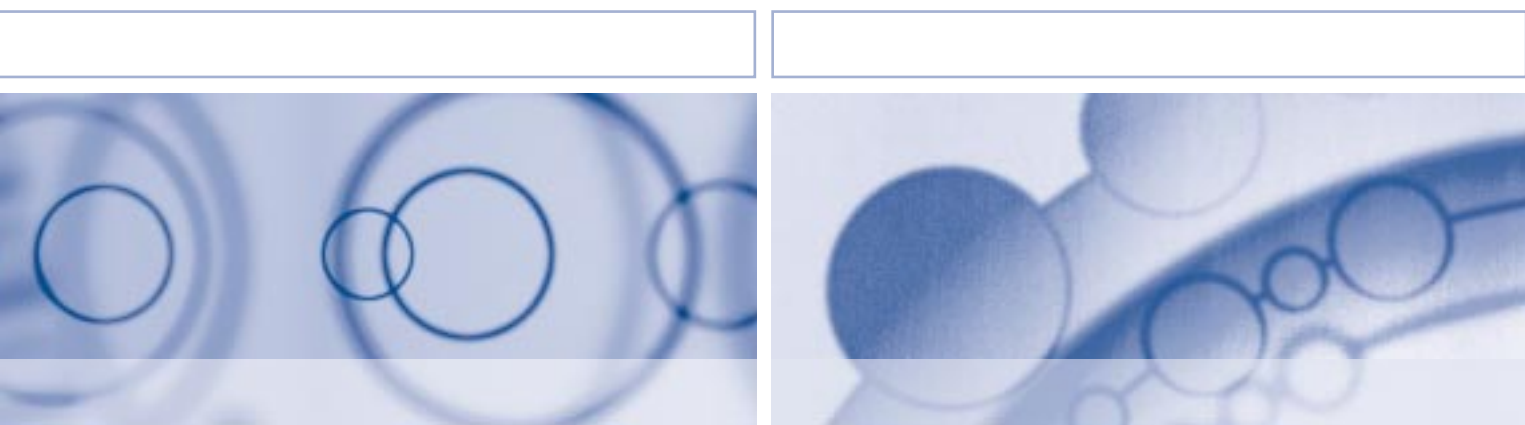


Benchmarking European Tax and Legal Environments

December 2006



Indicators of Tax and Legal Environments Favouring the Development of Private Equity and Venture Capital and Entrepreneurship in Europe



European Private Equity &
Venture Capital
Association

About EVCA

The European Private Equity and Venture Capital Association (EVCA) was established in 1983 and is based in Brussels. EVCA represents the European private equity sector and promotes the asset class both within Europe and throughout the world.

With nearly 950 members in Europe, EVCA's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics.

EVCA's activities cover the whole range of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins.

Disclaimer

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The publication of the 2006 EVCA Benchmarking European Tax and Legal Environments comes at an important juncture for the European private equity and venture capital industry. After four years of robust growth, and an exceptional year in 2005, this positive trend is expected to continue and strong growth rates are forecast, especially for several markets in the newest EU countries. Yet amid positive growth prospects, there are a number of national tax and legal impediments, which prevent this dynamic investment sphere from providing its full positive impetus to the diverse national economies of Europe. These impediments particularly affect the work at the smaller end of private equity and venture capital funds, where the market is more imperfect, with a subsequent negative effect on smaller entrepreneurial projects.

This third Benchmark is a contribution to enhancing the understanding of the key factors, which determine private equity and venture capital growth and the subsequent beneficial economic and social impact it brings: creating and developing businesses and jobs, and encouraging entrepreneurial talent by rewarding the most successful venturers.

As the legal, tax and operating environment in which European private equity and venture capital develop is determined largely at national level, this must be the first focus for attention, with each improvement measured against foreign experience. Thus, the final objective of such a benchmark is to highlight the need for a level playing field between domestic and non-domestic investors, to be a real support to entrepreneurship policies and to the development of a status for entrepreneurs and fund managers adapted to their needs. However, a stable level playing field does not necessarily mean a uniform playing field as regulatory competition can also be a strong driver for financial innovation. Inadequate regulation creates high entry costs and low levels of capital flow, accounting for the differences in growth patterns between different countries, large asymmetries in the degrees of maturity of European private equity and venture capital markets and does not reflect business realities.

Through such a benchmarking exercise, national regulators and supervisory authorities can see from neighbouring countries how projects and execution modalities have been implemented and have worked, and adapt the legislative environment supporting conditions to enhance the private equity and venture capital “value chain” in their respective country. New countries are also becoming more and more involved with private equity and venture capital, catching up and following “*acquis communautaire*”. A lot of work remains to be done but impact assessments comparing national legislation against the development objectives are now emerging.

The two preceding benchmarks, by enabling comparisons between European countries on core issues and highlighting obstacles, have already successfully provided an important stimulus for change, as shown by the continual improvement in the Overall European Average score. Furthermore, it is interesting to note the progress of several reform-friendly countries such as Belgium, France and Spain, and Denmark and Austria, which have rapidly progressed.

Through this paper, EVCA has drawn up a check list for encouraging long-term investments in European growth companies and the liberalisation of capital sources, with a clear and harmonised implementation of the European Pension Fund Directive, and an assessment of the future Solvency II Directive. A high priority has also been given to the promotion of entrepreneurship and its supporting environment.

The 2006 EVCA Benchmarking European Tax and Legal Environments report could not have been put together without the collaboration of KPMG, whose local offices throughout Europe have taken the time to participate in our survey and supported EVCA in collecting the data, and have provided their useful comments on the different jurisdictions. Thanks should also include a wide range of experts, and in particular, several members of the EVCA Tax and Legal Committee and associated colleagues.



Javier Loizaga
EVCA Chairman 2006-2007

This new paper highlights the latest developments across the European Union, and includes for the first time contributions from Estonia, Latvia, Romania and Slovenia. Contributions from Norway and Switzerland are also included, as in the previous Benchmark. The objective of this Benchmark remains the same as in previous versions (in 2003 and 2004): “to provide a benchmarking tool, enabling comparisons to be drawn between European countries’ tax and legal frameworks, insofar as they affect the development of private equity and venture capital”.

This paper sets out a selection of factors, which each address specific parts of the private equity and venture capital financing cycle, that are considered as important determinants for the industry’s eco-system. It does not, however, attempt to cover all of the areas which can impact the private equity and venture capital industry or address specific situations per country: instead, improving those selected areas would nurture the private equity and venture capital cycle and lead to a better functioning of both national and European private equity and venture capital markets.

The purpose of this benchmark is not to create a simplified European average but to highlight individual or collective practices, inducing more efficient frameworks. If legal frameworks are too nationally-focused, they penalise national funds not only in their fundraising by impeding and restricting cross-border or international investment, but also, because of their smaller size, when allocating resources to investee companies. Fragmentation of the available tax and legal frameworks throughout Europe limits economic growth and Europe would benefit from mutual recognition by European countries of legal and regulated investment structures. EVCA hopes that this benchmark will pave the way for a fair assessment by relevant countries of the potential economic benefit of an appropriate tax and legal environment for private equity and venture capital.

EVCA recommends that policymakers consider the characteristics of the private equity and venture capital industry when reviewing existing or drafting new legislation. EVCA acknowledges that the industry itself should do more to explain the specificities of the private equity and venture capital business model, which could affect it in terms that accurately capture the business objectives and structures. This third benchmark is a contribution to enhancing the understanding of the private equity and venture capital investment cycles.

As in the preceding benchmark (2004), some variables have changed or have been further developed, with the introduction of topics such as young innovative company schemes and a special assessment of the ability of pension funds and insurance companies to invest in the asset class, leaving aside some topics such as merger regulation, and bankruptcy or insolvency. Thus, this benchmark measures factors that seem to have foreseeable medium-term impacts on the development of private equity and venture capital.

Therefore, although the 2006 version follows the general approach of the previous paper and covers a majority of common variables, the reader should be cautious in strictly comparing the results from this paper with the results of 2004. In any case, the scoring methodology has not been changed and every variable, throughout each country, was scored on the same basis.

This benchmark now covers four new countries, and coverage of the whole European private equity and venture capital area is greatly improving. However, Bulgaria, Cyprus, Lithuania and Malta are not included in this year's analysis due to difficulties in gathering information. In this context, EVCA has calculated two European averages for 2006. Firstly, the European average based on all 25 countries assessed in 2006 and secondly, the European average based on the 21 countries analysed in 2004. They show little difference in the final scoring: 1.84 when including the four new countries and 1.77 without. This may be regarded as a positive message as those countries with less experience of private equity and venture capital are catching up quickly and are not distorting the overall European average.

This paper is deliberately worded in an open manner. It is intended to encourage further lively discussion between policymakers, trade associations and practitioners on how to continue improving the environment for private equity and venture capital in Europe, thus increasing its positive impact on economic and social growth.



Marie-Annick Peninon-Bernard
Public Affairs and Regulation Director
EVCA

Defining the Tax and Legal Environment for the Private Equity and Venture Capital Industry

The following paragraphs outline elements that impact on the European private equity and venture capital eco-system and its key actors, namely investors, fund managers and entrepreneurs. A special focus has been placed on retaining talent in investee companies and in investment funds. It is important to note that none of these factors alone can ensure a fully favourable environment. These conditions are referred to as guides in the evaluation per variable, per country in the individual country reports.

