

Recommendation Concerning an Investment Allowance

Background

In light of the current economic situation and the new capital regulations for banks (Basel III) it will become increasingly difficult for young, innovative companies to obtain funding from these sources. As a result, equity capital will play an increasingly significant role, above all for financing young, growing companies.

Progress has already been made in recent years toward promoting investments in SMEs: for example equity capital guarantees, double equity guarantee funds, guarantees for employee stock ownership by the aws (austria wirtschaftsservice). However, further measures to promote investments in SMEs are urgently required. The Austrian Council therefore backs the Austrian chambers of commerce in their call for the introduction of an investment allowance of up to EUR 10,000 per year for so-called business angels and other private capital contributions to give private-sector investors an incentive to support young, innovative businesses. According to a study carried out by the Austrian Institute for SME Research on behalf of the WKO some 50,000 companies would be eligible. Approximately 70,000 Austrians were viewed as potential investors. The investment allowance could improve the equity ratio of micro-sized companies by five percentage points and of small enterprises by two percentage points.

The introduction of the investment allowance could lead to a win-win-win-situation. Microsized and small companies could tap additional sources of equity capital and in this way improve their own equity capital situation. Moreover, this could provide important stimulus for the private equity segment, which in an international comparison is underrepresented in Austria. The more dynamic development toward companies with a strong equity base that this will encourage will in turn produce a higher return in additional taxes through higher profits and higher investments and if the investment is sold, due to capital gains tax.

Recommendation

The Austrian Council for Research and Technology Development recommends the introduction of an investment allowance for private investors as called for by the chambers of commerce. This should total EUR 50,000 and should be deductible at a rate of EUR 10,000 per annum within five years.

Specifically this is to support investments by private individuals in Austrian SMEs. The Austrian Council recommends an investment allowance of EUR 50,000, which should be deductible within five years at a rate of EUR 10,000 per year. The target segment for this tax allowance should be small businesses (as defined by the EU), which are either liable to keep books of account or voluntarily use double book-keeping.