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Section 12J

Presenter

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Jonty is a partner at Jaltech, a boutique financial consulting firm specialising in Section 12J.

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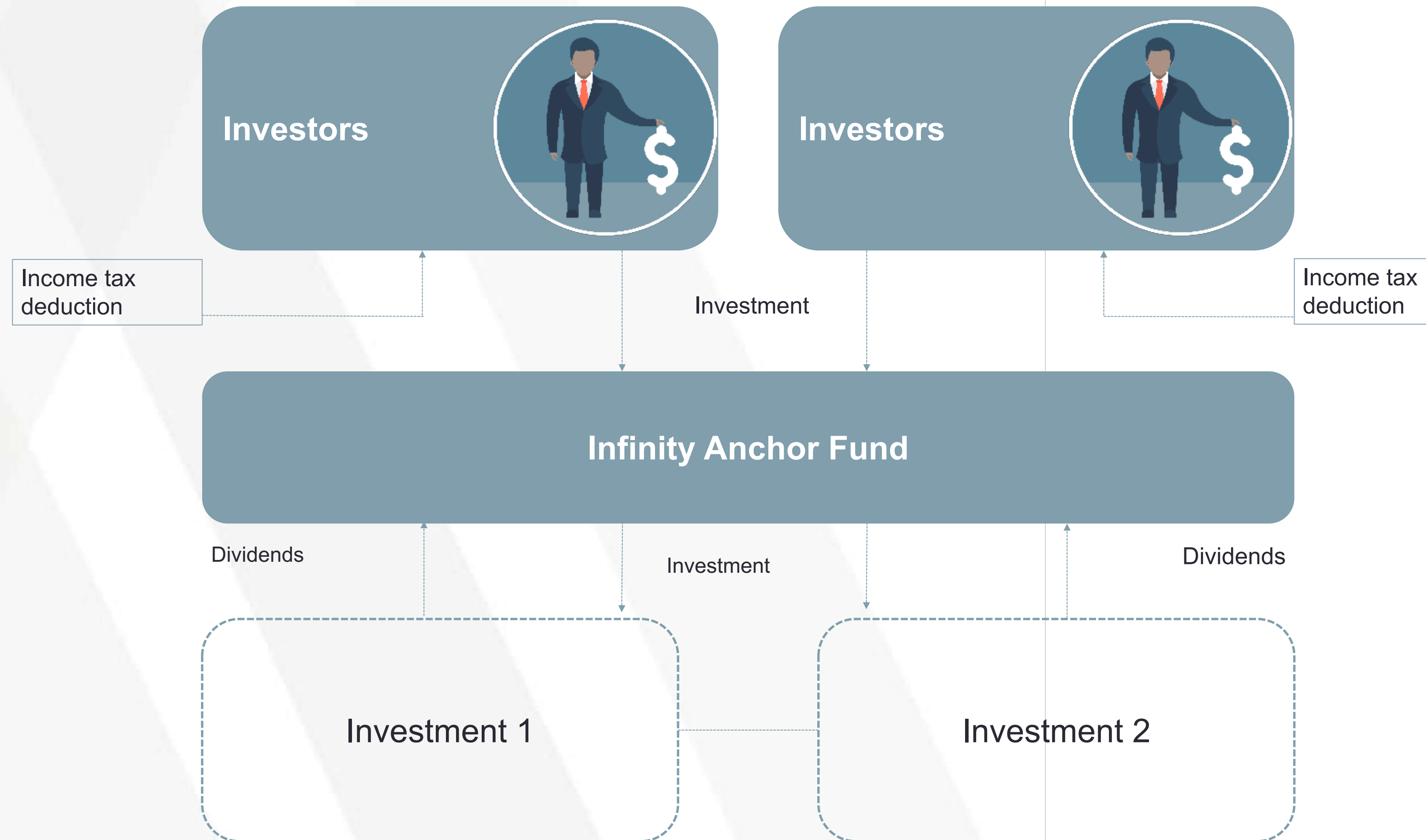
What is Section 12J?

- Section 12J of the Income Tax Act
- Intention
- Tax incentive

What is a Section 12J VCC?

