

## **A Budget Wish List from the South African Venture Capital and Private Equity Association**

**Johannesburg, 24 February 2014.** South Africa's National Budget is an opportunity for Finance Minister Pravin Gordhan to optimise our tax and spending policies in a way that stimulates investment and foreign capital inflows, and sparks economic growth, entrepreneurship and job creation.

The overall slant of South Africa's fiscal policy is market friendly and supportive of investment and doing business. Much can be done, though, to harness the creative and productive thrust of the private sector, and to ensure we reach our national vision of lasting and inclusive economic growth.

The South African Venture Capital and Private Equity Association (SAVCA), the industry body for the asset class, looks forward to announcements this week by Minister Gordhan that would support the investment decisions of our members – and of the broader South African business and investor community.

In particular, we look forward to:

- Workable government funding programmes aimed at attracting private sector capital and skills into the venturing industry
- Government rethinking of existing SME-support programmes that have good intent but don't work because of poor administration. Success would require hiring and empowering competent managers for these programmes, and possibly outsourcing management to skilled private sector administrators
- Implementing very powerful incentives to employment
- Re-examining the conditions and stipulations for Section 12J of the Income Tax Act, in a way that will make this an effective incentive for the funding of venture capital funds
- A reconsideration of the treatment of intellectual property as capital that is subject to exchange control regulations. That intellectual property is not freely transferable has resulted in a continuous drain on the potential of the country as entrepreneurs emigrate to economies with vibrant ecosystems where such restrictions do not apply. It also stifles investment into the country
- Further relaxations on exchange controls to remove the so-called "loop structure" limitations for the shareholders of high-growth emerging South African companies needing to re-domicile internationally in order to raise the capital they need for significant international expansion
- An urgent re-look at Section 23N of the Income Tax Act, whose limitations on the tax deductibility of interest would unnecessarily undermine the viability of many businesses, should interest rates continue to rise.
- In particular, it is proposed that a sensible interest-rate indexing provision be incorporated into Section 23N, to adjust for scenarios where interest rates ratchet higher
- It is also proposed that, in the case of an interest deduction being disallowed in a particular year, businesses be allowed to carry this forward for up to six years. A permanent disallowance would prejudice businesses that are start-ups or are in a cyclical downturn.

**About SAVCA:** The South African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private equity and venture capital in South Africa, representing about R130 billion in assets under management. SAVCA promotes South African private equity by engaging with regulators and legislators on a range of matters affecting the industry, providing relevant and insightful research on aspects of the industry, offering training on private equity and creating meaningful networking opportunities for industry players.

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