12J INDUSTRY ASSOCIATION

To Whom it May Concern
Parliament of the Republic of South Africa

Attention: The Select Committee on Finance, c/o Nkululeko Mangweni (nmangweni@parliament.gov.za)

Your reference: Dino Zuccollo, Chairman (dino@westbrooke.co.za / 082 632 4145)

RE: COMMENTS ON THE 2019 DRAFT TAXATION LAWS AMENDMENT BILL ("TLAB")

19 November 2019

Dear Sir / Madam

1. Introduction

Section 12J ("12J") is a very important piece of legislation contained within the Income Tax Act, 58 of 1962 (the "Income Tax Act" or the "Act") which is currently having the positive effects of employment growth, effective funding of SMMEs and stimulating the South African economy. The incentive has also been impactful by attracting investment capital which might not have necessarily been invested in the SMME sector in South Africa but rather in more "traditional" asset classes (both locally and offshore). Section 12J has facilitated the mobilisation of South African investment capital, expanding the country's tax base in the process. The amendments proposed in the 2019 Draft TLAB, if promulgated, will have a significantly negative effect on the incentive which ultimately will negate the positive effects outlined above. We propose that the Draft 2019 TLAB amendments should be reconsidered such that a R5 million annual investment cap be applied equally across individual, trust and corporate investors to ensure the sustainability of the incentive and its ability raise sufficient investment capital to invest in the SMME sector in South Africa. In addition, the 12J industry's long-term future is uncertain due to the current June 2021 "sunset clause", which we believe should be extended. This document will address the reasons for our submission.

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2. 12J Association of South Africa

Following an invite to all industry participants, on the 2nd of April 2019, c.25 asset management companies which collectively manage more than 40 section 12J venture capital companies ("VCCs") which collectively represent c.2,777 investors and 70% (c.R5.7 billion) of the total VCC industry assets under management, met to establish the 12J Association of South Africa ("the Association").

The Association, which is represented by an independently elected board of directors comprising Dino Zuccollo (Westbrooke Alternative Asset Management), Jeff Miller (Grovest), Gidon Novick (Lucid Ventures), Hans Hillermann (Fundamental VCC) and Rolandi van der Westhuizen (Pallidus) was established for the following purposes:

1. To inform, educate and advise members of the Association, National Treasury ("Treasury") and members of the general public as to the impact and importance of the 12J incentive in South Africa.

2. To act as a single point of contact for the industry to interact with government, regulatory bodies, the public, the press and business organisations in relation to the 12J incentive.

3. Background

12J has been a part of the Income Tax Act since 2009 and was originally intended to remain in place for a period of 12 years, to June 2021. In 2014, as a result of engagement between Treasury and the small group of Venture Capital Companies ("VCC's") registered at that time, 12J was substantially revised and for the first time, the incentive attracted its first significant investor funding in the 2015 tax year (i.e. 6 years since initially legislated).

Significantly, one of the major changes in the 2011 TLAB was the removal of the limitation on a Section 12J deduction by a single taxpayer (which included both an annual and lifetime limitation at the time).

The aforementioned changes proved successful, with a number of new VCC's being registered and a significant increase in investment into VCC's and Qualifying Companies having taken place since 2016.

The impact of this 5-year lock-up investment capital flowing to SMME's across South Africa for a minimum period of 5 years (and likely longer) has been significant in creating jobs, stimulating a sector of the economy which receives little or no support from traditional capital markets and preserving investment capital in South Africa. In fact, through 12J, government has successfully created a vibrant SMME sector which previously did not exist in South Africa (in areas including agriculture, fintech, hospitality, renewable energy, services, student accommodation and moveable asset rentals).

Importantly, the meaningful investment into this sector is unique in that this investment has largely come from successful high-net-worth individuals, entrepreneurs and business people who are

committed to making a difference by investing capital within South Africa and mentoring entrepreneurs in support of this excellent initiative. Although there is an up-front tax deduction and consequent loss to the fiscus, over a period of time (given the majority of the capital has only recently been raised, it will require time for the full impact to be seen) this is significantly mitigated by the following:

- income tax paid by the VCC and the underlying investments;
- Value Added Tax paid by the underlying investments; and
- returns of capital to 12J investors attract Dividends Withholding Tax (for individuals and trusts) and Capital Gains Tax (on the final distribution) which is calculated from a base cost of zero as a result of the initial 12J tax deduction.

