Other forms of government-backed support to young and growing innovative companies in Turkey is provided by KOSGEB, an organisation affiliated to the Ministry of Science, Industry and Technology.

KOSGEB provides support to SMEs with a view to fostering a culture of entrepreneurship. It aims to support access to finance for SMEs through investment credit support programmes, including servicing finance costs of bank loans, credit and loan guarantees, marketplaces to buy and sell unlisted shares, financial grants for start-ups, and regional venture capital funds. Between 2010 and 2014, KOSGEB provided €377m of support to SMEs and start-ups.

Bankruptcy Law^{vii}

In 2016, insolvency resolution took 2.2 years in Turkey, higher than the OECD average of 1.7 years.

Insolvency costs in the country amount to 14.5% of estate, which is considerably higher than the OECD average of 9.1%.

Assessment

Turkey's venture capital market has displayed volatility in recent years. In contrast, the business angel market has experienced growth of 38% in 2015 to reach investments levels of €31m.

Turkey currently offers three incentive schemes for venture capital and business angel investors. These were ranked as follows in the benchmarking component of this study:

- Business Angel Scheme – 25th
- Venture Capital Investment Trust Tax Exemption – 47th
- Private Equity Investment Fund – 40th

In particular, the Business Angel Scheme appears has been highlighted as a good practice case. 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. It provides upfront relief but does not provide relief on returns and provide loss relief as per the baseline tax system. The design of the schemes corresponds to good practice in terms of business size targeting. It also permits corporate and individual investors, cross-border investment, restricts the size of investment attracting relief and solely target equity investment (recommended practice). It does however follow certain not recommended practices (e.g. business age targeting and new investment targeting)

The Venture Capital Investment Trust Tax Exemption scheme sits at the bottom of our sample due to the majority of practices in terms of scope and qualifying criteria conforming to not recommended practice. The Private Equity Investment Fund follows good practice by offering upfront relief but falls down the ranking mainly due to the not recommended practices followed under qualifying criteria e.g. (Business age and size targeting, cross-border investments targeting, new investment targeting and no setting of minimum holding period). Information is provided across almost every criteria of the schemes.

All of the schemes perform well in terms of administration (e.g. fiscal cost monitoring and administration on a non-discretionary basis), but are not subject to transparent



annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs. For instance, the government supports innovative companies through the KOSBEG organization, which aims to support access to financing for SMEs.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.

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38. USA

Business Angel and Venture Capital Market		
Venture Capital and Private Equity Attractiveness Index 2016	USA	1/120
	Country Sample Ranking	1/36
PwC Paying Taxes - Time to comply (hours) 2017	USA	175
	Country Sample Ranking	22/36
Venture Capital Investment as a Percentage of GDP 2015	USA	0.298%
	Country Sample Ranking	2/36
Average Venture Capital Investment per Company 2016	USA	€13.275m
	Country Sample Ranking	1/36
Business Angel Investment as a Percentage of GDP 2015	USA	0.1336%
	Country Sample Ranking	1/36
Average Business Angel Investment per Company 2015	USA	-
	Country Sample Ranking	N/A
SME Investment Environment		
<p>The SME sector is the driver of the US economy. In 2011, SMEs accounted for 99.9% of all businesses and employed approximately 50% of private sector employees. Despite this, the US moved down 2 places from 49 to 51 in the Starting a Business indicator in the World Bank’s 2017 Doing Business report.</p> <p>SME funding in the US is strong and healthy. OECD stats show that in comparison to other countries, the US is committed to helping entrepreneurs get their breakthrough ideas off the ground and into the marketplace.</p> <p>Business lending in the US declined during the recession, more noticeably for small firms. The loans given out had declined continuously from 2008 through to the end of 2013 but then showed very modest gains thereafter, but were still 16% below the peak level of 2008. By 2015 the levels of investment had overall doubled its level since 2007.</p>		
Venture Capital Market ¹		
<p>The US is the leading venture capital and business angel market. Venture capital investments amounted to US\$59.7bn and accounted for 85% of total venture capital investments in the OECD, in 2015.</p> <p>Computer & consumer electronics were the most invested in sector in 2015 with a 43% share of all investments, amounting to a total of US\$25.8bn.</p>		





