

# Section 12J faq

## What is a Section 12J company?

A Venture Capital Company as described in Section 12J of the Income Tax Act, which came into operation with effect from 1 July 2009. Section 12J is a tax-based incentive designed to encourage individual and corporate investors to invest in a range of small and medium size companies by investing through Section 12J.

The aim of the incentive is to create a pool of passive investors who obtain an upfront tax deduction for investing with a manager who is responsible for making investments which stimulate the South African economy and create jobs.

## When can the tax deduction be claimed?

An investment into an approved Section 12J company is 100% tax deductible in the tax year you invest.

## How can I obtain my tax relief?

Investors can claim their tax relief by either reducing their estimate of taxable income when submitting provisional tax returns or by obtaining a tax refund through the annual income tax assessment.



## What do I need to give SARS or my tax advisor to claim the deduction?

When investing, Westbrooke will provide each investor with a tax certificate which is used as evidence of their investment into an approved Section 12J company.

## Can the tax relief be recouped by SARS?

Your Section 12J deduction will only be recouped (and the tax relief withdrawn) if:

- ▶ you sell your shares within 5 years of being issued; or
- ▶ your Section 12J fund manager fails to meet the various investment compliance requirements contained within Section 12J of the Income Tax Act.

## What is the annual limit per investor for subscriptions into a Section 12J company?

There is an annual investment limit of R2.5m per individual / trust and R5m per company.

## Does a section 12J investment carry risk?

As with any private equity investment, an investment in a Section 12J company carries risk. It is important, therefore, to assess the investment strategy of the Section 12J company to ensure you understand the associated investment risk as well as the expertise and track record of the asset manager.

## What is the term of my investment?

The term of the investment will be a minimum of 5 years, with a realisation period of up to 18 months thereafter (if required).

## How long does the S12J incentive last for?

The VCC regime, introduced in 2009, is subject to a 12-year sunset period that ends on 30 June 2021. The upfront income tax relief will only apply to VCC shares acquired on or before 30 June 2021. The sunset clause is to be reviewed, and may be extended thereafter.



## What is the size of the S12J industry?

According to the Section 12J Association of South Africa, there has been in excess of R9 billion raised into the Section 12J industry. Westbrooke is SA's largest Section 12J fund manager, managing over c.R2.7 billion of the capital raised in the industry to date.

## Can I use debt or gearing to make an investment into a S12J company?

Yes, you may utilise a loan / gearing to make an investment into a VCC, subject to complying with Section 12J(3)(a) of the Income Tax Act.



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[westbrooke.co.za](http://westbrooke.co.za) / +27 (0)11 245 0860 / [info@waam.co.za](mailto:info@waam.co.za)

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