- Proprietary Limited or Limited
- Approved by SARS and registered with the FSCA (requires a FSCA license) as a licensed Financial Services Provider (FSP)
- Pooled VCC vs Ring-fenced VCC

Basic structure



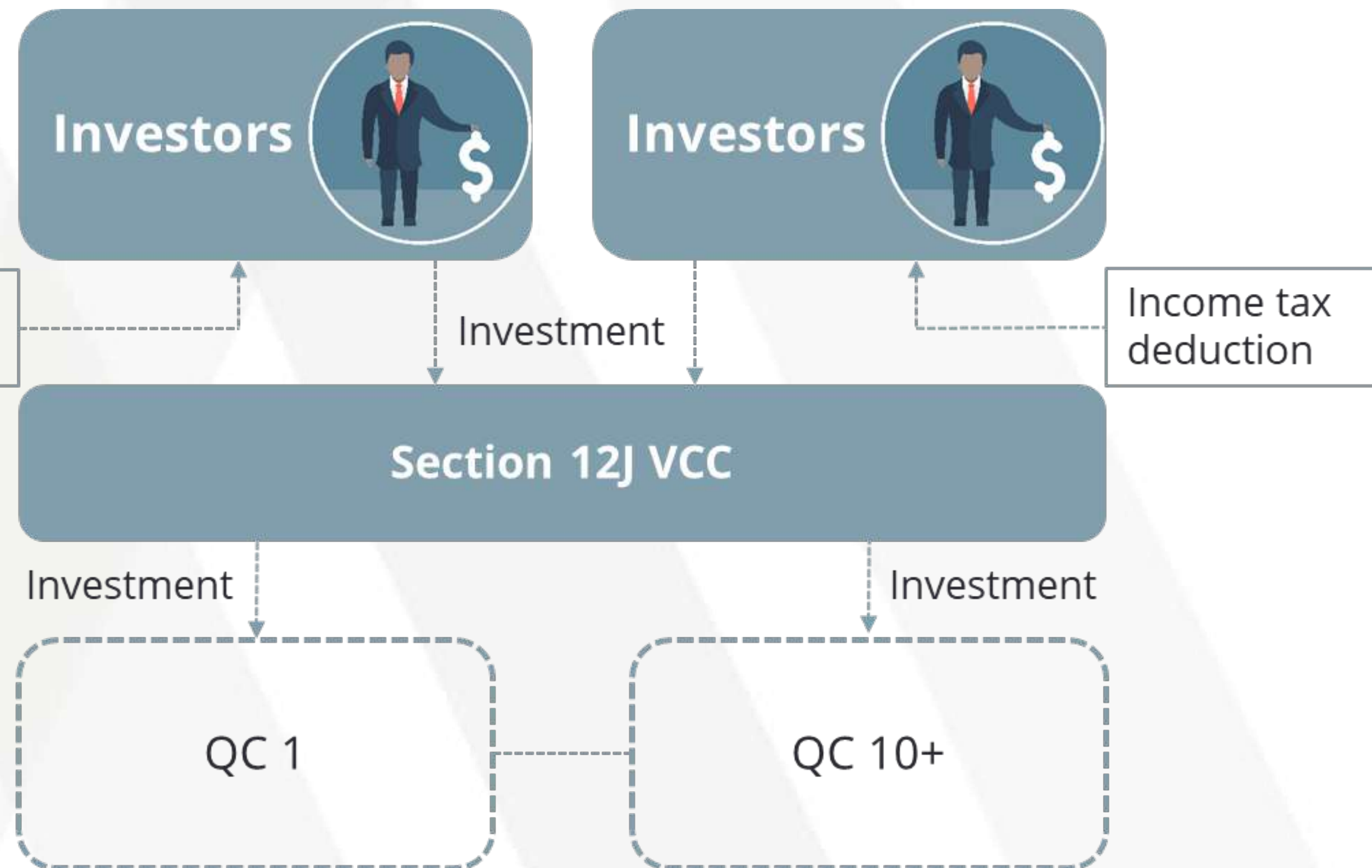
Tax Deduction

- 100% upfront tax deduction
- Claimed in the tax year in which the investment is made
- Sunset clause – 30 June 2021
- Annual limit:
 - R2.5m per individual/trust
 - R5m per corporate

