

Tax scheme spurs innovation

Section 12J of the Income Tax Act has been a "huge success" in that it has ignited SA's venture-capital industry and unlocked funding for innovative firms, says Clive Butkow, CEO of section 12J company Kalon Venture Partners.



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Section 12J was introduced in 2009 to incentivise investments in small and medium-sized enterprises (SMEs) via tax breaks. While interest was tepid at first, the government amended certain rules in 2015, making the scheme more attractive.

Among other measures, the maximum size of investee firms was raised from R20m to R50m, while investors in section 12J companies would have to hold their shares for only five years " as opposed to indefinitely " to retain tax rebates.

By February 2017, R1.8bn had been raised by 49 registered investment vehicles, which collectively invested into 56 companies, according to the Southern African Venture Capital and Private Equity Association (Savca). Nearly 900 investors held shares in section 12J venture capital companies.

There were now 95 section 12J companies, and Kalon is one of about five to focus on digital technology investments, said Butkow, a former chief operating officer at Accenture SA.

These five companies had probably invested "a few hundred million" in local software technology groups. Kalon raised

R110m for its fund and has deployed about R30m of that in four tech companies to date, Butkow said.

"There are two problems in SA - one is that there's not enough capital to marry the amount of innovation that's going on. 12J has helped because it has brought more capital into the ecosystem," he said. "The other problem is that there's a lack of last-mile skills to deploy that capital and pick the winners from the losers " there's not a lot of skills to invest in technology companies because it's so new."

SA is "still probably 10 years behind Silicon Valley, but at least we are starting to create an ecosystem", said Butkow.

"From what SARS intended it to do " create jobs and help GDP growth " I think it's been incredibly visionary."

According to Savca CEO Tanya van Lill, funding for SMEs remains "in very short supply".

"The capital raised by this incentive, and the increased attention by professional investors, is expected to have a positive impact on the wider South African economy," she said.

Neill Hobbs, co-founder and director at Anuva Investments, another section 12J venture capital company, told Business Day after the 2018 budget speech that "avoiding tax in a legal manner is still a priority for many".

"[Section 12J] paved the way for not only making investments that are tax free, but also that encouraged support of SMEs," Hobbs said.

While Anuva had hoped former finance minister Malusi Gigaba would announce more incentives to invest in SMEs, Gigaba's focus "on better supporting" SMEs through other funding mechanisms and programmes was "good news".

Source: *Business Day*

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