SiMODiSA Research: VCC

14 May 2014

impacttrust

SiMODiSA START-UP

The challenge & current status quo

Overview

- The Venture Capital Company (VCC) regime introduced in 2008 to assist SMEs & junior mining companies to access equity finance
- Intended to:
  - encourage investment activity
  - bring together small investors,
  - concentrate specialist, VC investment expertise in favour of SME sector
- How does it work?:
  - Qualifying investors invest in approved VCC's in exchange for investor certificates – able to claim tax deductions
  - Approved VCC invests in qualifying investee companies in exchange for qualifying shares

Budget 2014

- Commitment indicated in 2014 Budget Speech to the following refinements:
  - ✓ 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

VCC Regime – Current limitations

- Has not to date provided sufficient tax relief & benefit to investors as an appropriate risk weighted return
- Specific limitations are not appropriate in accordance with the intentions of the VCC to assist SMEs & Junior mining companies attract appropriate capital
- Protracted processing times on accreditation (including underlying requisite FAIS license)
- Certain definitions and limitations:
  - are not appropriate for the stages in development and operation of VC funds
  - are insufficiently clear or serve to limit the competitiveness and growth potential of qualifying investees

Additional recommendations

Additional Recommendations

- Allow loans on condition that the size of the loan is limited to not more than the size of corresponding equity investment by the same investor.
- The capital invested into qualifying companies (including investments structured as loans) should be eligibile under the VCC regime, under the following conditions:
  - It is patient capital
  - It is subordinated capital
  - There is limited security
- Expand qualifying companies under the VCC to include:
  - SMEs with a total asset limit of up to R50m
  - Junior mining companies with a total asset limit of up to R500m
  - Companies listed on the AltX with a total asset limit of up to R500m

Additional Recommendations

- Refine the VCC registration process to ensure accreditation can be achieved in no more than 30 working days
- Revisit limitation (20%) on VCC's expenditure on qualifying shares that can be allocated to a single investee company – significantly increase or remove
- Permit a qualifying investee to be "controlled group company" in relation to the VCC
- Review limitation regarding 'impermissible trade' & relative restriction to South Africa – remove or increase
- Amend definition of the term "book value" in the definition of qualifying investee companies to "net book value" to provide clear parameters

Thank you

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