General Characteristics of the Tax System ⁱⁱ		
Income tax rate	Corporate	<p>Corporate income is taxed at the federal level at progressive rates up to a top marginal rate of 35%.</p> <p>Corporate income is also taxed at the state level by some states. The rate of state corporate income tax ranges from 1% to 12%.</p> <p>An alternative minimum tax is imposed on corporations other than S and C corporations. The tax is charged at 20% on corporate income in excess of US\$ 40,000.</p> <p>Loss relief is available. Losses may be carried back two years and, if not fully used, carried forward 20 years.</p>
	Individual	<p>Personal income is taxed at the federal level at progressive rates up to 39.6%.</p> <p>An alternative minimum tax is charged at 26% for the first US\$186,300 of income and 28% thereafter.</p> <p>Most states impose some personal income tax, with the exception of Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming, which have no state income tax. State income tax is deductible for federal income tax purposes.</p> <p>Loss relief is available. Losses can be carried back for two years and carried forward for a period of 20 years.</p>
Capital Gains tax rate	Corporate	<p>Capital gains are taxed under the corporate income tax regime.</p> <p>Chargeable gains are calculated by netting off net long term gains (assets held more than 12 months) against net short term gains (assets held less than 12 months).</p> <p>Loss relief is available. Capital losses can be carried back three years and carried forward five years to be used against (offset) capital gains.</p>
	Individual	<p>The maximum federal tax rate on capital gains is 20% for assets held for more than 12 months. Capital gains from assets held for 12 months or less are taxed under the income tax regime.</p> <p>Loss relief is available. The capital loss deduction is generally limited to the individual's capital gains plus US\$ 3,000.</p>
Dividend tax rate	Corporate	<p>Dividend income is taxed under the corporate income tax regime.</p> <p>Corporations can deduct 70% of their dividends received from other US corporations in determining taxable income. The dividends received deduction is increased from 70% to 80% if the recipient of the dividend distribution owns at least 20% but less than</p>



		80% of the distributing corporation.
	Individual	<p>Dividend income received by citizens and resident aliens is subject to US income tax, whether it is from US or foreign sources.</p> <p>Non-resident aliens' US-source dividends are generally subject to a flat tax of 30% (or lower treaty rate), which is usually withheld at source.</p>
Wealth and inheritance taxes	Individual	There is no form of federal wealth taxation. Inheritance tax is charged on lifetime gifts of property and transfer on death at a rate of 40%, subject to an exempt amount of US\$ 5.45m.
Current Tax Incentives		
1) Qualified small business stock (QSBS)ⁱⁱⁱ		
Overview		Investors are permitted to exclude a percentage of the gains on the sale of QSBS.
Qualifying criteria		<p><i>Business</i> – The business must qualify as a ‘Small business’. The business must be a ‘C-corporation’ whose gross assets do not exceed US\$50m before and after the issuance of stock. At least 80% of the business’ assets must be employed in one or more qualifying trades, which includes all trades except for agriculture, hospitality, health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees. Excluded trades:</p> <ul style="list-style-type: none"> • A service business in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services; • A banking, insurance, financing, leasing, investing, or similar business; • A farming business; • A business involving the production of products for which percentage depletion can be claimed; and • A business of operating a hotel, motel, restaurant, or similar business. <p><i>Investor</i> – The investor must be a US non-corporate taxpayer.</p> <p><i>Investment</i> – Newly issued shares in a qualifying C-corporation acquired directly.</p> <p><i>Duration</i> – Qualifying investments must be held for a period of more than five years.</p>
Reliefs available		<p><i>Tax relief on investment</i> – No tax relief on investment.</p> <p><i>Tax relief on income received</i> – No tax relief on income received.</p> <p><i>Tax relief on disposal</i> – A proportion of the gain arising on</p>



