

IMPLEMENTING OWNERSHIP FOR FARM WORKERS

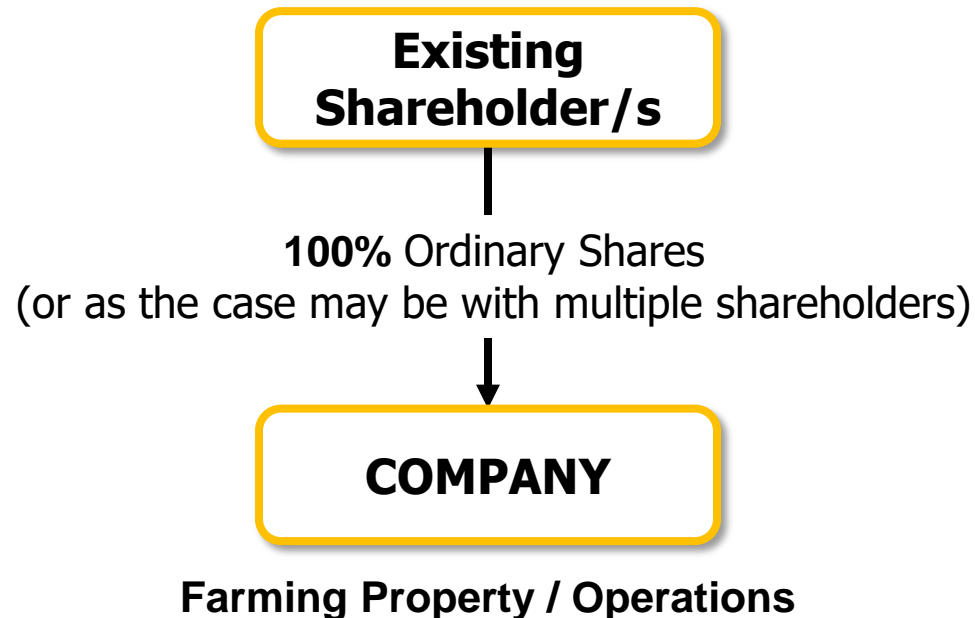
VAN HUYSSSTEENS
COMMERCIAL ATTORNEYS

INTRODUCTION

- There is **no** – “**one fits all**” structure to implement land reform on your farm.
- We anticipate that **pro-active land reform** action by farmers / producers will limit risk of ownership.
- Make a **re-structure** fit to your own requirements.
- This is an alternative of **empowering** farm workers and simultaneously **protecting the farmer’s interest**.
- The proposed **BEE structure** may be **tailored** to fit each circumstance.
- This **cash-free** structure will effectively result in the farmer attaining BEE shareholders and by implication become the financier. However it may also be a **hybrid** structure with financier input and finance.
- I am busy with **basics** and it is a bit more complicated but I am afraid to lose you in the process.

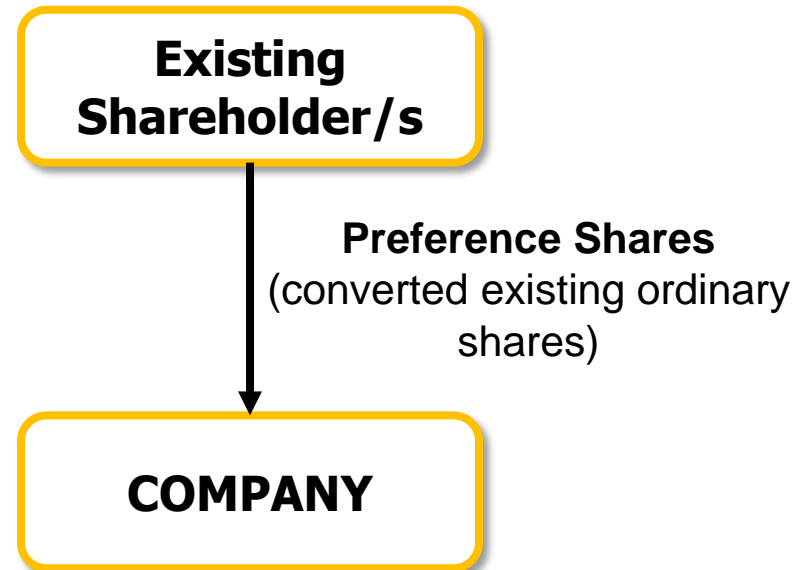
STANDARD STRUCTURE ILLUSTRATION

- Most farms in South Africa are operated either by an Individual, Private Company or Trust.
- Below is a standard illustration whereby a farm is operated via a private company with shareholders.