This paper is divided in three sections as outlined below, and which stress the seven criteria chosen as key elements:

1. The environment for limited partners (investors) and fund managers

As the major contributors to private equity and venture capital fundraising, institutional investors, such as **pension funds** and **insurance companies**, are entitled to the best tax and legal environment possible, not only to improve the efficiency of current investment flows but also because their long-term investment perspective is in line with the long-term business model of the private equity and venture capital industry. They should be entitled to invest freely in private equity and venture capital, within the “prudent person rule” limits and the risk profile of their clients. Geographical limitations should not prevent investing abroad across the European borders.

National implementation of EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision (IORPs) and the future Solvency II regime will be among the key elements in defining the new environment for those institutional investors, which, it is assumed, will make more money available for private equity and venture capital and more investments devoted to the long-term protection of individual savers or pensioners.

Given the specificities of the private equity and venture capital business model, which is mainly active through long-term commitments in private companies, investment funds need to be flexibly managed according to the different phases of the private equity and venture capital investment cycle. **Investment funds structures** should be appropriate to the needs of domestic and non-domestic investors. In this first instance, the absence of an efficient domestic fund structure may result in the use of foreign structures (incurring significant transaction costs) or in a lack of interest by investors to commit funds in that country. While the existence of an appropriate fund structure in each country would be a strong improvement, EVCA proposes that the feasibility of a European common transnational structure, operating alongside the national structures, is explored and addressed, as it is an efficient way to approach investors globally, and to channel capital to the most promising entrepreneurial projects.

In order to achieve optimal conditions for a national fund structure, the following areas should be addressed: tax transparency for domestic and non-domestic investors, the ability for international investors to avoid permanent establishment (removing risk of double taxation), avoiding VAT on management fees and carried interest and avoiding undue restrictions on the type of investments carried out by the fund (this is essential for an optimal allocation of the fund and a better return).

Finally, **tax relief or incentives** should be available for institutional or private investors in private equity and venture capital to boost asset allocation, and thus support the underlying enterprises.

2. The environment for investee companies

Entrepreneurship should be encouraged through targeted measures, specifically if Europe wants to meet the Lisbon objectives and develop an “innovation-friendly market” (“Creating an Innovative Europe”, Aho Report, January 2006). An innovation culture can not only be approached through a top-down approach, but it also has to be developed at the level of each enterprise. Innovation has to go beyond technical aspects and to be built on an innovation-friendly company culture. Therefore EVCA selected new criteria for this benchmark, namely the provision of a dynamic **dedicated company status** providing fiscal and social benefits for the creation and the growth of innovative companies. This complements criteria for efficient company tax rates and appropriate coverage of **fiscal R&D incentives**, including contracting researchers and supporting technology transfers.

3. The environment for retaining talent in investee companies and management funds

How to retain talent, within Europe and each of the constituting countries, in particular entrepreneurs, researchers, highly qualified company managers and investment fund managers is the key question. They should be attracted, supported and retained through adequate fiscal measures and well-addressed **performance-related incentives**: these should address income or capital gains taxation, or the existence and the taxation of incentives like stock options or carried interest.

The Pan-European Environment for Private Equity and Venture Capital

1. Composite score

As outlined in the Methodology, a composite score was calculated for each country, based on the averages for each of the seven criteria chosen for analysis. The composite scores enable the presentation of a global comparison between all European countries included in the benchmark. The information reflects the situation in each country until **1 July 2006**, with the composite score shown on the left hand side of Table 1. The results from the previous benchmarks (in 2003 and 2004), are shown on the right hand side of the table. Please note that a strict comparison between the results is not possible due to the adjustments that have been made to the benchmark criteria.

For the 2006 benchmark:

- Ireland, France and the United Kingdom are the countries with the most favourable environment for the development of the private equity and venture capital industry, with composite scores of 1.27, 1.36 and 1.46 respectively.
- Belgium (1.51), Spain (1.52), Greece (1.55), the Netherlands (1.60) and Luxembourg (1.62) follow in the next group.
- Performing slightly better than the overall European average are Portugal, Italy, Austria, Denmark, Hungary and Switzerland with scores of between 1.71 and 1.83.
- Performing slightly worse than the overall European average of 1.84 are Finland, Estonia, Norway, Sweden, Latvia and Germany with scores ranging between 1.91 and 2.15.
- Poland, the Slovak Republic, the Czech Republic, Slovenia and Romania rank lowest and provide the least favourable tax and legal environment for private equity and venture capital with scores of between 2.16 and 2.35.

2. The countries' evolution

The table gives an indication of the tax and legal environment for the development of private equity and venture capital (1 = more favourable, 3 = less favourable).

Table 1: Overview of results 2006, 2004 and 2003

Results for 2006 ¹		Results for 2004 ²		Results for 2003 ³	
Country	Total Score	Country	Total Score	Country	Total Score
Ireland	1.27	United Kingdom	1.26	United Kingdom	1.20
France	1.36	Luxembourg	1.49	Ireland	1.58
United Kingdom	1.46	Ireland	1.53	Luxembourg	1.67
Belgium	1.51	Greece	1.75	Netherlands	1.79
Spain	1.52	Netherlands	1.76	Italy	1.96
Greece	1.55	Portugal	1.81	Greece	1.96
Netherlands	1.60	Belgium	1.82	Total Average	2.03
Luxembourg	1.62	Hungary	1.86	Belgium	2.08
Portugal	1.71	Italy	1.86	France	2.09
Italy	1.72	France	1.89	Sweden	2.09
Austria	1.74	Switzerland	1.95	Spain	2.17
Denmark	1.75	Spain	1.96	Finland	2.25
Hungary	1.83	Total Average	1.97	Portugal	2.32
Switzerland	1.83	Norway	2.04	Denmark	2.36
Total Average	1.84	Sweden	2.05	Germany	2.41
Finland	1.91	Czech Republic	2.12	Austria	2.53
Estonia	2.08	Poland	2.13		
Norway	2.08	Finland	2.30		
Sweden	2.12	Germany	2.37		
Latvia	2.12	Austria	2.42		
Germany	2.15	Denmark	2.46		
Poland	2.16	Slovak Republic	2.49		
Slovak Republic	2.17				
Czech Republic	2.21				
Slovenia	2.26				
Romania	2.35				

Source: EVCA

This table does not reflect the entrepreneurial culture in a country, does not aim to influence private equity and venture capital investment decisions, nor does it provide an indication of competitive private equity and venture capital performance per country.

¹ For the 2006 EVCA Benchmark paper, the composite scores of Slovenia and Switzerland were calculated on only six of the seven criteria due to the lack of an appropriate or dedicated domestic fund structure in the country.

² In the 2004 EVCA Benchmark paper, some countries were evaluated on less than the thirteen variables due to a lack of applicability or the inability to use the given information for ranking. http://www.evca.com/images/attachments/tmpl_25_art_23_att_609.pdf

³ In the 2003 EVCA Benchmark paper, Denmark was evaluated on only nine of the ten variables due to the lack of a conventional private equity fund structure in the country. http://www.evca.com/images/attachments/tmpl_9_art_51_att_271.pdf

The Pan-European Environment for Private Equity and Venture Capital

Main conclusions

- The total European average, at 1.84, indicates an improvement in the tax and legal environment for private equity and venture capital in Europe.
- The gap between the best country average at 1.27 and the European average at 1.84 is smaller than the 2004 gap (1.26/1.97). However, the composite score of the lowest country in ranking (2.35) is not closer to the European average (1.84) than the measured gap in 2004 (2.49/1.97). This means that, overall, a certain convergence is taking place in the upper part of the table but that less mature countries still have a long way to go.

The private equity and venture capital environment in Europe can best be presented through country clusters.

2.1. Advanced countries

Ireland and the United Kingdom

Ireland and the United Kingdom have been in the top three since the start of this Benchmark exercise in 2003. Ireland now heads the 2006 European classification, while the United Kingdom ranks third.

2.2. Reform-friendly countries

France, Belgium and Spain

In the 2003 Benchmark, Belgium, France and Spain all appeared in the lower part of the European ranking. In 2004 they all improved their country averages, to be better than the European average. In 2006, they all now feature in the first quartile.

[Luxembourg](#) is to some degree also part of this group, but has fallen back in the 2006 ranking, most probably due to the different selection of variables.

2.3. Progressive followers

Denmark, Austria

Both countries were at the bottom of the European ranking in 2003 and 2004, but for the first time now feature in the upper half of the ranking, going on a fast track.

Still ranked close below the European average, [Finland](#) has made noticeable progress.

2.4. Fading countries

Greece and the Netherlands

Both countries have ranked in the upper half of the European classification since 2003, obtaining composite scores better than the European average. However, they have only shown very little improvement since.

[Portugal](#), [Italy](#), [Hungary](#) and [Switzerland](#) are also part of this group, they all climbed to the upper half of the ranking but have only shown little overall improvement since then.

2.5. Slowing countries

Norway, Sweden and Germany

All three have experienced few improvements in their tax and legal environment since they were included in the EVCA Benchmark and remain ranked in the lower part of the classification.

2.6. Central and Eastern European (CEE) countries

CEE countries (with the exception of Hungary) that were included for the first time in 2004, namely [Poland](#), the [Slovak Republic](#) and the [Czech Republic](#), have all retained positions at the lower end of the ranking, with so far only little improvement.