	<p>disposal is exempted from capital gains tax. The proportion depends on the data of acquisition of QSBS as follows:^{iv}</p> <ul style="list-style-type: none"> • 100% for QSBS acquired after 27 September 2010. • 75% for QSBS acquired between 18 February 2009 and 27 September 2010. • 50% for QSBS acquired before 18 February 2009.
Administration	The investor must apply for the relief through their income tax return.
Penalties	No information available.
Impact	No information available.
Generosity	It has not been possible to calculate a B-Index value due to the lack of upfront tax relief.
2) Investment tax credits^v	
Overview	A number of states have implemented personal income tax credits to promote investment in small businesses.
Qualifying criteria	<p><i>Business</i> – Qualifying businesses are usually start-up, growth-oriented and/or R&D companies.</p> <p><i>Investor</i> – Individual and corporate investors can participate in state investment tax credits.</p> <p><i>Investment</i> – Ordinary share capital, capped at a maximum investment value per investor and/or per business.</p> <p><i>Duration</i> – Minimum holding periods are widely featured in state investment tax credits.</p>
Reliefs available	<p><i>Tax relief on investment</i> – Qualifying investors are entitled to an income tax credit ranging from 10%-50% of the permitted investment value. The credit is claimed against state-level income tax liability and can be carried forward in some schemes.^{vi}</p> <p><i>Tax relief on income received</i> – No relief on income received.</p> <p><i>Tax relief on disposal</i> – No relief on gains realised on disposal.</p>
Administration	Tax credits are usually claimed in the state income tax return of the investor.
Impact	Hendon <i>et al.</i> (2012) review a number of tax credit initiatives at the state level in the US and finds substantial heterogeneity in programmes. ^{vii} Regarding the effects of the individual programme the authors mainly note, that there is hardly any comprehensive assessment available so far, but that individual goals for tax incentives must be clear from the outset and that a one-size-fits all solution is unlikely.
Generosity	<p>B-Index value for a small investment (€50,000) – 0.980</p> <p>B-Index value for a large investment (€500,000) – 0.980</p> <p>Average B-Index value – 0.980</p>
Impact of Current Tax Incentives	
An empirical study using US state-level data from 1995 to 2010 is provided by Cumming and Li (2013). ^{viii} While the authors also find little evidence for a significant	



negative impact of the corporate income tax they find a clearly positive impact of specific tax incentives for VC. Specifically, they find that little evidence that the overall tax burden gives rise to economic harm in terms of less entrepreneurial activity, but that Small Business Innovation Research (SBIR) awards are associated with more business starts and higher levels of venture capital per population.

Abolished Tax Incentives

There were no known instances of tax incentives for venture capital and business angel investment in SMEs and start-ups being abolished during the period 2006-2016.

Other Policy Instruments

Government-backed support to young and growing innovative companies is available in other forms in the United States.

Most of the government-backed support available to SMEs is channeled through the Small Business Administration (SBA), a federal agency tasked to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns". The SBA operates a number of programmes to provide financial and non-financial support to start-ups and SMEs.

In FY 2016, the SBA approved \$27.8bn of loan guarantees and provided business counselling to over 1.4m business through a network of 13,000 business advisors and mentors.^{ix}

Bankruptcy Law^x

In 2016, insolvency resolution took 1.5 years in the United States, lower than the OECD average of 1.7 years.

Insolvency costs in the country amount to 10% of estate, which is just higher than the OECD average of 9.1%.

Assessment

The USA has the leading business angel and venture capital market in the country sample. The US venture capital market saw investments of US\$59.7bn in 2015.

The USA currently offers two incentive schemes for venture capital and business angel investors, one of which is implemented at the subnational level. These were ranked as follows in the benchmarking component of this study:

- Qualified small business stock (QSBS) – 32nd
- Investment tax credits – 20th

As shown above, performance diverges over both of the schemes. In terms of scope the Investment tax credit provides upfront relief (recommended practice) where the QSBS does not. The QSBS does however provide relief on capital gains which does conform to good practice.

The investment tax credits scheme scores well across the board, generally conforming to good practice in terms of qualifying criteria. It only follows not recommended practice under one of the qualifying criteria (new investment targeting). The QSBS scheme falls lower down the ranking due to a larger number of not recommended practices in certain criteria across the board (e.g. lack of upfront relief, business age targeting, cross-border investments targeting and investment size restrictions).

Information is provided across nearly all of the criteria for the schemes with the exception of one of the qualifying criteria (related parties targeting).

