SiMODiSA Research: VCC
14 May 2014
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:
  o encourage investment activity
  o bring together small investors,
  o concentrate specialist, VC investment expertise in favour of SME sector

• How does it work?:
  o Qualifying investors invest in approved VCC’s in exchange for investor certificates – able to claim tax deductions
  o Approved VCC invests in qualifying investee companies in exchange for qualifying shares
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 eligible 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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