Further evidence of the above can be found in the 2019 Budget Review document released by National Treasury on 20 February 2019 (see an extract from page 121 of the document, below), which indicates that (i) although c.R1.8 billion had been raised in 12J VCCs for the tax year ended 28 February 2017, the fiscus had only lost R196 million in tax revenues over the corresponding period and (ii) the table highlights the immateriality of the 12J incentive in the context of other government tax expenditures (which include retirement annuity funds, medical aid contributions, interest exemptions, rebates, donations tax and CGT exemptions, etc.)

Table B.3 Tax expenditure estimates

R million	2013/14	2014/15	2015/16	2016/17
Personal income tax				
Retirement fund contributions[1]	49 418	53 707	58 980	72 991
Pension contributions – employees	*11 999*	*13 019*	*14 363*	*15 579*
Pension contributions – employers	*22 010*	*23 882*	*26 348*	*28 578*
Provident contributions – employees	*–*	*–*	*–*	*3 928*
Provident contributions – employers	*9 297*	*10 087*	*11 129*	*12 071*
Retirement annuity	*6 113*	*6 718*	*7 141*	*12 835*
Medical	21 874	19 341	22 297	27 051
Medical contributions & deductions	*4 313*	*–*	*–*	*–*
Medical tax credits[2]	*17 561*	*19 341*	*22 297*	*27 051*
Interest exemptions	2 216	2 458	2 762	2 987
Secondary rebate (65 years and older)	1 716	1 748	1 939	2 041
Tertiary rebate (75 years and older)	153	160	178	188
Donations	825	965	691	737
Capital gains tax (annual exclusion)	397	474	510	591
Venture capital companies	–	26	208	196
Total personal income tax	**76 599**	**78 878**	**87 565**	**106 782**
Corporate income tax				
Small business corporation tax savings	2 423	2 556	2 669	2 329
Reduced headline rate	*2 391*	*2 523*	*2 626*	*2 293*
Section 12E depreciation allowance	*32*	*33*	*42*	*36*
Research and development	219	209	268	218
Learnership allowances	912	949	990	926
Strategic industrial projects (12I)	473	423	479	693
Film incentive[3]	36	13	5	5
Urban development zones	299	232	257	126
Employment tax incentive	140	2 420	4 063	4 656
Energy-efficiency savings	690	128	974	1 070
Total corporate income tax	**5 192**	**6 930**	**9 706**	**10 022**
Value-added tax				
Zero-rated supplies	49 611	51 123	55 013	56 783
19 basic food items[4]	*20 107*	*21 503*	*22 793*	*24 411*
Petrol[5]	*16 276*	*16 065*	*15 901*	*16 150*
Diesel[5]	*2 101*	*2 146*	*1 911*	*1 842*
Paraffin[5]	*702*	*659*	*536*	*569*
Municipal property rates	*10 209*	*10 522*	*13 639*	*13 548*
Reduced inclusion rate for commercial accommodation	*216*	*228*	*233*	*263*
Exempt supplies (public transport and education)	1 175	1 256	1 332	1 426
Total value-added tax	**50 786**	**52 379**	**56 345**	**58 210**
Customs duties and excise				
Motor vehicles (MIDP/APDP, including IRCCs)[6]	18 415	23 467	26 936	28 362
Textile and clothing (duty credits – DCCs)[6]	468	539	788	725
Furniture and fixtures	156	180	217	181
Other customs[7]	665	911	1 040	963
Diesel refund[8]	4 955	5 870	8 175	3 762
Total customs and excise	**24 659**	**30 967**	**37 156**	**33 993**
Total tax expenditure	**157 237**	**169 155**	**190 772**	**209 007**
Tax expenditure as % of total gross tax revenue	**17.5%**	**17.2%**	**17.8%**	**18.3%**
Total gross tax revenue	**900 015**	**986 295**	**1 069 983**	**1 144 081**

In 2018, Treasury, in consultation with the 12J industry, introduced further significant changes to 12J in order to clamp down on abuse. It is generally accepted that the engagement between government and the 12J industry was constructive and that the new legislation introduced was appropriate (although these amendments are yet to have seen their full impact on the 12J industry, given the 36-month deployment period which the legislation allows (which as part of the 2019 TLAB has been proposed to be extended to a period of 48-months)).