The scheme performs well in terms of administration (e.g. fiscal cost monitoring and



administration on a non-discretionary basis), but is not subject to transparent annual impact monitoring.

The government also provides other forms of support to start-ups and SMEs. For instance, the government directs support for SMEs through the Small Business Administration (SBA) which provides financial backing in the form of loan guarantees as well as support by means of business counselling and mentors.

Please note that principles of good practice and benchmarking results are contained in the annex of this document.



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Annex 1: Principles of Good Practice

Summary of desirable design features of VC and BA tax incentive schemes

Category of benchmark variable	Practice	Good practice	Neutral	Not recommended
Scope	Upfront relief on amount invested	Upfront relief granted to eligible investors	N/A	Absence of upfront relief
	Relief on returns (investment income/ capital gains)	Offer relief on capital gains	Offer tax relief on investment returns without distinguishing between investment income or capital gains	No tax relief on investment returns
	Loss relief	Loss relief granted to eligible investors on more favourable terms than the baseline tax system	Loss relief allowed as per the baseline tax system	Withdrawal of loss relief
Qualifying criteria	Business age targeting	Partial targeting on the basis of business age	N/A	No targeting on the basis of business age
	Business size targeting	Partial targeting on the basis of business size	N/A	No targeting on the basis of business size
	Business sector targeting	Restrictions to prevent capital preservation schemes (e.g. excluding certain sectors but with provisions for businesses that operate across	Do not target on the basis of business sector	Targeting on the basis of business sector



Category of benchmark variable	Practice	Good practice	Neutral	Not recommended
		sectors)		
	Investor targeting	Target both business angel and venture capital investors within one scheme or across multiple schemes	N/A	Target either business angel or venture capital investors within one scheme or across multiple schemes
	Related parties targeting	Restrict participation of related parties. However, in the case of schemes specifically targeting natural persons, an allowance is introduced for business angels	N/A	Restrict participation of related parties. However, in the case of schemes specifically targeting natural persons, an allowance has not been introduced for business angels
	Cross-border investments targeting	Permit the participation of cross-border investors	N/A	Restrict to national investors
	Debt vs. equity targeting	Target equity investment	Make no distinction between debt and equity investment	Target debt investment
	New investment targeting	Restrict eligibility to new investments (e.g. newly issued share capital)	N/A	Allow existing investments to qualify for tax relief
	Investment size limits	Impose upper or upper and lower limits on investment size attracting tax	N/A	No limits or just a lower limit on investment size



Category of benchmark variable	Practice	Good practice	Neutral	Not recommended
		relief		
	Investment duration	Impose minimum holding periods	N/A	No required holding period or impose maximum holding periods
Administration	Discretion	Administered on a non-discretionary basis	N/A	Administered on a discretionary basis
	Fiscal cost monitoring	Transparent annual monitoring of fiscal costs	Undisclosed regular monitoring of fiscal costs	Irregular, non-existent or opaque monitoring of fiscal costs
	Impact monitoring	Transparent annual monitoring of economic impacts	Undisclosed regular monitoring of economic impacts	Irregular, non-existent or opaque monitoring of economic impacts
Generosity	Generosity	Uncertain	N/A	Over-subsidising
Stability	Stability	Fixed design features with prior announcement of design changes	N/A	Frequent and/or unannounced changes to design features



Annex 2: Benchmarking results

Overall scores and ranks

Country	Scheme	Benchmark scores				
		Scope	Qualifying criteria	Administration	Overall score	Rank
Australia	Early Stage Venture Capital Limited Partnership program	2.67	3.67	2.67	3.00	15
	Venture Capital Limited Partnership program	1.67	3.67	2.67	2.67	38
	Tax incentive for Early Stage Investors	3.00	3.20	2.67	2.96	21
Belgium	Tax shelter for investments in start-ups	2.67	3.30	2.67	2.88	25
	Tax treatment of crowdfunding loans	2.33	3.30	3.00	2.88	25
	Win-Win Lending Scheme	2.67	2.60	3.00	2.76	34
	Loan "Coup de pouce" (Wallonia)	2.67	3.30	2.67	2.88	25
Canada	Provincial Labour-Sponsored Venture Capital Corporation Tax Credit	2.67	4.00	2.67	3.11	12
	Federal Labour-Sponsored Venture Capital	2.67	4.00	3.00	3.22	8



