

Press Release: SAVCA welcomes proposed amendments that encourage investment into venture capital funds

Johannesburg, 27 February. The amendments to the venture capital company tax regime announced in this week's National Budget will give the South African venture capital industry a welcome boost.

Proposed amendments to Section 12J of the Income Tax Act will help venture capital companies gain access to equity finance by making it easier for investors to get tax relief for their venture capital investments. The proposed changes to Section 12J will allow investors to write off their entire investment in a venture capital company that has been approved by the South African Revenue Service (SARS).

Erika van der Merwe, CEO of the South African Venture Capital and Private Equity Association (SAVCA) says the reforms announced this week have exceeded SAVCA's expectations. "SAVCA is delighted to see that government has responded to the feedback and recommendations from SAVCA, as well as from other key stakeholders in the venture capital industry – including SiMODiSA."

Van der Merwe says the amendments will enhance the positive contribution the venture capital industry can make to the economy. "We believe that, by facilitating funding into venture capital fund structures, these proposed changes will go a long way to aid the growth of venture capital in South Africa. The ultimate benefits of innovation, enterprise development and job creation that emanate from a vibrant venture capital ecosystem are vital for our economy."

Previous amendments made to the Income Tax Act in 2008 and 2011 allowed investors to write off their venture capital investments, but this was subject to recoupment. In practice, the conditions for qualification for such tax relief had proven too onerous and few venture capital companies were registered under this regime.

In this year's Budget Review, National Treasury acknowledged that the take-up of these incentives has been limited since their inception in 2008. It announced the following additional amendments to the venture capital company tax regime.

- Making deductions permanent if investments are held for a certain period of time.
- Allowing transferability of tax benefits when investors dispose of their holdings.
- Increasing the total asset limit for qualifying investee companies from R20 million to R50 million, and from R300 million to R500 million in the case of junior mining companies.
- Waiving capital gains tax on the disposal of assets, and expanding the permitted business forms.

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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