In this context, the further amendments proposed by Treasury in the 2019 TLAB (being the limitation of the 12J deduction to an amount of R2.5m per individual and trust investor per year and R5 million per corporate investor per year) (the "Treasury Proposal") and the associated lack of policy certainty and investor confidence are seen as being of significant concern, given their potential adverse impact on a young, thriving 12J industry and even more importantly, on that of SMME support. SMME support, amongst other funding, is one of government's key strategic priorities to effect transformation as per the economic transformation and reform agenda (refer "The Case for Investing in South Africa" as issued at the "South Africa Investment Conference - *Accelerating Economic Growth By Building Partnerships*").

4. Purpose of this submission

In accordance with the Association's objectives, the purpose of this submission is (i) to outline the potential impact on the VCC industry, of the Treasury Proposal and (ii) to propose an alternative suggestion regarding the Treasury Proposal (which we argue will address the impact on fiscus revenue and still ensure the 12J SMME incentive is not materially impacted).

It is essential that the industry receives clarity on the above matters as a matter of urgency, given the short time period until the 12J "sunset" clause becomes effective in June 2021 and that 12J managers may be required to adapt business models and investment strategies in order to accommodate any changes in a relatively short period of time.

In order to quantify the potential impact of the Treasury Proposal, the Association has undertaken a process of engagement with the 12J industry (including both members and non-members of the Association), so as to obtain information which may be useful to National Treasury when considering the potential impacts of the TLAB on the industry.

The information and statistics outlined in this document reflect feedback received through a survey by the Association, which is currently being analysed in further detail by an independent consultant appointed by the Association, namely Pricewaterhouse Coopers ("PwC"), so as to prepare an impact study which will cover, *inter alia,* the importance of job creation in South Africa, the success of the 12J legislation in creating jobs & growing SMEs and the impact which this investment has on the South African economy as a whole. It is the intention that this study will be made available to all stakeholders (including Treasury and parliament) in the coming months, in order to initiate a dialogue regarding the success of the initiative to date and the way forward.

5. Concerns regarding the 2019 Draft TLAB

We expect the Treasury Proposal to materially reduce the volume of capital flowing into the 12J sector. Furthermore, of equal significance is that we expect the amendments to result in a reduction in the number of fund managers who are able to raise adequate capital to invest into SMMEs in a sustainable manner, which may have the commercial impact of shutting down a young and thriving industry. A number of fund managers that rely on the support of larger investors to ensure

the financial viability of their businesses will be negatively impacted. With fewer skilled fund managers active in the industry, there is a risk that many SMMEs will no longer be able to tap into the VCC market for investment capital, and more importantly the skills, mentorship and support necessary to grow their businesses.

5.1. The calculation of the annual deduction limitation

The explanatory memorandum released with the 2019 Draft TLAB indicates that the Treasury Proposal is based on the average expenditure by investors in VCCs over the past 4 years. Whilst this is a logical approach to the calculation of the limit, there is a fundamental error in the use of an arithmetic average (i.e. a mean) as opposed to a median for the purposes of the determination of this amount.

Practically, as with many investment products around the world, 12J VCCs typically raise a significant amount of capital from a small number of large investors, whilst a large number of investors typically invest a small amount of capital on an aggregate basis. To illustrate, based on results received from our members during August 2019, total member 12J assets under management would have reduced by 67% (or R3.8 billion out of a total sample size of R5.7 billion) had the Treasury Proposal been effective on a retrospective basis. This is clearly contrary to Treasury's contention that the proposed annual limit is in line with average investment amounts over the past 4 years.

Should a limit be introduced, it should be quantified based on *far more complex statistics* than just a simple average and the limitation should not result in making the industry uneconomical.

It is our experience that larger investors who have embraced the spirit of 12J and made significant capital contributions have been pivotal in driving the 12J initiative forward.

5.2. The need for policy certainty

Despite the increase in 12J capital raised, we would like to highlight the extremely negative impact which a lack of policy certainty will have on (i) the industry's ability to raise capital from investors, (ii) the industry's ability to successfully invest this capital in South African SMME's and (iii) the fund/asset managers' ability to run sustainable business models and invest capital in their businesses, especially in the context of the June 2021 "sunset" clause being less than two years away. The constant significant changes to the legislation (in 2014, then in 2018 and now again in 2019) creates significant uncertainty amongst investors and in many cases results in these investors electing to allocate capital to more "traditional" investment classes (many of which include offshore investments) as opposed to 12J.