Country	Scheme	Benchmark scores				
		Scope	Qualifying criteria	Administration	Overall score	Rank
	Corporation Tax Credit					
	Provincial Investment Tax Credits	2.67	4.00	2.67	3.11	12
France	Additional allowance on sale of shares in young (<10yrs incorporated) SMEs	2.50	3.33	2.67	2.83	29
	"Madelin" tax reductions	4.00	4.00	2.67	3.56	3
	Wealth tax reliefs	2.67	3.67	2.67	3.00	15
	Venture Capital Firms (Sociétés de Capital Risque or SCR)	2.00	2.57	2.67	2.41	45
	Venture Capital Funds (including FCPR, FCPI and FIP)	3.50	3.22	2.67	3.13	11
	PEA-PME	1.67	3.22	2.67	2.52	42
Germany	"INVEST-Venture Capital Grant"	3.33	3.56	3.00	3.30	5
Ireland	Employment & Investment Incentive	2.00	3.30	3.00	2.77	33
Israel	Plan for Encouragement of Institutional Investment in Hi-Tech	1.67	2.71	2.67	2.35	46
	The Angels Law	3.00	3.89	2.67	3.19	9
Italy	Tax incentives for investing in Venture Capital Funds	2.33	3.43	2.67	2.81	30



Country	Scheme	Benchmark scores				
		Scope	Qualifying criteria	Administration	Overall score	Rank
	(VCF)					
	Tax incentives for investing in innovative start-ups and innovative SMEs	2.67	3.50	2.67	2.94	22
	PIR (Piani Individuali di Risparmio)	2.67	2.38	2.67	2.57	41
Japan	Tax Incentives to Promote Venture Investment	3.00	3.25	2.67	2.97	18
	Angel Tax System	4.00	2.89	2.67	3.19	9
Malta	Seed Investment Scheme	3.00	3.56	2.67	3.07	14
Poland	Tax exemption on the disposal of stocks and shares	1.67	3.00	2.67	2.44	44
Portugal	“Programa Semente” (Tax relief for investing in Startups)	2.50	3.22	2.67	2.80	31
	Tax Relief for Business Angels	2.67	2.89	2.67	2.74	35
Romania	Tax incentives granted to individual investors – “business angels”	2.00	3.25	2.67	2.64	39
Slovenia	Corporate income tax regime	2.50	3.75	2.67	2.97	18
South Korea	Tax exemptions for venture capital	2.00	4.00	2.67	2.89	23



Country	Scheme	Benchmark scores				
		Scope	Qualifying criteria	Administration	Overall score	Rank
	companies					
	Tax deductions and exemption from capital gains tax for individual investors in venture capital funds	2.00	4.00	2.67	2.89	23
Spain	Deduction for investments in newly or recently created companies	3.67	3.40	2.67	3.24	7
	Regional incentives for business angels	2.67	3.67	2.67	3.00	15
Sweden	New Investment Incentive	2.67	2.80	2.67	2.71	37
Turkey	Business Angel Scheme	2.67	3.30	2.67	2.88	25
	Venture Capital Investment Trust Tax Exemption	1.67	1.89	2.67	2.07	47
	Private Equity Investment Fund	3.33	1.88	2.67	2.63	40
United Kingdom	Enterprise Investment scheme	4.00	3.70	3.00	3.57	2
	Seed Enterprise Investment Scheme	4.00	4.00	3.00	3.67	1
	Venture Capital Trust	3.33	3.56	3.00	3.30	5
	Social Investment	3.67	3.50	3.00	3.39	4



Country	Scheme	Benchmark scores				
		Scope	Qualifying criteria	Administration	Overall score	Rank
	Tax Relief					
	Private Placement Withholding Tax Exemption	2.33	2.44	2.67	2.48	43
	Business Property Relief	2.67	2.56	3.00	2.74	35
USA	Qualified small business stock (QSBS)	2.67	3.00	2.67	2.78	32
	Investment tax credits	2.67	3.56	2.67	2.96	20