PREFERENCE SHARES CONVERSION

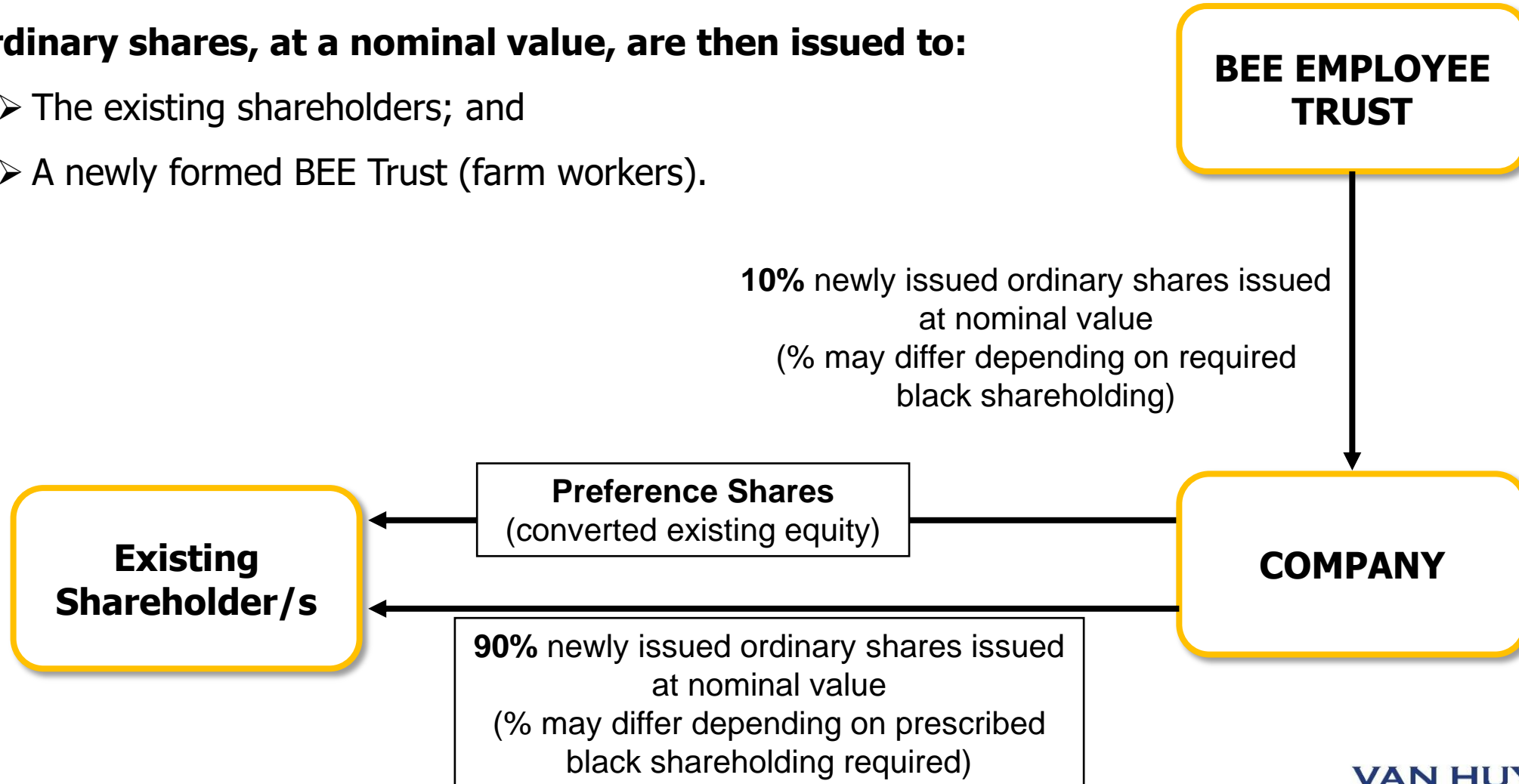
- Do a **valuation** of the Company on acceptable commercial terms.
- The existing ordinary shareholding in the company is **converted** to preference shares per the valuation.
- Depending on requirements and **CGT** an intermediate company may be slotted in between the S/H's and Co.