Tax Deduction

Description	Individual – No 12J	Individual
Taxable income	R5 000 000	R5 000 000
S12J investment	R0	(R2 000 000)
Taxable income	R5 000 000	R3 000 000
Tax due (2020)	R2 092 821	R1 192 821
Tax saving	R0	R900 000

Section 12J Rules



Level 1 - Investor

Level 2 - VCC

Level 3 – Qualifying Company

Section 12J Rules

LEVEL ONE – THE INVESTOR

On the investor layer, there are four main requirements, namely:

1. “Connected Person”
2. 5 years investment term
3. Annual cap

Section 12J Rules

LEVEL TWO – THE VCC

The Section 12J VCC has the following requirements:

1. Sole Purpose
2. 3 years to invest at least 80% of funds under management
3. No investment can be more than 20% of funds under management.

Section 12J Rules

LEVEL THREE – INVESTEE / QC

1. Trade outside of South Africa < 50%;
2. “Impermissible Trades”:
 - immovable property (excluding hospitality);
 - financial services;
 - professional services;
 - gambling, liquor, tobacco, arms or ammunition;
3. The investee investment income <20%, after 36 months;

Section 12J Rules

LEVEL THREE – INVESTEE / QC

4. 69.9% equity limit
5. Issued equity shares
6. Gross asset value < R50 million (R500 million for mining)
7. Participation rights <50% for VCC investor and/or investor connected party
8. < 50% trade with a VCC investor and/or connected party, after 36 months

Section 12J: Exit

- 5 years term
- Base cost = zero

CGT ON EXIT

Description	Ordinary investment
Investment	R100
Value after 5 years	R150
Base cost	R100
Capital gain	R50
CGT on exit at 18%	R9
Net benefit after CGT	R141
12J benefit	N/A
Net benefit after tax	R141
IRR	7%

CGT ON EXIT

Description	Ordinary investment	12J investment
Investment	R100	R100
Value after 5 years	R150	R150
Base cost	R100	R0
Capital gain	R50	R150
CGT on exit at 18%	R9	R27
Net benefit after CGT	R141	R123
12J benefit	NA	R45
Net benefit after tax	R141	R168 + TVM
IRR	7%	17%

Section 12J: Penalties

SARS will impose a penalty where:

- an investor is a “Connected Person”
- the Section 12J VCC fails to be compliant with the rules (i.e. 80% rule, qualifying investment etc.)

Effectively the investors may be penalised between 125% to 225% on their tax deductions.

Sun-set clause

- 30 June 2021
- Extension?