Furthermore, policy uncertainty results in potential investee companies (which are typically SMMEs and start-ups around South Africa) electing not to partner with 12J VCCs due to concerns regarding the longevity and stability of the incentive (and therefore their funding) going forward. The

consequence of this decision is a reduction in job creation (as SMMEs and start-ups fail to receive the capital they require in order to grow) and a consequent erosion of the cash deployment rates amongst 12J VCCs within the mandated deployment period (which Treasury has previously highlighted to be of concern).

In order for fund/asset managers to run attractive and successful S12J investment vehicles, amongst other things, requires the Fund/Asset Manager to invest not only significant sweat capital but also financial capital in their businesses. It further requires the manager to design and implement business models that both the investor and investee companies understand in order ensure confidence to invest/partner with that manager. This policy uncertainty financially impacts managers and can put into question the longevity of their businesses.

5.3. Non-Compliance – an effective retrospective impact

The Treasury Proposal will pose risks to VCCs that raised capital on the basis of anticipated further investments of larger than R2.5 million / R5.0 million, who under the proposed amendments would be unable to raise further meaningful investment capital from key anchor investors. These VCCs would fail to achieve the targeted investor spread after 36 months (specifically, existing anchor investors may not be able to be diluted below 20% of the total VCC capital raised and will therefore remain connected persons in relation to the VCC). A further unintended consequence of this is that VCCs may fall foul of the single investment limit (which requires that no more than 20% of total funds raised be invested in a single investment over a maximum period of 36 months (proposed to be increased to 48 months)), if additional capital cannot be raised and invested on the basis of the new investment cap. For example, this is often the case where a 12J manager had designed a business model focused on raising capital from ultra-high-net-worth individuals, which has raised large amounts from say 2 investors on the basis that it would raise from an additional investors in the future, and now cannot practically do so in the context of the investment cap.

In the workshop session with Treasury (which took place on Thursday, 5 September 2019), the question was asked regarding how many 12J managers are actually practically impacted by this issue. To this end, we posed the question to our 12J VCC member base. **Of the members that responded, c.65% of them will be impacted with a risk of non-compliance as a result of the proposed investment cap**.

Furthermore, as a response to this, Treasury has proposed increasing the mandated deployment period from a period of 36 months to 48 months, but has retained the rule which requires that an adequate spread of investors be attained after a period of 36 months. We contend that this amendment is ineffective in addressing the aforementioned concerns.

5.4. Anchor investor

The traditional capital raising environment for venture capital fund managers is that an initial investor would often invest a significant amount into a VCC. This initial investment assists the fund manager to raise additional capital and increase the number of investors over a period of time to achieve a financially viable fund whilst still meeting the 12J requirement that no VCC shareholder hold more than 20% of the shares in a VCC. This is also common practice in the industry internationally, where the initial investor is often termed an "anchor" investor". The proposed investment cap will effectively mean that no anchor investor can invest in a VCC and without a significant anchor investor, a number of VCCs would not have been able to raise sufficient capital, thereby failing prior to launch.

5.5. The role SMMEs play in the SA economy and indicative 12J job creation statistics in the context of the proposed R2.5 million 12J deduction limitation

The document released by Treasury on Tuesday, 27th August 2019 titled "Economic Transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa" (the "Economic Strategy" document) highlights the difficulty South African SMMEs face in accessing finance, as well as the associated impact which those SMMEs have on job creation. We wish to reiterate that, for the majority of Qualifying Companies, **the equity funding provided by 12J VCCs is the only funding available as local banks are generally unwilling to lend the required finance to thinly capitalised SMMEs**.

SMMEs account for 70%-80% of employment in South Africa.[1] The NDP looks at these enterprises as a source of economic and employment growth – aiming for SMMEs to account for 90% of new employment opportunities.[2] There were 2.2 million SMMEs in South Africa in 2018Q1, providing 8.9 million jobs.[3]

However, the World Economic Forum (WEF) Global Competitiveness Report 2018 ranked South Africa 72nd out of 140 countries for the availability of funding for SMMEs and 63rd for venture capital availability.[4] These two rankings place South Africa in the middle quintile of countries included in the report and is far from encouraging. Funding is a major stumbling block to the success of small businesses[5] with one in four entrepreneurs closing their enterprises due to financing challenges. [6] The result is critical: South Africa has one of the highest small business failure rates in the world.[7] **The impact which 12J has on the ability of these SMMEs to grow, and thereby create jobs, cannot be ignored.**