PREFERENCE SHARES CONVERSION

➤ **Ordinary shares, at a nominal value, are then issued to:**

- The existing shareholders; and
- A newly formed BEE Trust (farm workers).



PREFERENCE SHARE STRUCTURE

- Ordinary shares will be converted to cumulative **preference shares**.
- Should the Company elect to declare **dividends**, it will firstly declare a preference share dividend prior to dividends being declared to ordinary shareholders.
- Preference shares will be issued at a **fixed coupon rate** - between 8% - 12%.
- Should dividends not be declared by the company, the preference share will **accumulate** at the coupon rate.
- Be careful not structure and become a **hybrid equity instrument**.
- As previously said – “**there is no one fits all**” structure. Come talk to us first.

DE NOVO 12J VCC

VENTURE CAPITAL COMPANY

De Novo 12J VCC 1 (Pty) Ltd Reg No: 2018/195570/07
Registered Financial Service Provider FSP No: 49526

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What is Section 12J?

- Section 12J of the Income Tax Act was introduced as a tax incentive to promote equity investments via Venture Capital Companies (VCC's).
- Provided certain requirements are met, Section 12J provides for a 100% deduction of the investment made into a VCC.
- The purpose of Section 12J is not only to encourage and promote equity investments, but in turn to stimulate empowerment and growth in the economy and deal with South Africa's increasing unemployment rate.

EXAMPLE: 12J TAX BENEFITS FOR INDIVIDUAL INVESTORS AND TRUST (45%)

