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Higher tax breaks to boost venture capitalists

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BUDGET 2004 perks for the development of private venture capital companies

include higher tax breaks when venture capitalists (VCs) exit companies they nurture.

The Malaysian Venture Capital Management (Mavcap) will get an additional

RM300 million, raising the total fund under its management to RM800 million.

"VCs will also be allowed to enjoy income tax deduction equivalent to their investment in venture capital companies, when selling their stake through other approved exit mechanism, such as put options and management

buyout," Prime Minister Datuk Seri Dr Mahathir Mohamad said.

Previously, VCs were only allowed tax breaks when exiting via an initial public offering.

The method of computing the 70 per cent investment in venture capital companies will also be relaxed to take into account the amount of funds invested in a company instead of the total funds.

Venture capital management companies will also be given tax exemption on income received from profit-sharing agreements with venture capital companies.

The Malaysian Venture Capital Association (MVCA) said Budget 2004 will help create "an excellent eco-system for the venture capital industry to flourish".

"(The additional funds for Mavcap) will certainly enhance the development of private VCs as well as nurture more players in the venture capital industry through participation in these funds.

"The tax exemption on venture capital management companies' income received from profit-sharing agreements introduced in this Budget would incentivise VCs to perform better, thus, encouraging them to play a more effective role in creating globally competitive companies," MVCA chairman

Chok Kwee Bee said in a statement yesterday.

"The additional RM300 million allocated for Mavcap will spur research and development (R and D) and further assist the industry to market products and services not just within the Malaysian market but also regionally and globally. The setting up of the three research institutes in the Bio Valley bodes well for the creation of Malaysian bio-technology

and innovation," Xavier Tan, who chairs the Association of the Computer and Multimedia Industry of Malaysia, said.

Technopreneurs Association of Malaysia deputy president Tengku Farith Tengku Ahmad Rithauddeen hopes the extra funds will go into nurturing innovations in early stages, noting that much strategic planning needs to

be done.

"Remember, the Budget proposals only set the parameters, the implementation has to be thought out properly for the effects intended to take place," Tengku Farith, who is also president and co-founder of Skali, told Business Times yesterday.

Mavcap's chief executive Mohd Azwar Mahmud said the new funds enhance its capabilities to fulfil the need of more entrepreneurs looking to commercialise new ideas.

He echoed the Government's emphasis on R and D efforts, noting that with Malaysia's population size of 23 million, the number of researchers should be 50 times the current 6,000 people as at 2002.

Budget 2004 cheers to researchers include an additional RM183.6 million allocation for the intensification of research in priority areas programme, specifically for public research institutions in collaboration with the private sector.

To promote commercialisation of research findings, half of the income received by researchers from such activities will not be taxed for five years.

Besides Mavcap, the Government has established the Malaysian Debt Venture with a fund of RM650 million and the Malaysian Technology Development Corp with a fund of RM1 billion to finance investments in areas, such as logistics and modernisation of agriculture.