

Venture Capital and Angel Investment

Venture capital is a type of private equity financing that focuses on start-ups and young firms with high growth potential. In addition to capital, venture capital fund managers bring operational experience, technical knowledge, networks and mentorship to the firms in which they invest. A strong and steady stream of venture capital is essential to the success of many Canadian start-ups.

- According to the Canadian Venture Capital and Private Equity Association, \$3.2 billion in venture capital was invested in 530 innovative companies in 2016. Venture capital is being invested across sectors, including information communications technology, health and life sciences, clean tech and agricultural technologies.

The Government is advancing a number of initiatives that provide direct support for venture capital. Budget 2017 announced that \$400 million in new financing would be made available through the new Venture Capital Catalyst Initiative to increase the amount of venture capital available to firms. With funds leveraged from the private sector, this investment could inject around \$1.5 billion into Canada's innovation capital market. In recent years, the Government has increased the availability of venture capital financing for innovative Canadian companies through a number of federal organizations and initiatives.

Federal support for Venture Capital

- Business Development Bank of Canada (BDC): The Government's main policy tool for supporting the venture capital sector.
 - The BDC makes investments in venture capital funds and directly into innovative firms, including through its internal venture capital funds (which individually focus on clean technology and energy, healthcare, and information technology) as well as through strategic partnerships with business accelerators and incubators.
 - As of April 2017, the BDC has more than \$1 billion committed to venture capital funds and directly into companies to support nearly 700 high-tech firms.
- Venture Capital Action Plan (VCAP): The Government has \$340 million in commitments to four private sector-led funds of funds and an additional \$50 million committed for high performing venture capital funds. Including the federal government investment, the four funds of funds raised \$1.356 billion from private and public investors which is expected to be fully committed by end of 2017.
- Export Development Canada: Invests in companies and domestic venture capital funds in order to increase the availability of capital and help Canadian companies expand into international markets.
- Farm Credit Canada: Invests in venture capital funds managed by Aviro Capital that are dedicated to agriculture, providing a source of capital and expertise to the growing number of innovative firms that will help the industry realize new opportunities.
- Labour-Sponsored Venture Capital Corporations (LSVCC) Tax Credit: To facilitate access to venture capital for small and medium-sized businesses and support saving by the middle class, Budget 2016 restored the LSVCC Tax Credit to 15 per cent for share purchases of provincially registered LSVCCs.



The venture capital and angel investment sectors have provided helpful feedback in the Government's consultations on tax planning using private corporations. Some have expressed concern that the contribution of family and friends of entrepreneurs, investing in the first stage of seed capital financing, may not be enough for resulting dividends to be seen as reasonable under the new rules put forward with respect to income sprinkling.

The Government will move forward with measures to limit the ability of owners of private corporations to lower their personal income taxes by sprinkling their income to family members who do not contribute to the business. An investment in a start-up carries greater risk and may warrant a relatively high return under a reasonableness standard. The Government will simplify the proposed measures, with the aim of providing greater certainty for family members who contribute to a family business.

With respect to passive investment income, it has been indicated that private corporations are an important source of funding for the angel investment and venture capital sectors, and that firms raising money from venture capital investors often raise more than they immediately need, investing these funds passively before they are put to work in their business.

The Government will move forward with measures to limit the deferral benefits of passive investments within private corporations that focus on high-income earners, while continuing to examine the issue of passive investments used to support other active businesses, including venture capital and angel investments. In doing so, it will also protect the ability of middle class business owners to save the funds they need for future investments, such as an upcoming business expansion. Consideration will be given as to the appropriate scope of the new tax regime with respect to capital gains, including whether in certain circumstances the new rules should exclude capital gains realized on the sale of shares of a corporation engaged in an active business. Any measures in this area will only apply on a go-forward basis, and will only have implications at the time when money is paid out to shareholders.

As we move forward with measures to end tax planning strategies using private corporations, including targeted measures on passive investments, we will ensure that incentives are maintained so venture capital and angel investors can continue to invest in the next generation of Canadian innovation. The Government will work with the venture capital and angel investment sectors to identify how this can be best achieved.