Section 12J Amendments

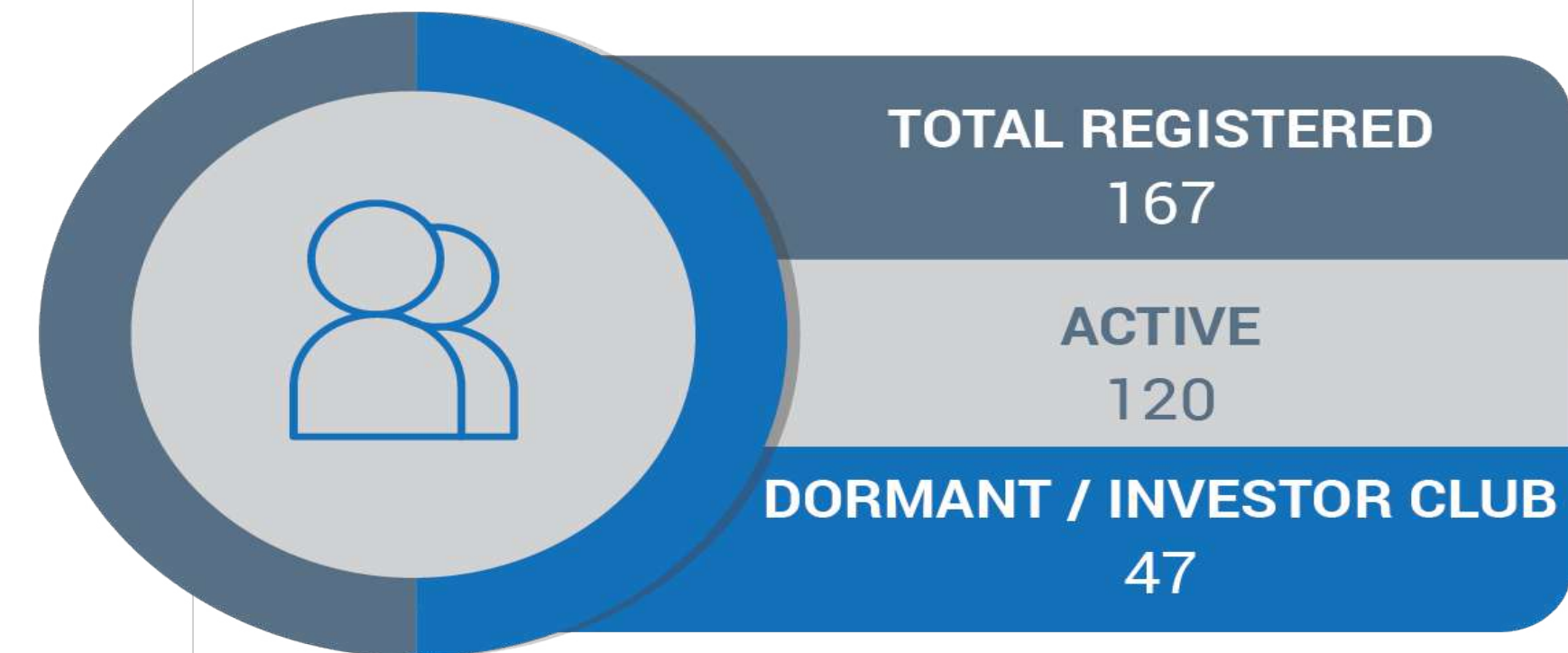