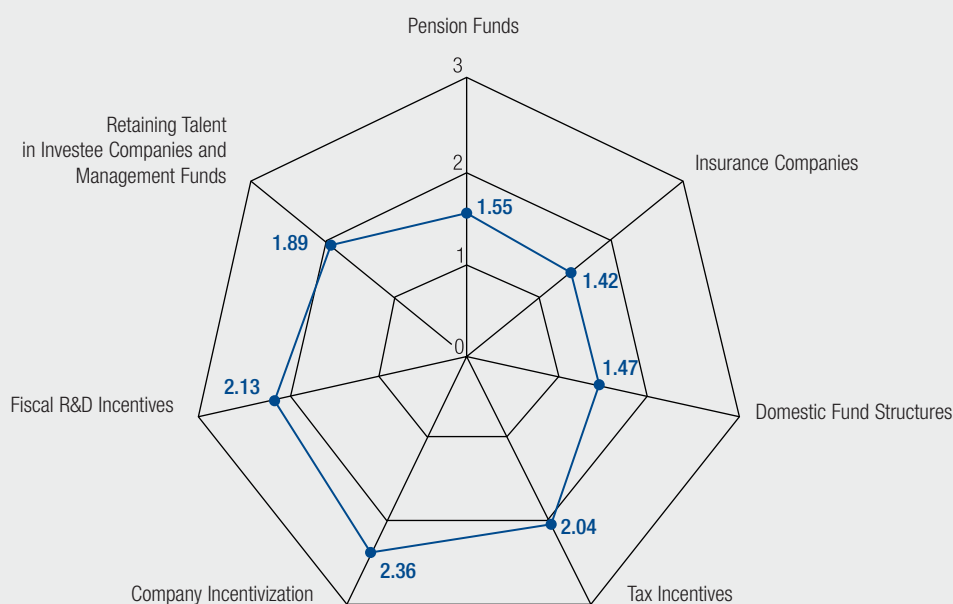
2.7. Newly added countries

For this year's analysis [Estonia](#), [Latvia](#), [Romania](#) and [Slovenia](#) have been included for the first time and are at the end of the ranking, leaving much room for improvement.

It should be kept in mind however that the analysis has been made **only** to judge the **existing** legislation in a country with respect to its tax and legal environment for private equity and venture capital. **This information is not valid to evaluate the business and investment opportunities in a country, nor its exit and performance potential.** It is only meant to judge the framework provided by the government for private equity and venture capital players to operate in.

3. Overview of the current European situation

Figure 1: Current European situation



Source: EVCA

- The European average for domestic fund structures is good, at 1.47. Most of the countries assessed have taken into account the importance of having an appropriate fund structure available in the country to attract capital from domestic and international limited partners.
- Also favourable are the environments for pension funds and insurance companies to invest in private equity and venture capital, with European averages of 1.55 and 1.42 respectively. Most countries allow those institutional investors to invest in the asset class and many of the previously existing obstacles have been abolished over the past four years.
- One particularly important aspect for Europe's future is the ability to retain talent, not only within companies but also within private equity and venture capital funds. The European average score for this criterion totals 1.89, indicating that adequate fiscal measures and well addressed performance-related incentives are still missing.
- Similarly, there are only very few countries providing incentives to encourage investment in private equity and venture capital, leading to a European average of 2.04.
- Europe provides a very unfavourable environment for both company incentivization and fiscal R&D incentives, with European averages of 2.36 and 2.13 respectively. Both criteria underline that there is much room for improvement in supporting entrepreneurship, particularly in innovative companies.

The following section provides some background on the individual countries' composite scores and identifies possible areas for action. The countries are listed in alphabetical order.

1. Austria
2. Belgium
3. Czech Republic
4. Denmark
5. Estonia
6. Finland
7. France
8. Germany
9. Greece
10. Hungary
11. Ireland
12. Italy
13. Latvia
14. Luxembourg
15. The Netherlands
16. Norway
17. Poland
18. Portugal
19. Romania
20. Slovak Republic
21. Slovenia
22. Spain
23. Sweden
24. Switzerland
25. United Kingdom

Bulgaria, Cyprus, Lithuania and Malta were originally part of this Benchmark exercise, but due to difficulties in gathering information from those countries, they have been excluded from the final analysis.

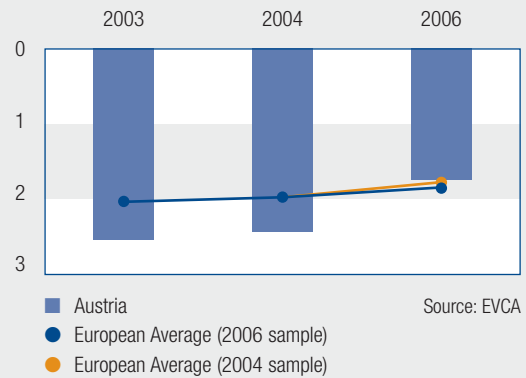
For a more detailed explanation of the individual variables used, please see the Methodology that follows the individual country reports.

Austria (1.74)

1. Evolution

After having ranked for several years at the bottom of the European classification, Austria has seen through a number of changes, leading to an improvement in the country's relative position. Overall, the country has climbed from 2.53 in the 2003 analysis to **1.74** in 2006. In particular, the country's most widely-used fund structure (MFAG) has been improved and the company tax rate was lowered significantly in January 2005. As a result, Austria ranks this year for the first time among the countries with a better composite score than the overall European average of 1.84.

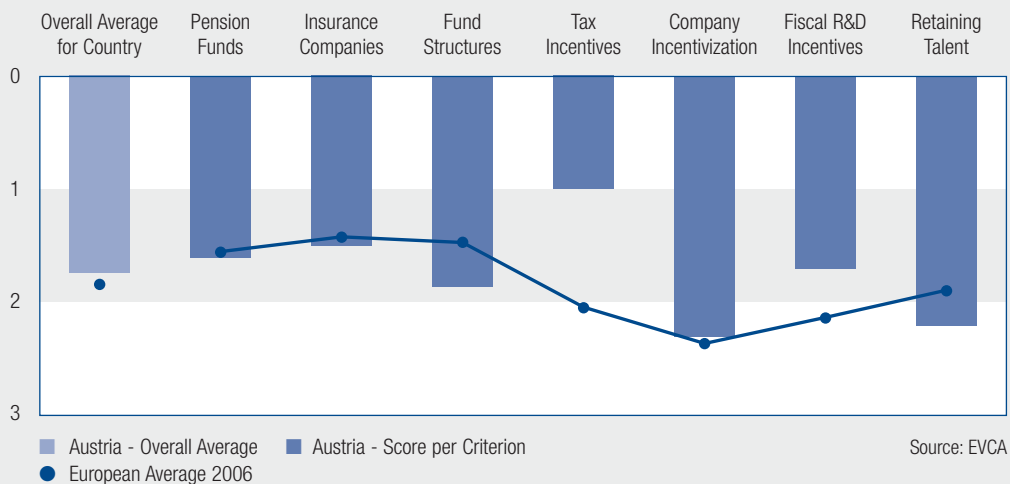
Figure 2: Evolution of Austrian tax and legal environment



2. Current situation

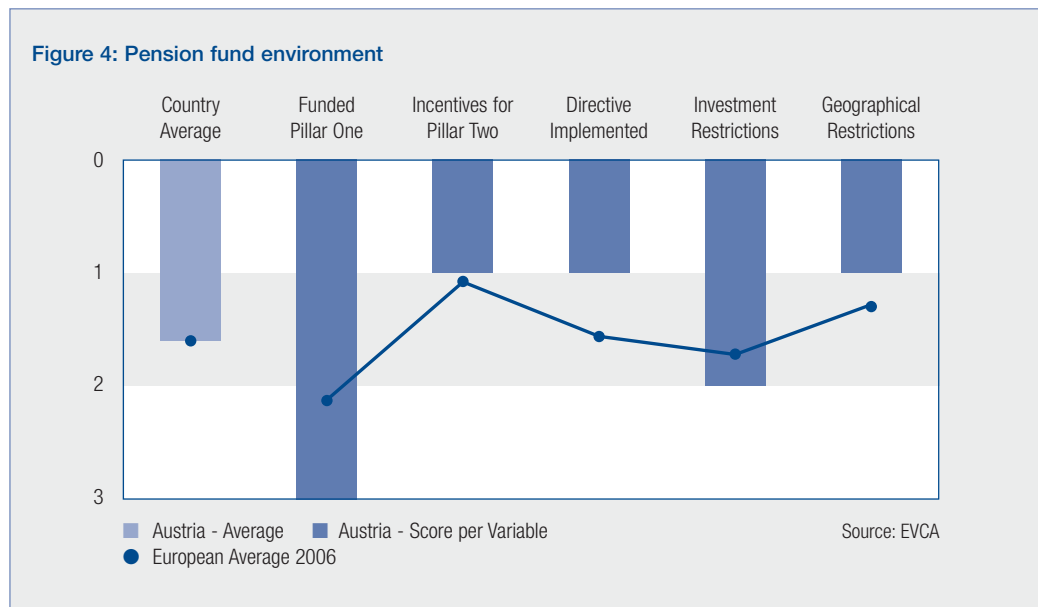
Austria has a positive environment for pension funds and insurance companies participating in the private equity and venture capital market. Although the country offers a dedicated fund structure for private equity and venture capital, it could still be improved further. Moreover, there are tax incentives available for investing in the asset class. The environments for company incentivization and for retaining talent within investee companies and management funds are less favourable.

