

VC INDUSTRY DISMAYED BY BUDGET

By Barry Critchley

Financial Post, Friday, January 30, 2009

John Varghese has been a member of the venture-capital industry for many years, first as an employee and, of late, one of the owners of the VentureLink Funds, which manages about \$260-million of assets. It's an understatement to say that he is passionate about the sector.

And after perusing this week's budget, Varghese is bemused at Ottawa's priorities given that there was nary a word about the sector. "I am shocked and disappointed that the government didn't do anything for the venture capital industry. They completely ignored the topic of investing in early-stage [companies]. The country needs it," he said.

Varghese, who along with a group of colleagues bought VentureLink from CI Financial a few years back, added that while various governments spend resources on commercialization activities, "those [initiatives] fall short because they only cover the first stage. When those companies move out to their next round of evolution, there is no one to help them."

If Varghese had one wish, it would be that the government recognize the importance of venture capital. "It is a very important component of an economy kick-starting itself," he said, arguing that "because of the global recession, the market meltdown and the [reduced activity] of private equity firms, we have less and less companies that will have the potential to go global. You need a period of time where you see the development of a large number of opportunities. The government has to provide more funding, more incentives when institutional capital is not available." One quick way: raise the contribution

limit to \$7,500 a year.

Varghese wasn't the only participant to speak out. Canada's Venture Capital and Private Equity Association also weighed in. "The budget has failed to address the current shortage of venture capital financing, which presents a significant challenge to near-term job creation and to Canada's future prosperity in the important knowledge-based economy," said Gregory Smith, the association's president. "Canada needs to follow the lead of other countries that have recently taken steps to address the critical role played by venture capital. The government has missed an important opportunity to ensure a vibrant venture-capital industry and new investment in innovation at a time when our country needs it the most."

LSIF's bigger credit While Varghese is disappointed, he sees an opportunity given the renovation tax credit included in the budget. If Canadians like that tax credit, which allows for a maximum of \$1,350 on an outlay of \$10,000, then they should like the tax credit offered by investing in a labour-sponsored investment fund even better. "We offer something better than the \$1,350 credit for home improvement for \$10,000," he said.

The math is compelling: A retail investor who invests \$7,500 into an LSIF will get a combined federal and provincial tax credit of \$1,875. If that amount is invested in a RRSP, the investor would get another tax break. By his calculations, a person with an income of \$75,000 -- and investing 10% in an LSIF-- would receive total credits of \$4,831, an amount that's not too shabby. What's more, said Varghese, "you are helping the economy even more so. One [the renovation credit] is going directly to your house, which is great; the other is going to invest in new companies that will give the economy lots of chances."

For LSIF investors, tax breaks come from Ottawa and the province. Ottawa gives a 15% break while an Ontario resident receives the same percentage. Ontario is phasing its tax credit out in two years' time.

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