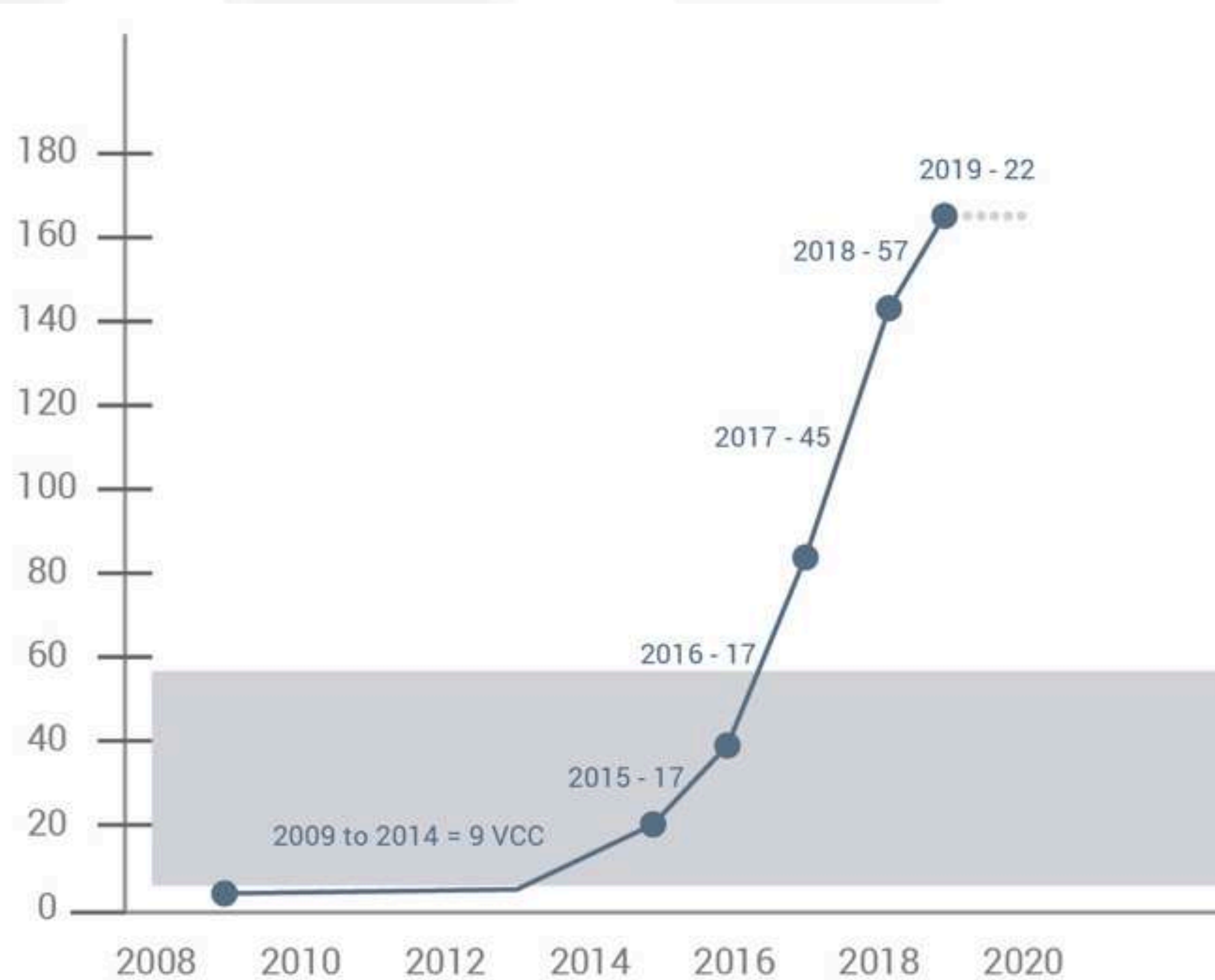
2019 DLAB