Figure 3: Current situation

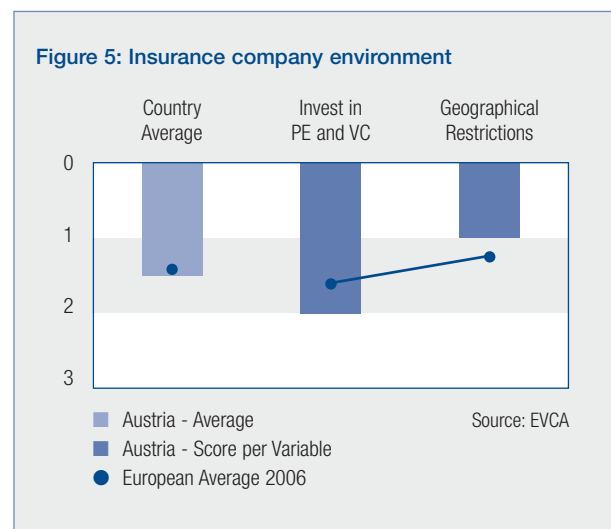


2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The **pension fund** environment in Austria is overall relatively favourable. Although there is no funded pillar one pension system, incentives for pillar two pension plans are available. Furthermore, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision is fully implemented and there are no restrictions for pension funds to invest outside Austria within Europe. However, investments in non-quoted shares are restricted to 5% of the pension fund volume for all pension funds that do not match the minimum risk management standards published by the Austrian Financial Market Authority. For pension funds matching the minimum risk management standards, the limit for non-quoted shares is as high as 30%.



2.1.2. **Insurance companies** in Austria can invest in private equity (PE) and venture capital (VC) but with a quantitative restriction of 5% of their technical reserves, which is below the limits set by EU Directive 2002/13/EC. There are no geographical restrictions for insurance companies to invest in private equity and venture capital outside Austria within Europe.



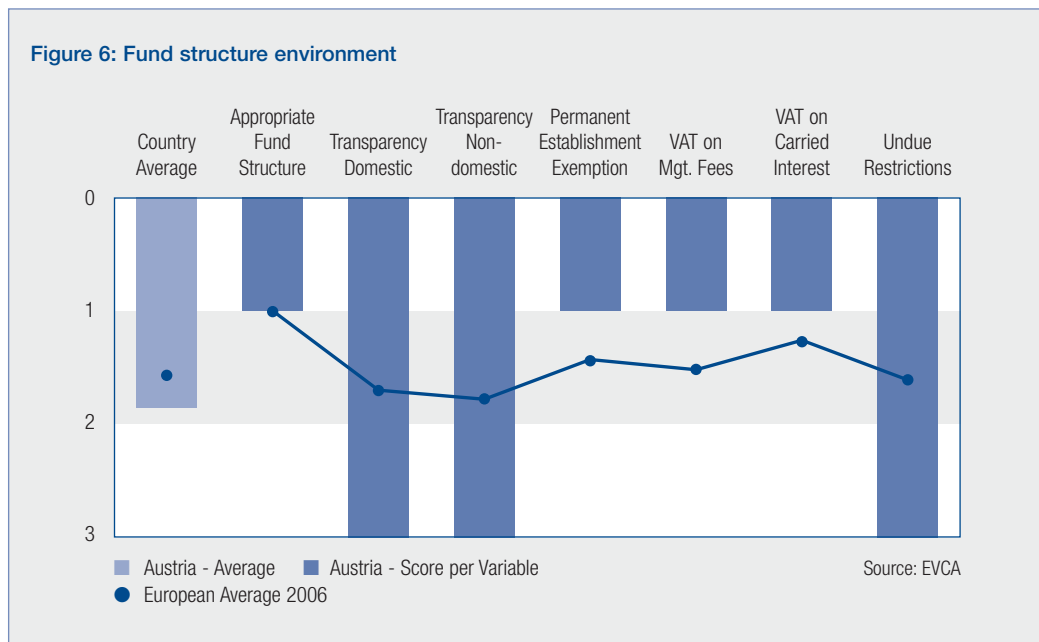
2.1.3. Fund structures

The *Mittelstandsförderungsgesellschaft* (MFAG) is a dedicated fund structure and is the most commonly used by practitioners in Austria. Most importantly, this fund structure provides – subject to certain restrictions – a number of tax advantages for domestic or non-domestic investors, such as the tax exemption of capital gains and interest on loans provided by equity investors.

The MFAG as such is not tax transparent for domestic investors. It becomes so due to the tax exemptions given under certain conditions to the structure and its investors (see below). The MFAG is not tax transparent for non-domestic investors either, although it becomes transparent for investors located in countries that have double tax treaties with Austria. Withholding taxes, however, might create certain administrative costs.

Non-domestic investors can avoid a permanent establishment when investing through this fund, and both management fees and carried interest are not necessarily liable for VAT, depending on the structure/clarification with the fiscal authorities.

To be eligible for the taxation exemption, two-thirds of the capital of an MFAG must be invested in domestic companies and only a minority participation may be acquired. Additionally, there are several restrictions on the sectors where investments may be made, the investee companies, the number of investments and other aspects.



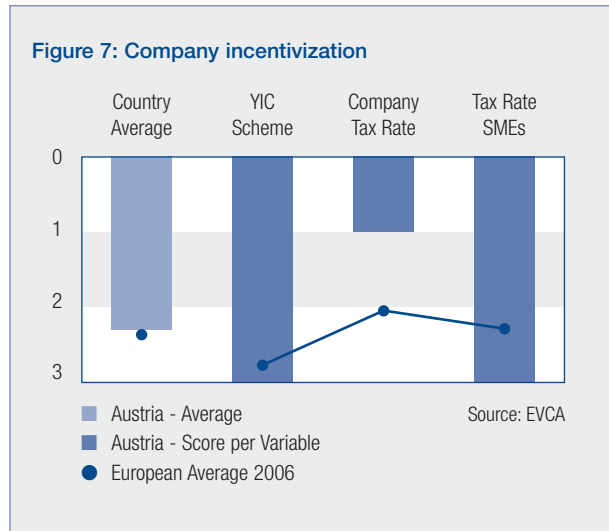
2.1.4. Tax incentives for private equity and venture capital

As mentioned, Austria provides tax relief for investors investing in MFAGs whereby distributions on shares with a nominal value of not more than €25,000 are tax exempt for individual investors.

2.2. The environment for investee companies

2.2.1. Company incentivization

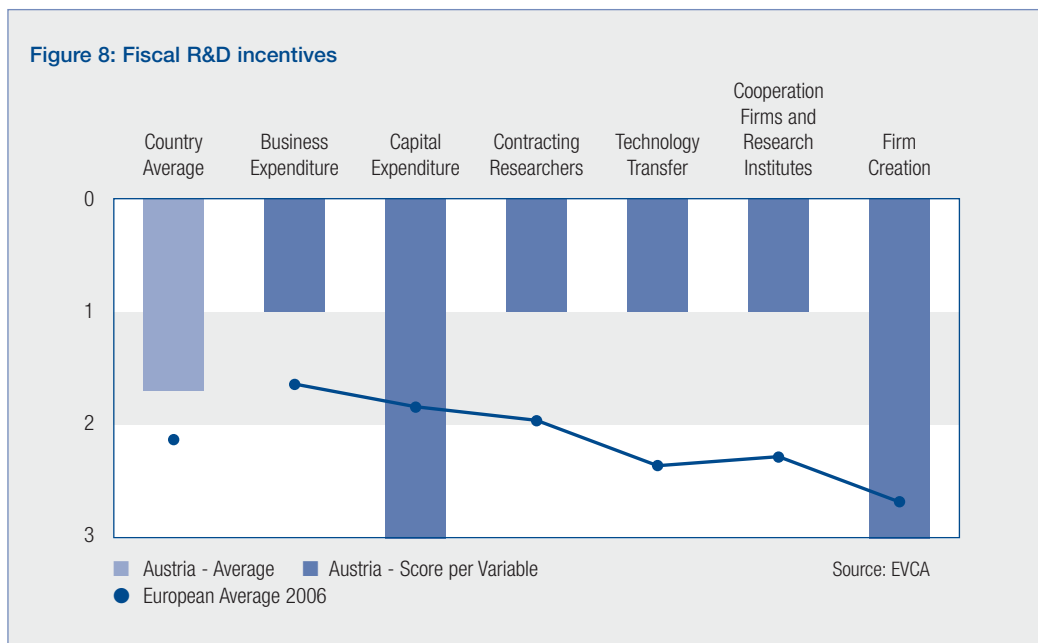
Austria does not have a specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC). The country also lacks a specific company tax rate for small and medium-sized enterprises (SMEs). However, the company tax rate was lowered substantially from the previous 34% to 25% in 2005, which is below the European average of 26.2%.



2.2.2. Fiscal R&D incentives

Austria provides a broad range of fiscal R&D incentives, including R&D tax premiums of up to 8% of R&D expenses. Additionally, there is an enhanced tax allowance for “valuable inventions” on top of a company’s average R&D effort. There is also an incentive in place for contracting foreign researchers immigrating to Austria, and an incentive for cooperation between firms and research institutes/universities in relation to the R&D premium described above. Finally, a tax incentive is provided for the transfer of technology, whereby the inventor is eligible for a reduced tax rate on income received from the use of a patent by a third party.

No fiscal incentives are available for R&D capital expenditure or for the creation of innovative firms.