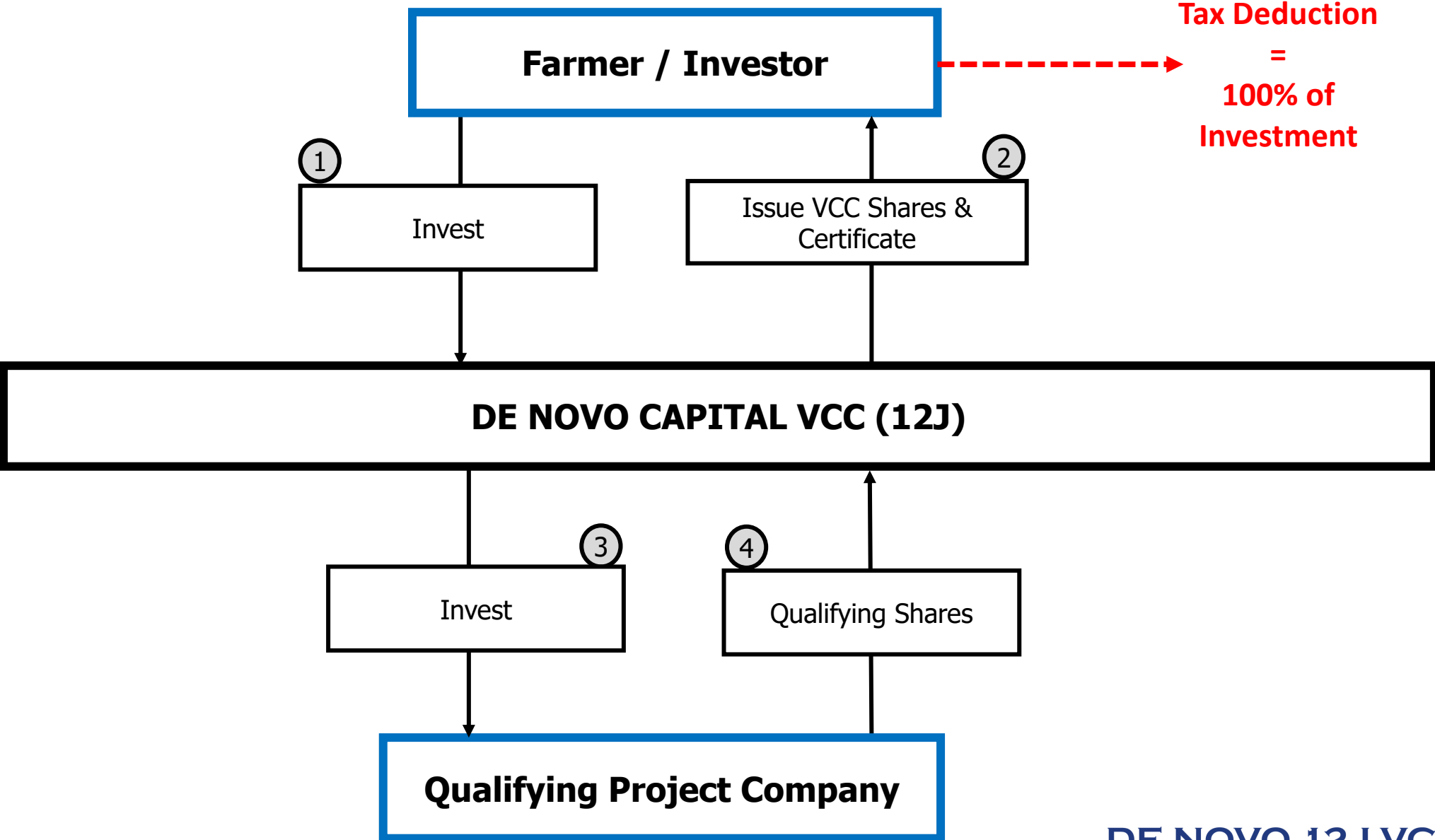
| EXAMPLE: Tax Benefits of 12J: Individual (45% Tax Bracket) OR Trust | | |
|---|--------------------------------|----------------------------------|
| | No Investment into 12J - R0.00 | Investment into 12J - R1 000 000 |
| Taxable Earnings (in one YoA) | R 1 000 000.00 | R 1 000 000.00 |
| 12J Deduction | R 0.00 | R 1 000 000.00 |
| | | |
| Taxable Income | R 1 000 000.00 | R 00.00 |
| Normal Tax (45% Individual) | R 450 000.00 | R 00.00 |
| | | |
| Earnings After Tax | R 550 000.00 | R 00.00 |
| Tax Saving | R 0.00 | R 450 000.00 |

EXAMPLE: 12J TAX BENEFITS FOR COMPANIES (28%)