Annual limit:

- R2.5m per individual/trust
- R5m per corporate

The Section 12J Market

Number of VCCs

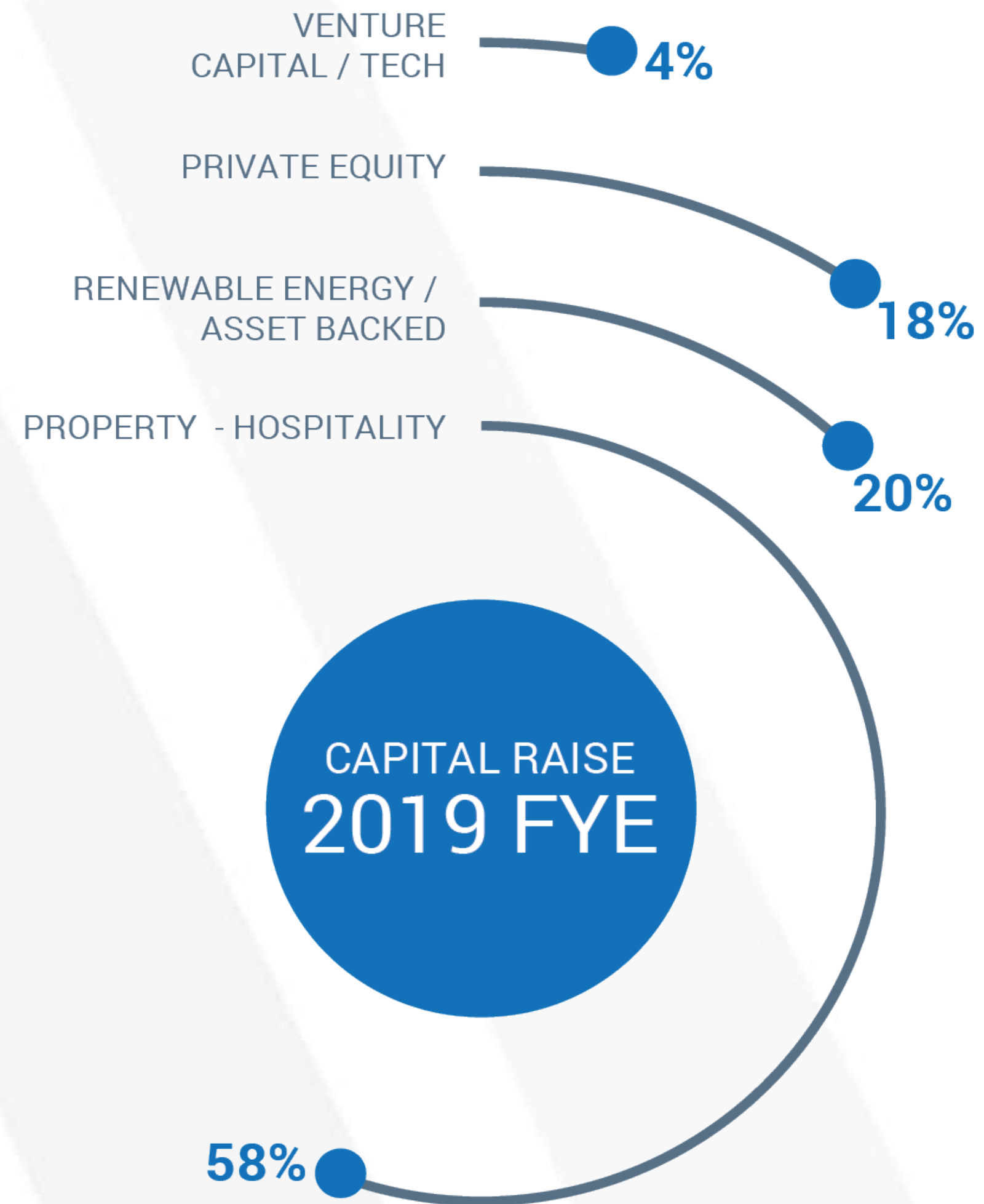


The Section 12J Market

Cumulative Market Cap



The Section 12J Market



The Section 12J Market

Challenges Faced By The Market

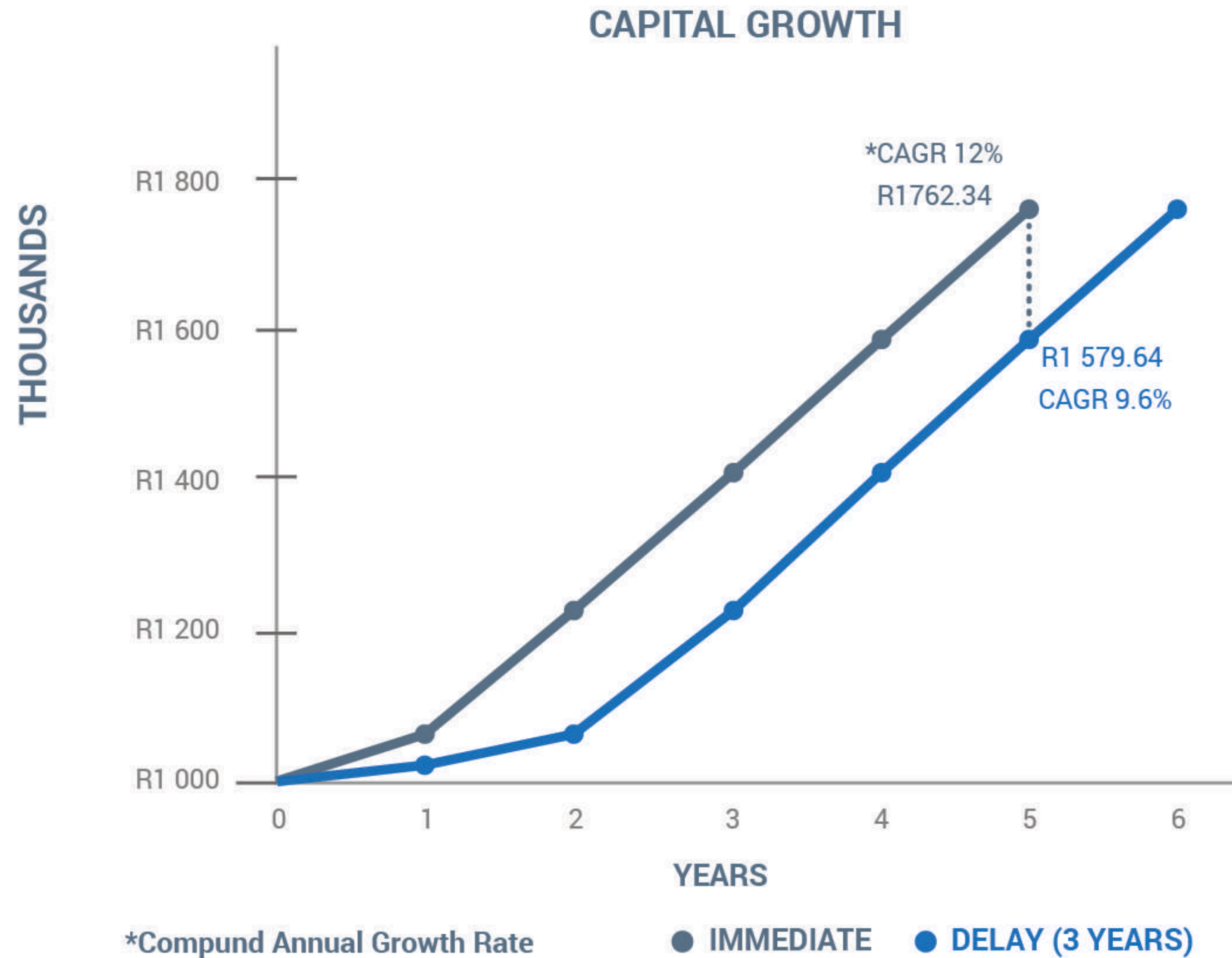
CAPITAL RAISING

FEES

DEPLOYMENT

EXIT

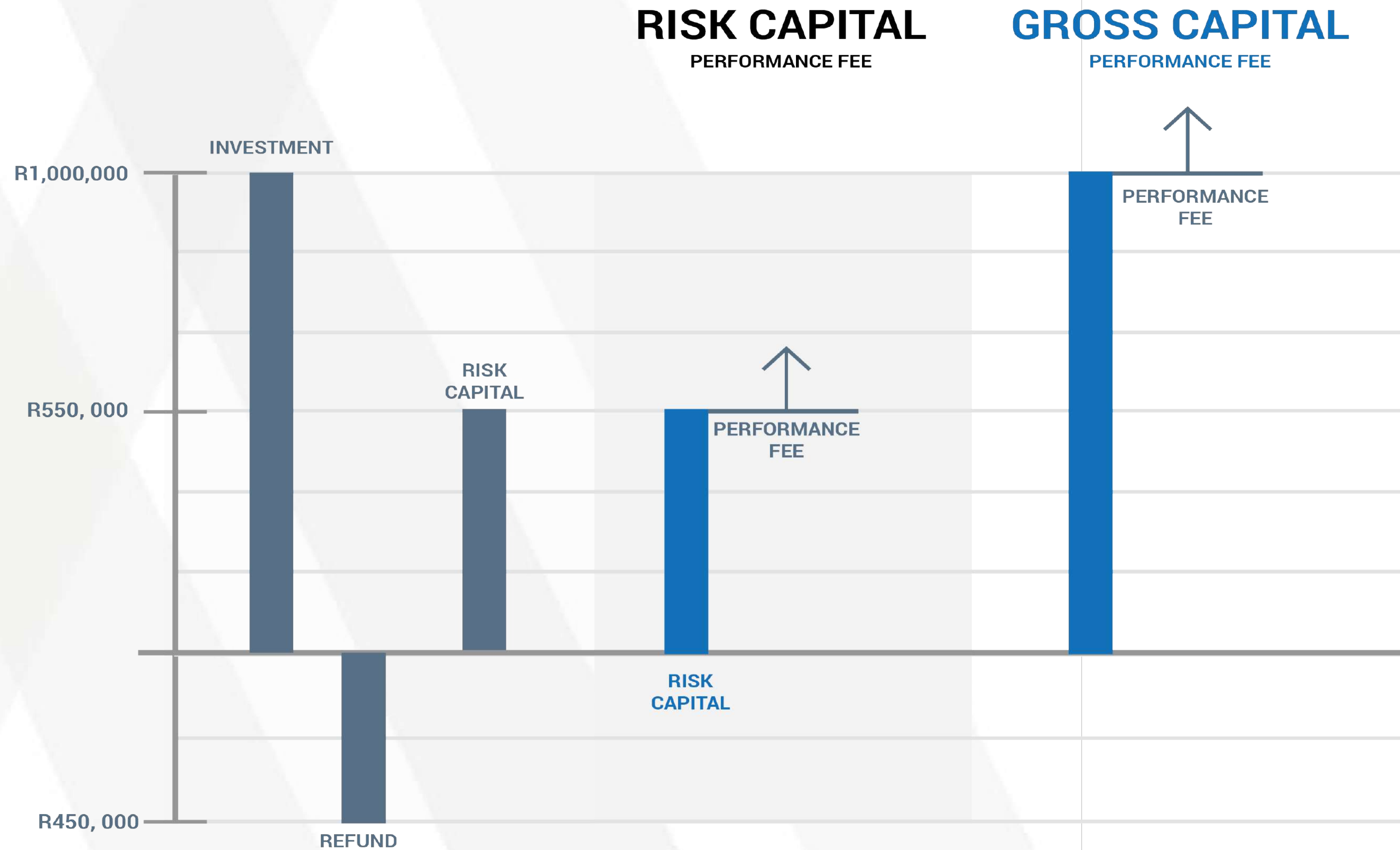
The Section 12J Market



The negative effect of delay in deployment



The Section 12J Market



The Section 12J Market

DIFFICULTIES

Risk capital vs Gross capital fee comparison

	Gross capital PF	Risk capital PF	Risk capital PF +H
Gross investment	R100 000	R100 000	R100 000
Risk capital	N/A	R55 000	R55 000
Value post 5 years	R120 000	R120 000	R120 000
Performance fee	R4 000	R13 000 (R65 000 x 20%)	R8 600* (R43 000 x 20%)