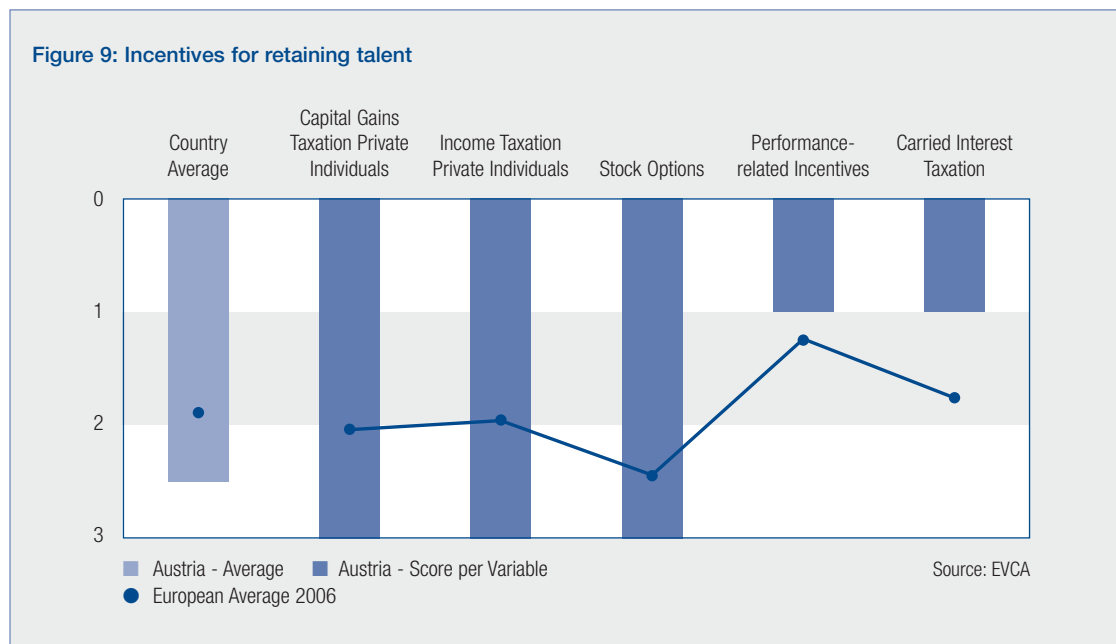
2.3 The environment for retaining talent in investee companies and management funds

With respect to taxation, Austria still provides a relatively unfavourable environment for capital gains and income for private individuals.

Capital gains from shares of more than 1% held by private individuals for over one year are taxed at half the income tax rate (i.e. max 25%)⁴. This is above the European average capital gains tax rate of 15%. The highest income tax rate for private individuals is 50%, which is above the European average (42%).

Moreover, stock options of investee company managers and employees are taxed upon exercise, and tradable or transferable options are taxed upon grant.

It is possible to structure a performance-related incentive (i.e. carried interest or preference shares) for the fund managers within the MFAG. Carried interest is mostly taxed as capital gains, although the tax treatment is uncertain as no regulation exists.



3. Future developments

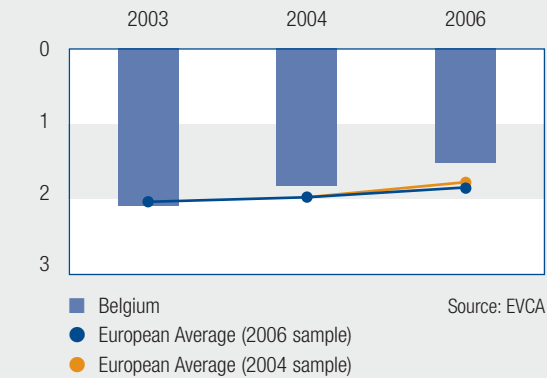
There are ongoing discussions in Austria about possible improvements to the country's fund structure (MFAG).

⁴ Participations of under 1% and held for more than one year are tax exempt.

1. Evolution

Over the past four years Belgium has made a lot of improvements to its tax and legal environment for private equity and venture capital, thus climbing from an average position in 2003 to the top five in the overall 2006 ranking. The country average has changed from 2.08 in 2003 over 1.82 in 2004 to **1.51** in 2006.

Figure 10: Evolution of Belgian tax and legal environment

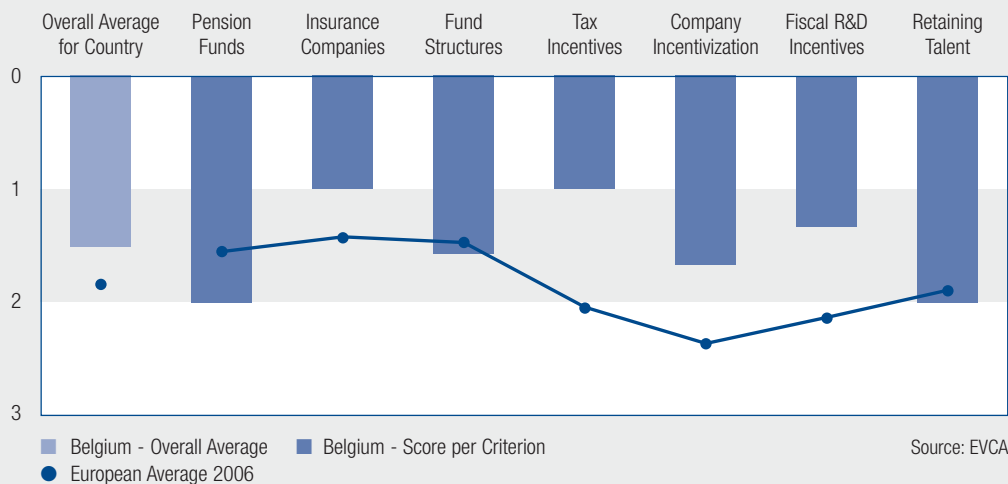


2. Current situation

Belgium has a favourable tax and legal environment for the development of the private equity and venture capital industry. Pension funds as well as insurance companies can participate in the private equity and venture capital market. Moreover, the country's Private PRICAF is especially designed for investments in non-quoted companies and is hence well positioned to invest in the asset class. At the same time, Belgium provides tax incentives for individual investors investing in private equity and venture capital through the ARKimedes programme, which was established in 2005. Whereas Belgium provides a broad range of fiscal R&D incentives, there is still some room for improvement in the area of company incentivization and the environment for retaining talent, more specifically with regard to the taxation of income for private individuals, stock options and carried interest.

Moreover, the country's Private PRICAF is especially designed for investments in non-quoted companies and is hence well positioned to invest in the asset class. At the same time, Belgium provides tax incentives for individual investors investing in private equity and venture capital through the ARKimedes programme, which was established in 2005. Whereas Belgium provides a broad range of fiscal R&D incentives, there is still some room for improvement in the area of company incentivization and the environment for retaining talent, more specifically with regard to the taxation of income for private individuals, stock options and carried interest.

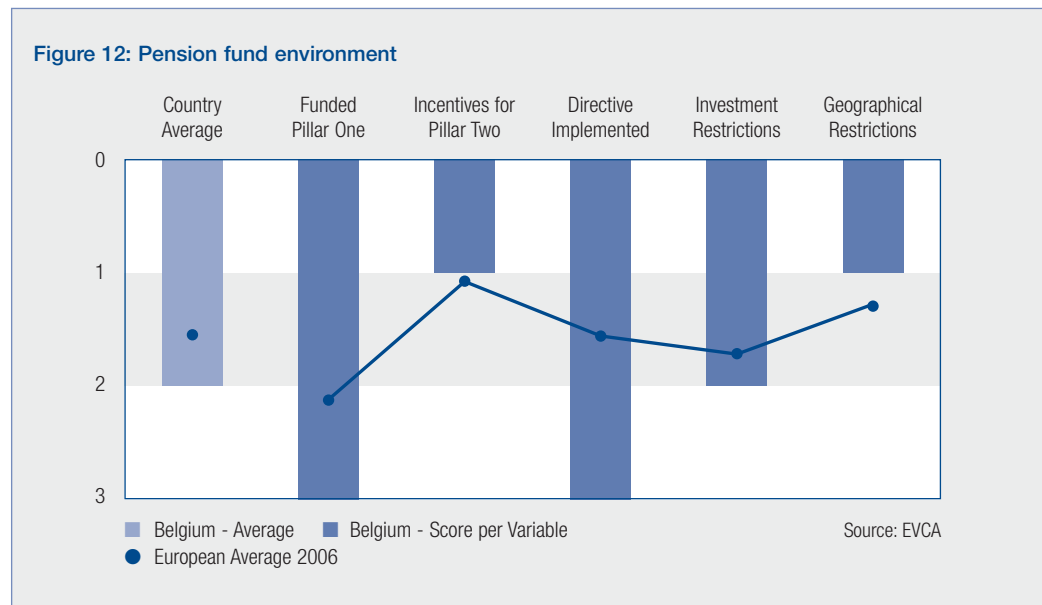
Figure 11: Current situation



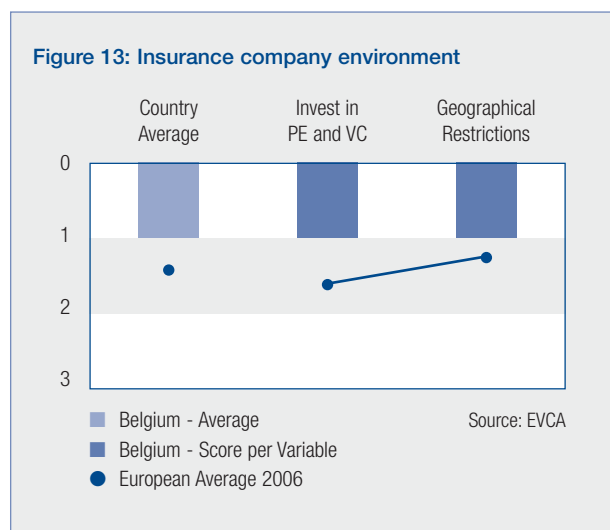
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Although Belgium provides several incentives for complementary pillar two pension systems, it does not have a very favourable environment for **pension funds** overall.