[1] Top Performing Companies, 2017. The Importance of SMMEs in the South African economy. https://topperforming.co.za/the-importance-of-smmes-on-the-south-african-economy/
[2] South African government, 2011. National Development Plan. https://www.gov.za/sites/default/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf
[3] Mail and Guardian, 2018. The missed opportunity: SMMEs in the South African economy. https://www.westerncape.gov.za/sites/www.westerncape.gov.za/files/assets/departments/agriculture/Documents/citizens-report/2019-04-12_mg_township_economy.pdf
[4] World Economic Forum, 2018. Global Competitiveness Report 2018. http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf
[5] Coega Development Corporation, 2019. Crucial Role of SMMEs in Economic Growth. https://www.coega.co.za/NewsArticle.aspx?objID=121&id=735
[6] Mail and Guardian, 2019. The missed opportunity: SMMEs in the South African economy. https://mg.co.za/article/2019-04-12-00-the-missed-opportunity-smmes-in-the-south-african-economy
[7] Mail and Guardian, 2019. The missed opportunity: SMMEs in the South African economy. https://mg.co.za/article/2019-04-12-00-the-missed-opportunity-smmes-in-the-south-african-economy

With an internationally accepted approach, informed by the Global Reporting Initiative (GRI) standards, PwC has assisted the Association by quantifying the high-level impact of 12J investment to the South African economy using an Economic Impact Assessment (EIA). This assessment has been conducted across an approximate 44 12J VCCs who have collectively invested in 226 SMMEs around South Africa.

For the purposes of this analysis, the Association assessed the net impact on employment in South Africa across all relevant sectors in terms of the following two scenarios:

- Scenario 1: employment opportunities if no cap was applied to the tax deduction
- Scenario 2: employment opportunities if the investment cap was applied to the tax deduction

The table below highlights the estimated number of direct, indirect and induced jobs created and/or sustained for each of these scenarios (please note that the above information is based on statistics at a point in time (being August 2019) and, given that a significant portion of total 12J capital has recently been raised and is currently in the process of being invested (within the required 36 month investment timeline) **these figures are likely to underestimate the overall impact of 12J on job creation in South Africa on a sustainable basis**):[8]

	Scenario 1: Total VCC investment	**Scenario 2: VCC investment post cap[9]**	**Net impact**
Venture capital investment (ZAR millions)	R5 728	R1 515	(R3 763)
Jobs created and/or sustained	27 000	9 000	(18 000)

If the cap is applied to the industry, about 18 000 jobs may be affected depending on the behaviour of high net worth investors. PwC's initial results from the high-level impact assessment show that for R1million of venture capital investment (in members of the 12J association) lost due to the introduction of the cap, an average of 5 jobs are lost to the South African economy. **We argue that, in this context, 12J is an effective source of job creation in South Africa especially in the context of other available incentives and government's current strategic objectives. Furthermore, it must be noted that (after considering the exit capital gains tax consequence of exiting a 12J investment), each R1 million investment in 12J only represents a maximum of R270,000 in forgone tax base to the fiscus (assuming that all 12J investors are in the maximum marginal tax bracket). In addition, as outlined in the sections above, 12J VCCs and Qualifying Companies pay tax and VAT on income, Dividends Withholding Tax on distributions to investors (for individuals and trusts) and Capital Gains**

[8] PwC's Strategy& analysis from 2014 Social Accounting Matrix for South Africa.
[9] This number represents a worst-case scenario where every individual investment above R2.5Mn is considered at risk of disinvestment should the cap be applied as proposed. Further analysis might be necessary to determine the true investment lost (and thereby, the total potential investment for scenario 2) due to the proposed cap.

Tax on investments sold, which may lead to the creation of significant ongoing tax base for the fiscus and sustainable jobs for the South African economy. On this basis (and as can be seen in the United Kingdom case study, below) it is likely that after a period of time there will be no financial prejudice to the fiscus as a result of the 12J incentive.

The United Kingdom ("UK") has a comparable legislation to 12J known as the Venture Capital Trust ("VCT") regime, which provides investors with an upfront tax relief equal to 30% of the capital invested in the VCT and exempts all capital gains and dividends relating to such investment from taxes. Thereby effectively providing investors with a lower upfront tax relief compared to 12J, but exempting all dividends and capital gains from taxes, which is in stark contrast to 12J. The effect of the VCT legislation is that Treasury becomes more aligned with investors in that investors will receive their largest benefit if the companies in which VCT's invest are successful (i.e. return dividends and capital growth to investors), which in return should help grow the economy and create sustainable jobs.