Performance fee as a % of profits	20%	65%	43%

*Assuming a hurdle of 7% pa

The Section 12J Market



12J + RA

	Investment amount	Tax refund
Step 1 – 12J investment	R777 778	R350 000
RA investment	R350 000	R157 500
Step 3 – Invest or hold	R157 500	
Total assets	R1 285 278	
Total growth (percentage)	R507 500 (65%)	

INFINITY ANCHOR FUND



Asset rental fund



R250m pipeline of investments



Investment protection



100% of funds invested



Positive NAV



Clear exit



Dividend payment track record

INFINITY ANCHOR FUND

INFINITY ANCHOR FUND | PIPELINE

Signed
exclusive terms
sheets

R250m+ in
pipeline of
investments

OA, container,
tools and
plant hire

Clear exit
strategy

Step in right

Added
protection

ZIMBALI CAPITAL



Property backed



Sharia compliant



Guarantee – 50%



Dividend



Positive NAV



Funds 100%
invested



R500m+
pipeline

ZIMBALI CAPITAL



PIPELINE



AURIK CAPITAL



SME



Aurik Business
Accelerator



Investment into growth
not for growth



Target IRR of 20%



Exit Focused



Deployed – 6 months



300+ SMEs

AURIK CAPITAL



PIPELINE

300 SMEs

R200m+
pipeline of
investments

2018 - 29%
revenue growth

20 industries

AURIK CAPITAL

**100% of capital
invested**

**R500m+ of
pipeline of
investments**

**17.5%+
targeted
return**

**Gross capital
performance
fee**

**Minimum
investment
R100 000***

**Clear exit
strategy**

12J MARKETPLACE



Section 12J investor conference
31 January 2020

To register email
jonty@Jaltech.co.za

12J | **MARKETPLACE**

Q&A

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participation**

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