The Belgian legal pillar one pension system is a pay-as-you-go system and the country has not yet implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision. Moreover, Belgian national legislation provides maximum rules for pension funds to invest in private equity and venture capital that are below the threshold set in the above-mentioned EU Directive. By virtue of article 10 of the Belgian Royal Decree of 22 February 1991, the companies subject to the control of the BFIC (Banking, Finance and Insurance Commission) can only invest 10% of their technical provisions in non-quoted shares. However, there are no obstacles to cross-border investments.



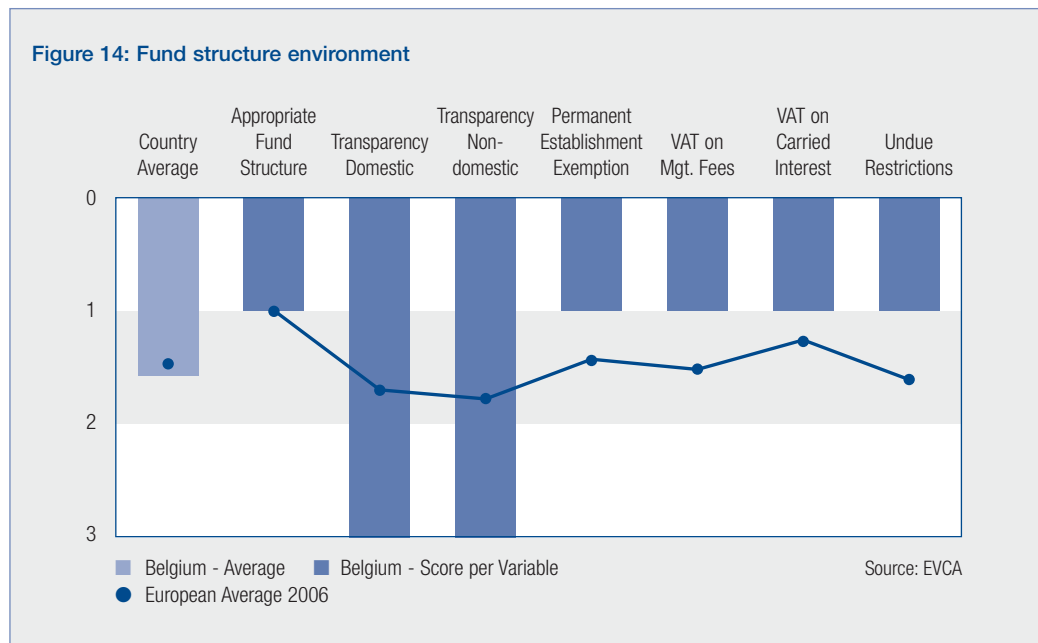
2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC) with no quantitative restrictions other than those set by EU Directive 2002/13/EC. There are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

Private equity institutions may take the form of either an investment company or an investment fund. The most common structures used in Belgium are the SICAF (*Société d'investissement à capital fixe*), SICAV (*Société d'investissement à capital variable*), SICAFI (*Société d'investissement à capital fixe immobilier*) and Private PRICAF (*Private Equity SICAF or Private Equity Fund à capital fixe*), which will be further evaluated.

Although a Private PRICAF is not tax transparent for both domestic and non-domestic investors, investments by international investors in this vehicle do not necessarily create a permanent establishment in Belgium. Furthermore, management fees⁵ and carried interest are not liable for VAT. Finally, a Private PRICAF is free from undue investment restrictions.



2.1.4. Tax incentives for private equity and venture capital

Belgium provides tax incentives for individual investors investing in private equity and venture capital through the ARKImedes programme, which was introduced in the Flemish region in 2005 in order to support young innovative companies.

⁵ i.e. if management fees are paid for merely exercising the statutory functions of a director within a fund with a corporate structure.

2.2. The environment for investee companies

2.2.1. Company incentivization

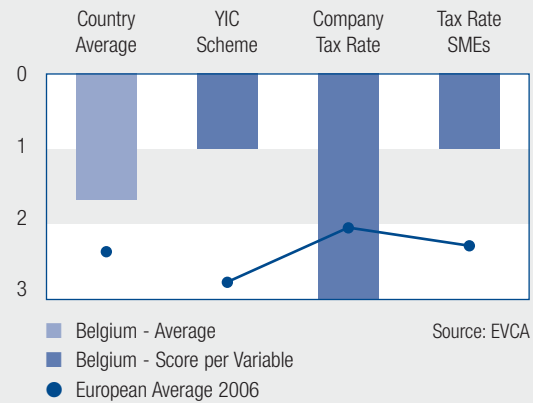
Since 1 July 2006, Belgium provides a specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC).

The nominal company tax rate in Belgium amounts to 33.99%, which is above the European average (26.2%). This rate consists of a 3% crisis surtax applied to the original 33% tax rate, both at federal level.

At the same time, Belgium provides three different tax brackets for companies with a taxable income

below €322,500 (before the assessment year of 2004, this was €323,750). The lowest tax rate is 24.98%, applicable to taxable income of less than €25,000.

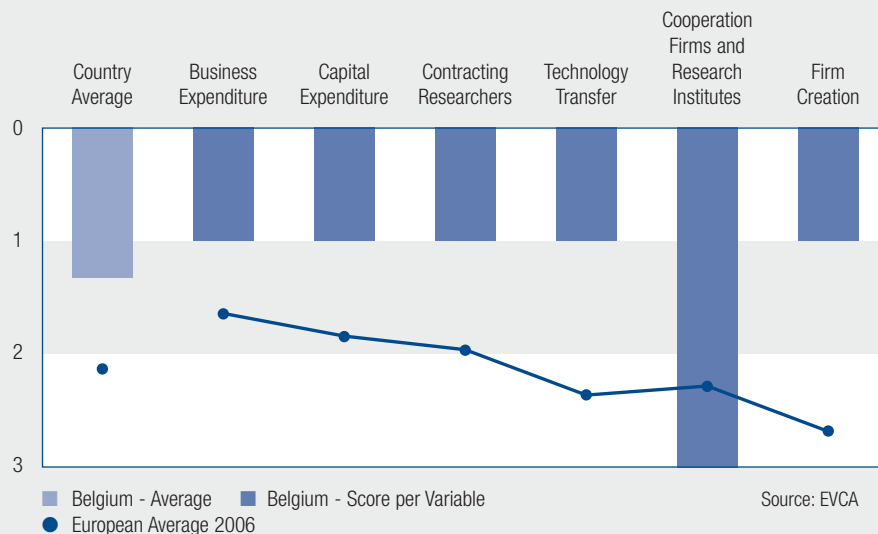
Figure 15: Company incentivization



2.2.2. Fiscal R&D incentives

Belgium provides a broad range of fiscal R&D incentives. Not only does the country offer fiscal incentives for business R&D expenditure, but also for R&D capital expenditure, contracting researchers, technology transfer and the creation of innovative firms.

Figure 16: Fiscal R&D incentives



As such, companies can have an increased investment deduction when investing in assets for R&D that are ecologically sound, and in patents. Companies investing in fixed assets that qualify for the increased investment deduction for R&D and for patents are also able to opt for a tax credit for R&D instead of the deduction.

Since January 2006, all companies can also benefit from a 25% exemption on the payment of wage withholding tax on the remuneration of employees with a certain doctorate degree or of civil engineers working on R&D projects. Additionally, companies contracting highly qualified researchers can deduct from €10,000 to €20,000 from their taxable income for each additional researcher.

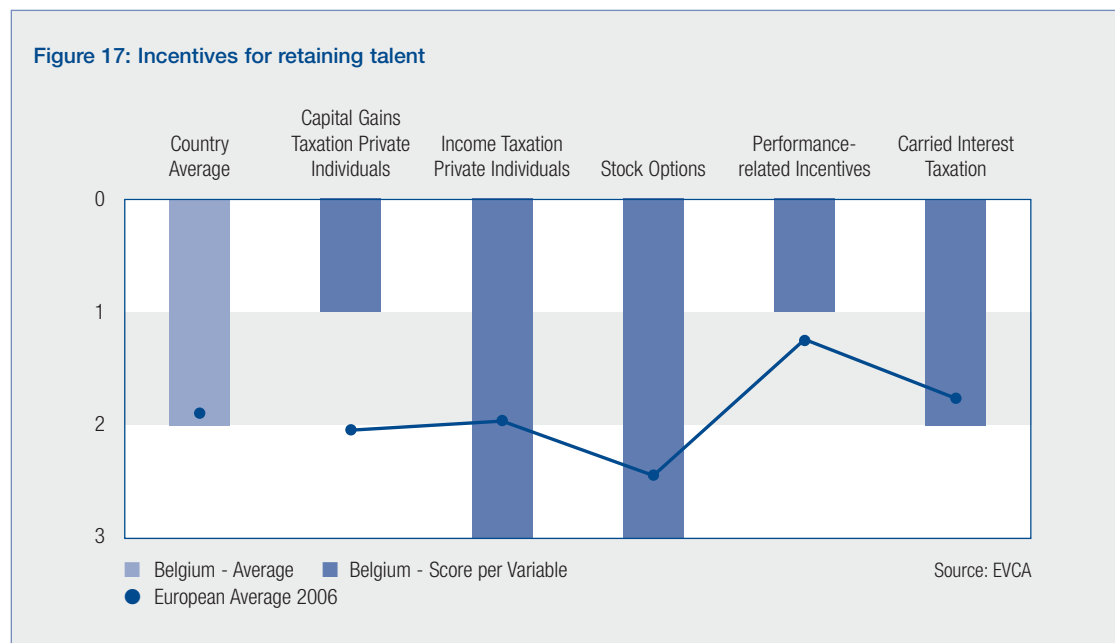
Since 1 July 2006, Belgium also provides several tax incentives for young innovative companies (among others, a 50% exemption of payment of wage withholding tax).

