



The Select Committee on Finance

Parliament of the Republic of South Africa

**Oral submission regarding a material omission from the proposed
amendments to Section 12J of the Income Tax Act**

Introduction to the 12J Association of South Africa



Founded in early 2019 by c.25 asset managers who manage >50 VCCs and **c.86% (R8bn) of industry assets under management**



Mandate to **educate** the public on the 12J incentive and act as a **point of contact** for engagement



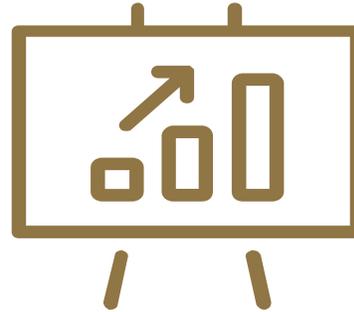
Conducted an **extensive industry survey** regarding the impact of 12J in SA

The resulting Industry Report was published in July 2020

The context to the current discussion

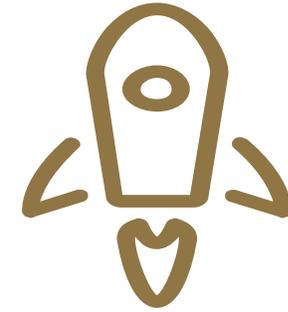


12J was introduced in 2009 by government to boost private investment in SMMEs in SA and **create jobs**, but only **gained traction in 2015** after the legislation was amended to be more favourable to investors



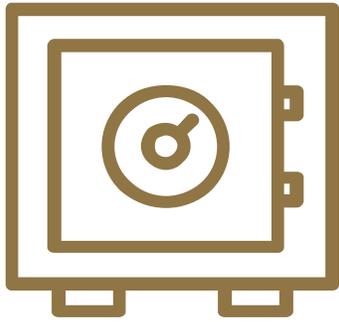
Since 2015, there has been a significant **take up of the incentive (>R9 bn raised)**.

Investment rates have improved (>R5bn, **c.75% of capital raised excluding Feb 2020 raise**)



Beginning to have a meaningful impact on the SA economy, although **still in its infancy (being only 5 years since materially taken up, and with most capital raised in the last 2 years)** – real investment impact is still to be seen

The incentive is beginning to have a positive impact on the SA economy



One of the few mechanisms to raise **5-year South African investment capital**, as opposed to high net worth individuals investing offshore

82% incremental



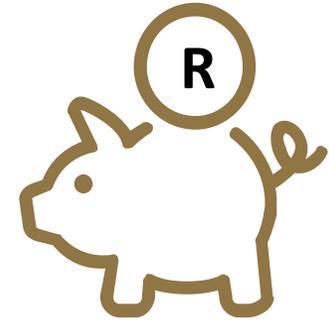
12J is beginning to create a **vibrant, high-net-worth-funded SMME sector** in SA, which previously did not exist

360 SMMEs invested into, average R15m



Assisting in **job creation, economic growth and SMME mentorship** in investee companies

+10 500 jobs created at a cost of c.R126,000



5 year cost to fiscus reduced due to tax and VAT in investee companies, 12J investor CGT consequence and DWT on distributions

12J sunset clause

Section 12J(11):

“No deduction shall be allowed under this section in respect of shares acquired after **30 June 2021.**”

We believe that there has been a **material omission** in not extending the operation of this growth-enhancing, local-investment focused investment incentive beyond 30 June 2021

12J: Helping government open the way for more investment, growth and jobs

- We fully support government's 'Operation Vulindlela' that was recently initiated to drive through growth-supportive structural reforms
- 12J investments are the ideal existing structures to continue to do this
- A continuation of the Section 12J incentive will help government achieve its objectives by:
 - **Reversing capital flight** and locking investment in homegrown SMME projects across renewable energy, student accommodation, agriculture, tourism & many more
 - **Encouraging investments in strategic sectors** of the economy
 - **Increasing tax revenues** by broadening the tax base
 - Helping **small businesses access capital** at a time when it is needed most

Proposed way forward together

- To open the way for investment, growth and jobs, government must initiate the legislative process to extend Section 12J at least for the next five years **before the “sunset” takes effect**
- Not doing so will **risk losing**
 - **Billions of Rands in onshore investment** in South Africa
 - The **creation of 45 000 jobs** in defined key sectors
 - The opportunity to **embed an essential SMME-focused ecosystem** that can grow local jobs and skills;
 - Billions of Rands in investment from ultra-high net worth individuals will **flow out** of South Africa; and
 - Hundreds of businesses **risk closure** – especially those in the hospitality sector that are battling to stay afloat due to the Covid-19 pandemic
- Doing **so late risks the viability of the businesses that manage VCC investments and the lack of policy certainty erodes investor confidence**, which may have the commercial impact of crippling the industry
- We look forward to working with government to ensure that 12J funds continue to benefit every South African by **locking in investment and creating jobs**



THANK YOU

For more information, please contact dino@12jassociation.co.za