Every £1 million invested more than 10 years ago by VCT's has been associated with an average increase of £8 million in turnover, compared to every £1 million invested more than 5 years ago by VCT's which is associated with an average increase in turnover of £3.9 million[1], proving that the incentive requires time before opinions can be formed on the legislation. On the other hand, the companies in which VCT's have invested have created 27 000 jobs[2], which equates to an increase of 116% since the investment.

In terms of the impact on the UK tax base, in a 2017 survey conducted by the Association of Investment Companies ("AIC") on 249 investee companies of VCT's, these companies paid £245 million in tax in their 2016/2017 tax years, which approximately equated to the total VCT initial tax relief of £246 million. **Therefore, in a single year the investee companies reported taxes approximately equal to the amount of the initial tax relief to investors**.

With VCCs set to play an important role in the development of the South African economy, incentives to drive SMME investment should receive more prominence rather than less. Any attempt to constrain VCC incentives should be seen in the light of the potential strategic role that VCCs can play in the development of the South African economy and the need to transform the economy from a resource-based economy to a knowledge economy.

An investment into a 12J VCC is not only an investment into a South African SMME (which in itself pays tax on revenues to government), but also a minimum 5-year lock-up of investor capital in South Africa; this is at a time when a large amount of investor capital is leaving the country in favour of offshore investments.

[1] The Association of Investment Companies, 2017. Transforming small business: VCT investment review
[2] The Association of Investment Companies, 2017. Transforming small business: VCT investment review

6. Recommendations

6.1. Cap size

As indicated by Treasury in the TLAB workshop, the proposed cap is not specifically a measure to stop "abuse" but rather a measure for fiscus revenue to be managed given the current strain on the fiscus' financial position.

Based on our representations in this submission, we believe a cap will impact the 12J incentive in a negative way and in turn impact the success it is having on job creation and economic growth in South Africa. **It is acknowledged that the cap does alleviate lost fiscus revenue in the short-term but over the longer term the proposed cap will negatively impact the South African economy**. That said, given that we believe the cap is a reality, we propose the following which we believe can address Treasury's concern around funding the incentive as well as allow the 12J industry to achieve its objectives:

As a fair compromise, we believe the proposed cap should be R5 million for all investors, including individuals, trusts and companies. We do not believe that there is a logic in granting corporates a larger annual investment cap on the basis that companies pay corporate tax at 28% and individuals / trusts pay tax at a maximum marginal rate of 45% and therefore obtain a larger deduction. This approach fails to recognise that a company must pay Dividends Withholding Tax at a rate of 20% on after-tax profits when declaring distributions to individual and trust investors, thereby increasing the "effective" tax rate to the ultimate shareholder. By way of example:

- **effective maximum marginal tax rate for individuals and companies: 45%**
- **effective marginal tax rate for a shareholder in a company who is an individual / trust: 42.4% (28% corporate tax rate + 20% Dividends Withholding Tax charged on after-tax profits i.e. 20% * (100% - 28%))**

We therefore propose that parity be achieved through a fair compromise cap of R5 million for all 12J investors (which represents a significant reduction in the initial cap which was proposed by the Association, of R20 million per investor per annum).

6.2. Effective date

Given the significant risk of non-compliance to a large portion of our member body due to the inclusion of a cap being introduced, we propose that VCC's be given a period of time to remedy the compliance issues they face.

7. Conclusion

We conclude that the amendments enacted by Treasury in the 2018 TLAB are sufficient to limit the potential for abuse (although the exact nature of such "abuse" is still unknown to the industry) and that these amendments should be given time to yield results without further amendment at this stage. Although 12J is a new and growing asset class in South Africa, PwC's initial survey findings are that the incentive has had the impact of creating, sustaining and/or inferring an approximate 27,000 jobs in South Africa, many of which would not have been created should the annual investment limitation have been implemented historically (this number will grow as the 12J investee businesses grow).

However, should Treasury deem that an annual investment limitation is nevertheless necessary, the Association requests that consideration be applied to its recommended proposal and that once the 2019 TLAB is finalised, **the 12J industry be granted an extension of the June 2021 "sunset" clause in order to be able to effectively adapt business models for any changes made to the law in both 2018 and 2019 and to begin to grow the industry on a long-term, sustainable basis**.

We, the Association, would welcome an opportunity to introduce ourselves to the National Treasury, and to discuss how the Association can be of assistance to the National Treasury or other stakeholders in the context of section 12J going forward.

We look forward to hearing from you.

Kind Regards

The 12J Association of South Africa