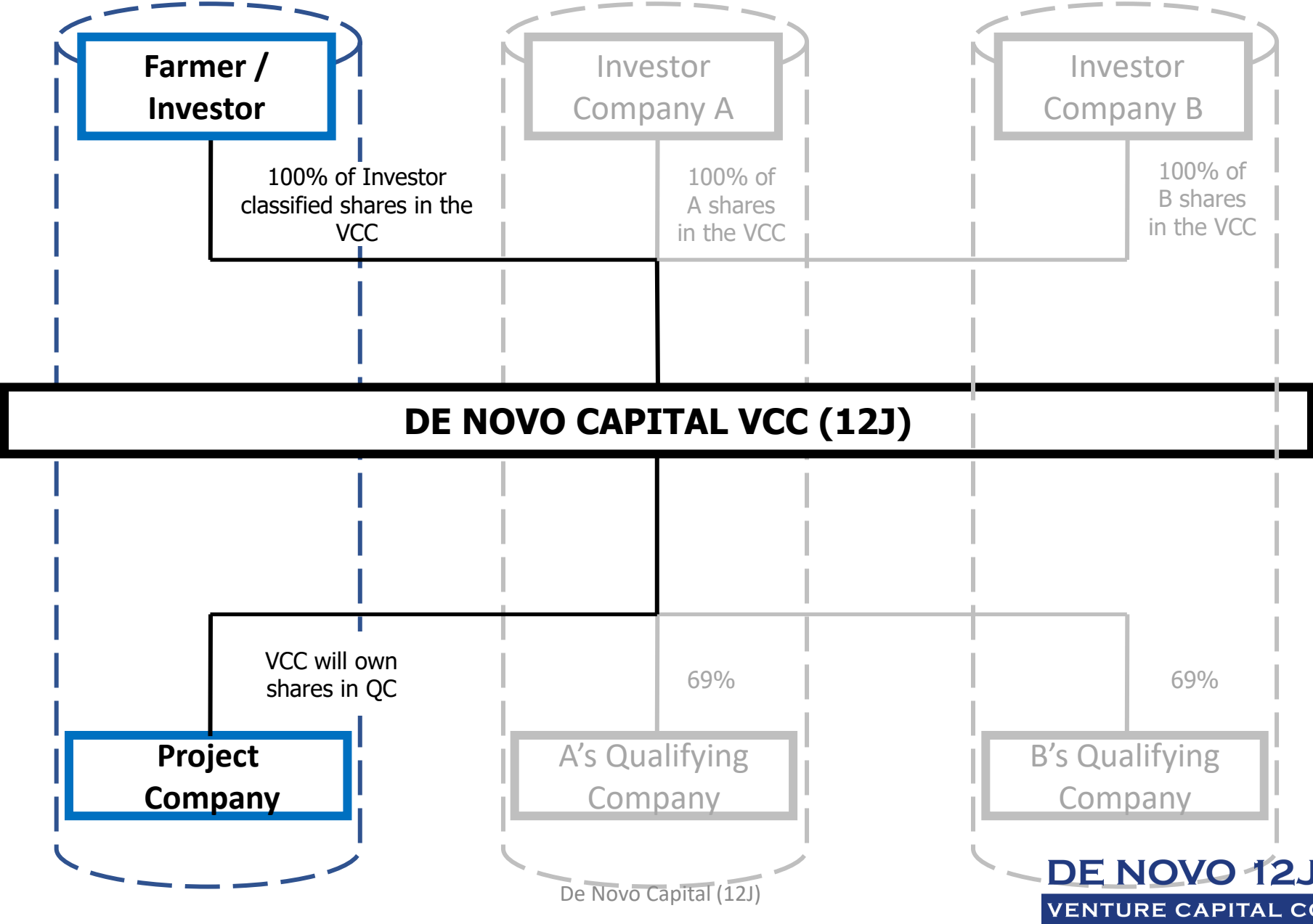
EXAMPLE: Tax Benefit of 12J: Company (28%)

| | No Investment into 12J - R0.00 | Investment into 12J - R5 000 000.00 | Investment into 12J – R10 000 000.00 |
|--------------------------------------|--------------------------------|-------------------------------------|--------------------------------------|
| Taxable Earnings (in one YoA) | R 10 000 000.00 | R 1 000 000.00 | R 10 000 000.00 |
| 12J Deduction | R 0.00 | R 5 000 000.00 | R 10 000 000.00 |
| Taxable Income | R 10 000 000.00 | R 5 000 000.00 | R 0.00 |
| Normal Tax (28% Company) | R 2 800 000.00 | R1 400 000.00 | R 0.00 |
| Earnings After Tax | R 7 200 000.00 | R 3 600 000.00 | R 10 000 000.00 |
| Tax Saving | R 0.00 | R 1 400 000.00 | R 2 800 000.00 |

FRAMEWORK AND REQUIREMENTS OF A 12J VENTURE CAPITAL COMPANY



PROPOSED **SILO** STRUCTURE FOR SHAREHOLDING



Contact us at:

DE NOVO 12J VCC
VENTURE CAPITAL COMPANY

www.denovocapital.co.za

OR

VAN HUYSTEENS
COMMERCIAL ATTORNEYS

www.vanhuyssteens.co.za