Belgium does not offer any fiscal incentive for cooperation between firms and research institutes/universities.

2.3. The environment for retaining talent in investee companies and management funds

There is still some room for improvement in the Belgian environment for retaining talent in investee companies and management funds. On the positive side, capital gains made by individuals are normally tax exempt⁶.

However, Belgium is a high-rate income tax country as the income tax rate for private individuals can be as high as 54%, which is above the European average of 42%.



⁶ However, if the seller is a professional investor, capital gains are taxable as professional income and when the capital gains are deemed to be "speculative", the capital gains are taxable as miscellaneous income at 17.82%.

The taxation of stock options for investee company managers and employees depends on whether it concerns a qualifying or a non-qualifying stock option plan. In the case of a qualifying stock option plan, the advantage is taxable upon grant; for non-qualifying stock options, it is taxed upon exercise.

It is possible to incorporate performance-related incentives (i.e. carried interest or preference shares) for the fund managers and carried interest is normally taxed as a dividend (distributions).

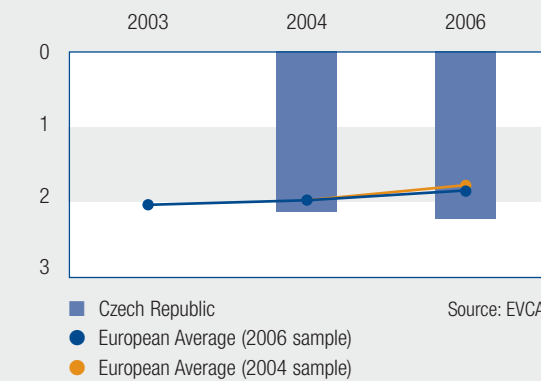
3. Future developments

On 13 July 2006, the Belgian government passed legislation enabling pan-European pension funds to operate in and from the country. The legislation is expected to be operational by the end of 2006.

1. Evolution

The Czech Republic was added to the EVCA Benchmark study in 2004 and has not shown any progress since then. On the contrary, the country has further fallen to the bottom of the European classification from 2.12 in 2004 to 2.21 in 2006.

Figure 18: Evolution of Czech tax and legal environment



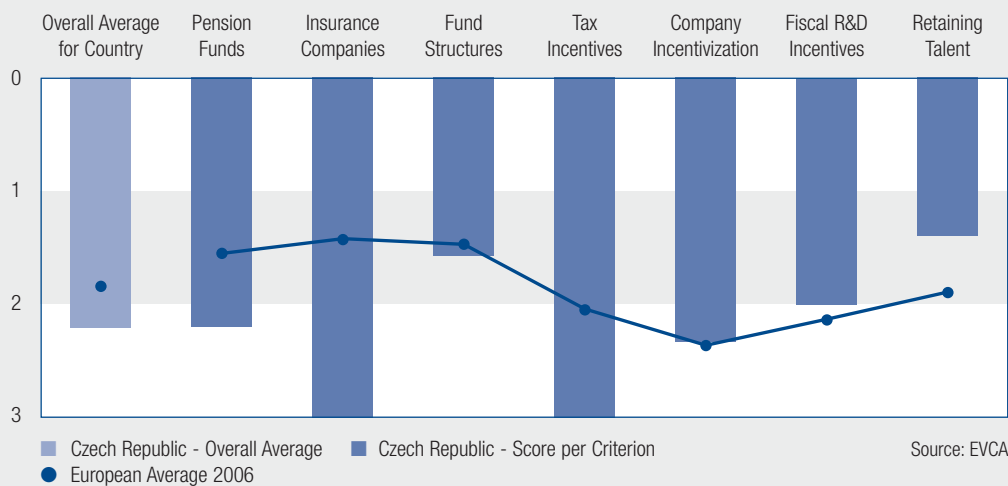
2. Current situation

The tax and legal environment for private equity and venture capital is unfavourable in the Czech Republic. This is particularly because national regulation does not allow pension funds or insurance companies to invest in private equity and venture capital. Moreover, there are no incentives available to encourage investments in the asset class. On a more positive note, the country has a domestic fund structure suitable for private equity and venture capital investments.

With regard to the situation for investee companies, the Czech Republic has significantly improved the provision of fiscal R&D incentives by introducing three new ones over the past two years. However, there is still room for improvement in the field of company incentivization.

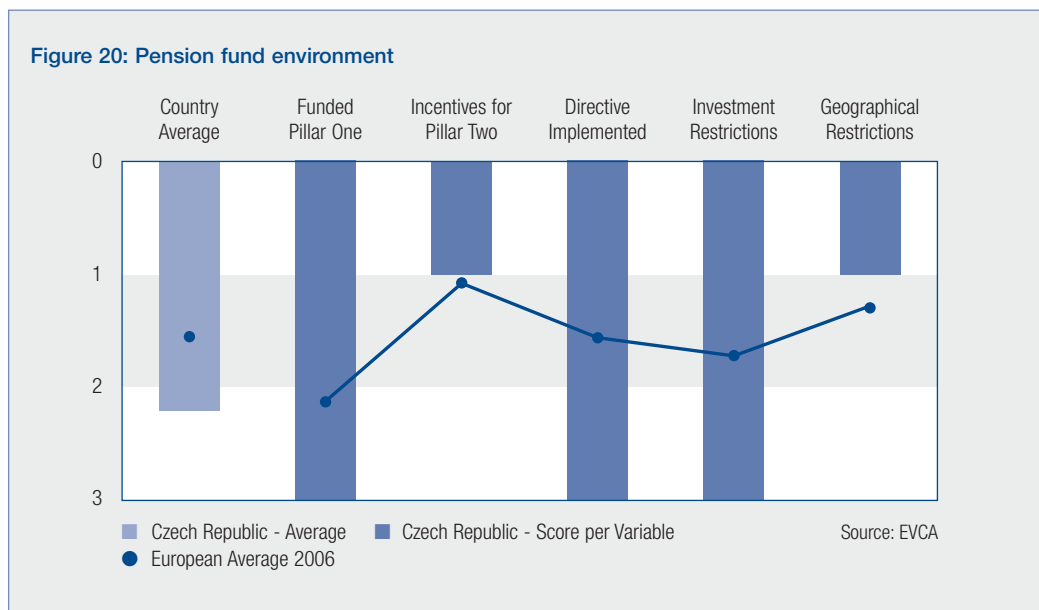
The overall environment for retaining talent is positive but the tax treatment of stock options could still be improved.

Figure 19: Current situation

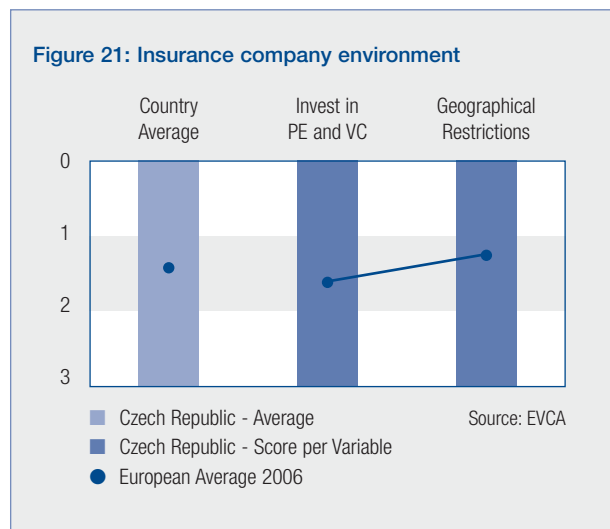


2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Overall, the **pension fund** environment in the Czech Republic is unfavourable. There is no funded pillar one pension system, but incentives for pillar two pension plans are available. Furthermore, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has not been implemented and national Czech regulation in principle does not allow pension funds to make investments in private equity and venture capital. Regarding geographical restrictions, pension funds are entitled to invest only in those countries that are members of the OECD.

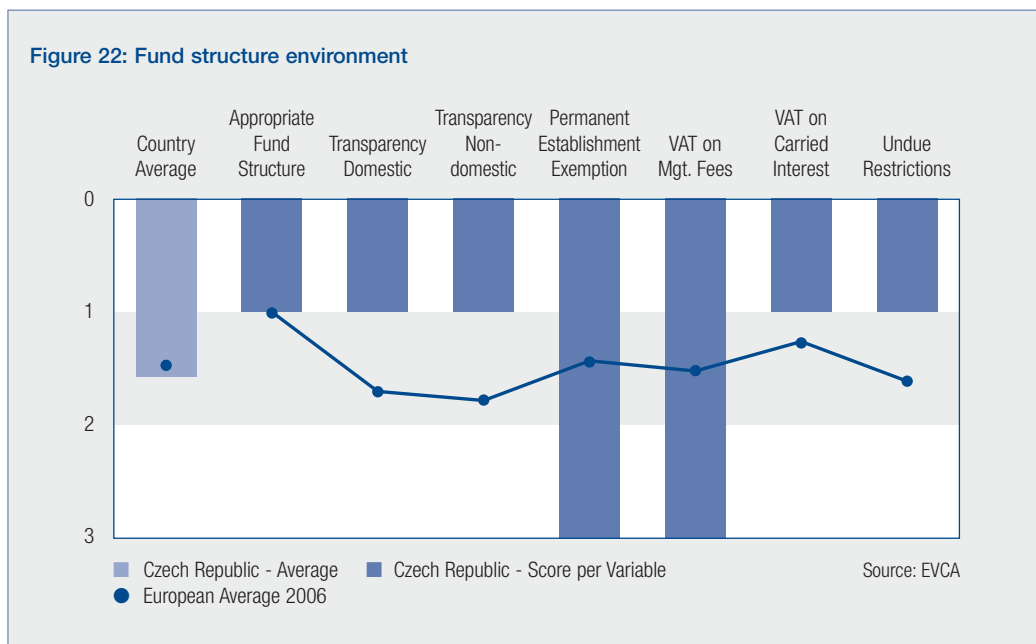


2.1.2. The **insurance company** environment could be largely improved as well. In the Czech Republic, insurance companies are not allowed to invest in private equity (PE) and venture capital (VC), neither in their home country nor in other European countries.



