

VENTURE CAPITAL (INCENTIVES) ACT

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VENTURE CAPITAL (INCENTIVES) ACT

An Act to provide for the grant of tax relief and other incentives on personal investments in the National Risk Fund, venture capital companies and venture capital projects and other matters related thereto.

[1993 No. 89.]

[25th August, 1993]

[Commencement.]

1. **Qualification and participation in the National Risk Fund**

(1) For the purposes of this Act a venture capital company shall qualify as an investor under the National Risk Fund (in this Act referred to as "the Risk Fund").

(2) For the purposes of this Act, a venture investment shall-

- (a) be an investment in a venture capital company; and
- (b) qualify for the incentives granted under this Act.

[1999 No. 45.]

2. **Venture projects**

For the purposes of enjoying the incentives specified in this Act, the Federal Inland Revenue Service shall certify that a venture capital project fulfils or is capable of fulfilling one or more of the objectives set out in this Act, that is-

(a) the acceleration of industrialisation by nurturing innovative ideas, projects and techniques to fruition; or

(b) the commercialisation of research findings with high potential for far reaching forward or backward linkages; or

(c) the promotion of self-reliance through the establishment of resource-based and strategic industries through the provision of risk guarantee and insurance; or

- (d) the encouragement of indigenous processes and technologies; or
- (e) the promotion of the growth of small and medium scale enterprises with emphasis on local raw materials development and utilisation; or
- (f) such other objectives as may, from time to time, be specified by the Federal Inland Revenue Service.

3. Qualifying investment by a venture capital company

For a venture capital company to qualify for the incentives specified in section 4 of this Act its investment in the venture project shall not be less than 25 per cent of the total capital required for the venture project.

4. Qualifying venture incentives

The following incentives shall accrue to venture investments-

(a) an equity investment by a venture capital company in a venture project company shall, for purposes of capital allowance under the Companies Income Tax Act, be treated as follows-

[Cap. C21.]

- (i) for the first year deduct 30 per cent;
- (ii) for the second year deduct 30 per cent;
- (iii) for the third year deduct 20 per cent;
- (iv) for the fourth year deduct 10 per cent;
- (v) for the fifth year deduct 10 per cent;

(b) the amount of capital gains accruing to a venture capital company from a disposal of its equity interest in a venture project company shall be exempted from capital gains tax as follows-

- (i) for the disposal of capital within five years of investment, 100 per cent;
- (ii) for the disposal of capital between six and ten years of investment, 75 per cent;
- (iii) for the disposal of capital between eleven and fifteen years of investment, 25 per cent;
- (iv) for the disposal of capital after fifteen years of investment, 0 per cent;

(c) the withholding tax payable on dividend declared by the Federal Inland Revenue Service in a venture project company shall be reduced by 50 per cent of the prevailing rate of withholding tax in respect of dividend received by a participant in the Risk Fund and venture project company within the first five years;

(d) the provisions of the Industrial Development (Income Tax Relief) Act, shall apply to a venture project company; and

[Cap. 17.]

(e) the provisions of the Export (Incentives and Miscellaneous Provisions) Act shall apply to a venture project company to the extent of the involvement of the venture project company in the exportation of its products.

[Cap. E19.]

5. Accreditation of a venture project company, etc.

(1) The Federal Inland Revenue Service shall, from time to time, determine for purposes of this Act, a person as a venture capital company or a venture project company.

(2) In furtherance of the provisions of subsection (1) of this section, the decision of the Federal Inland Revenue Service shall be based on the realisation of one or more of the objectives set out in section 2 of this Act.

(3) Investments in duly accredited venture capital companies shall qualify as security in which trustees may invest, accordingly the provisions of the Trustee Investments Act shall apply *mutatis mutandis* to such venture capital investments.

[Cap. T22.]

6. Interpretation

In this Act, unless the context otherwise requires-

"body corporate" includes, a venture capital company;

"Federal Inland Revenue Service" means the Federal Inland Revenue Service;

"participant" means a body corporate or individual who is an equity investor in a Risk Fund or venture investment;

"venture capital company" means a body corporate incorporated for the purposes of one or more of the objectives set out in section 2 of this Act;

"venture project company" means a body corporate established for the realisation of one or more of the objectives set out in section 2 of this Act;

"venture project" means a project in the commercialisation of an innovative idea and process and includes capital expenditure in the development of a local resource base.

7. Short title

This Act may be cited as the Venture Capital (Incentives) Act.