2.1.3. Fund structures

The Czech General Partnership (*v.o.s.* or *verejna obchodni spolecnost*) is a suitable, though not dedicated, fund structure for private equity and venture capital investments, which is tax transparent for domestic and non-domestic investors. However, any non-domestic investor investing through a General Partnership may be deemed to have a permanent establishment in the country. Whereas the fund structure does not offer the ability to avoid paying VAT on management fees, carried interest is not liable for VAT if structured as capital gains. Finally, there are no undue restrictions on the type of investments undertaken.



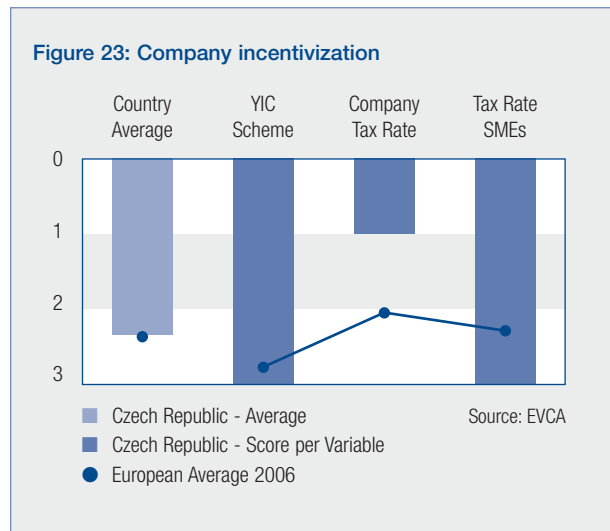
2.1.4. Tax incentives for private equity and venture capital

The Czech Republic does not provide any form of tax incentive to encourage investments in private equity and venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

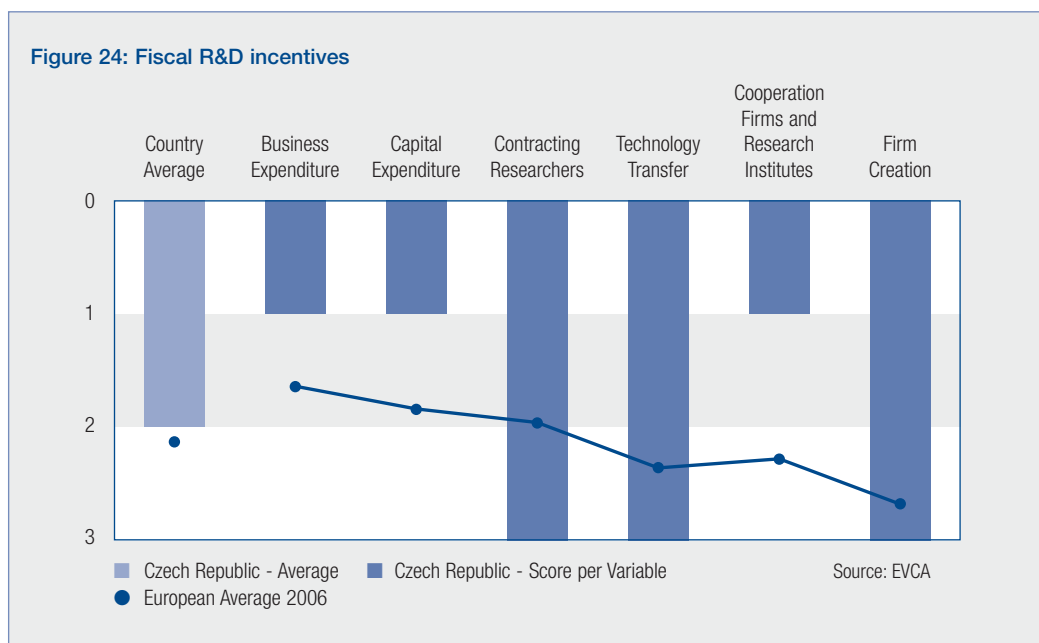
There is neither a scheme for young innovative companies (YIC) available nor a special company tax rate for small and medium-sized enterprises (SMEs). The nominal company tax rate has been lowered from 26% to 24%, which is below the European average of 26.2%.



2.2.2. Fiscal R&D incentives

The Czech Republic has made a lot of improvements in the field of fiscal R&D incentives. Whereas in 2004 it did not provide any fiscal R&D incentives, it now has fiscal incentives for business R&D expenditure, R&D capital expenditure and cooperation between firms and research institutes/universities. Thanks to a new incentive effective from the 2005 tax period, there is a 100% additional deduction of R&D costs and a 100% additional deduction of depreciation. A new Framework Programme for Support of Technology Centres and Centres of Business Support Services was also approved in 2004.

The Czech Republic does not have fiscal incentives for contracting researchers, technology transfer or the creation of innovative firms.



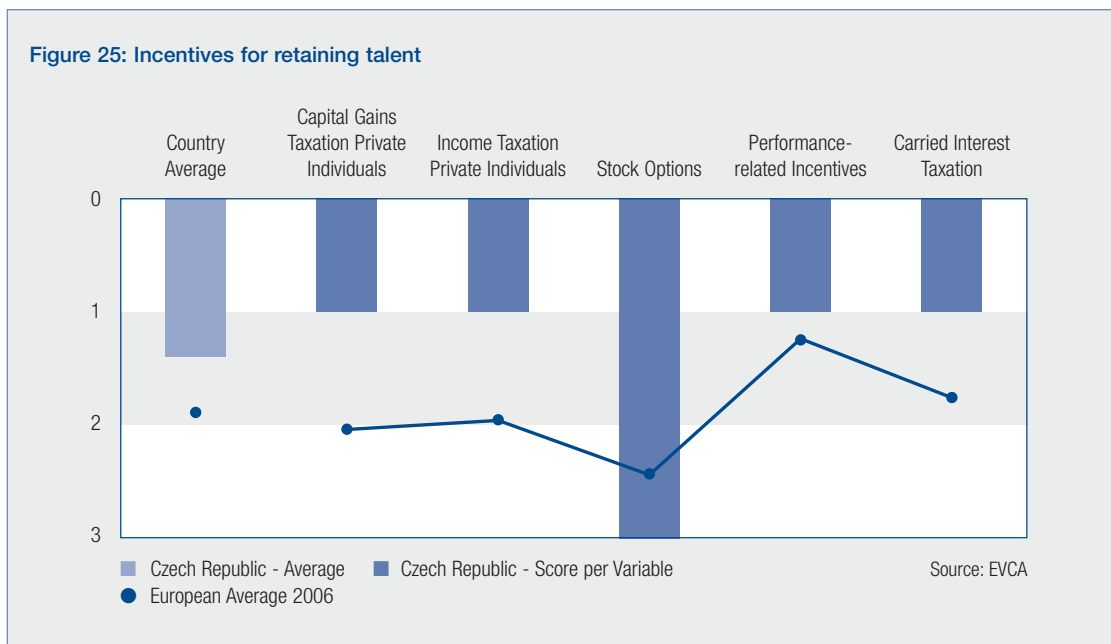
2.3. The environment for retaining talent in investee companies and management funds

The Czech Republic boasts quite a favourable taxation environment for capital gains and income for private individuals, with both national tax rates well below the European averages.

There is no specific capital gains tax in the Czech Republic. Capitals gains are subject to income tax at the regular rate. However, if the securities are held for at least six months, the gains on the disposal of shares will be tax exempt. The highest income tax rate for private individuals is 32%, which is below the European average of 42%.

The environment for stock options of investee company managers and employees is less favourable, as they are taxed upon exercise.

It is possible to incorporate performance-related incentives for fund managers⁷. Carried interest may be taxed in a number of different ways depending on which structure is implemented. Tax is often one of the main drivers for structuring the carried interest.



⁷ However, it should be noted that Czech corporate law is relatively inflexible in allowing incorporation of certain criteria and ownership restrictions on any participation when designing and implementing the scheme.

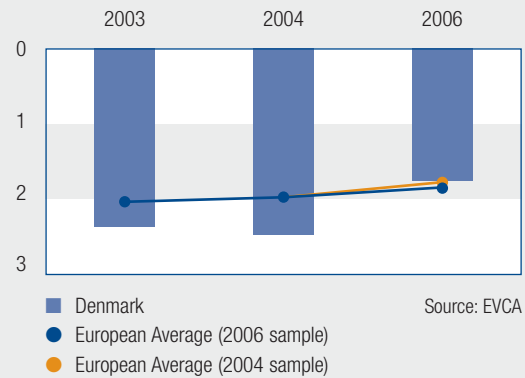
Denmark (1.75)

1. Evolution

The tax and legal environment for private equity and venture capital in Denmark has progressed a lot since 2004. After being at the bottom of the European ranking for two consecutive years, the country has now climbed to a higher position, going from a 2.36 composite score in the initial 2003 analysis to **1.75** in 2006, thus achieving one of the best improvements in the relative positioning of all countries covered.

Whereas in 2003 and 2004 Denmark performed worse than the European average, in 2006 the country scored better than the European average of 1.84.

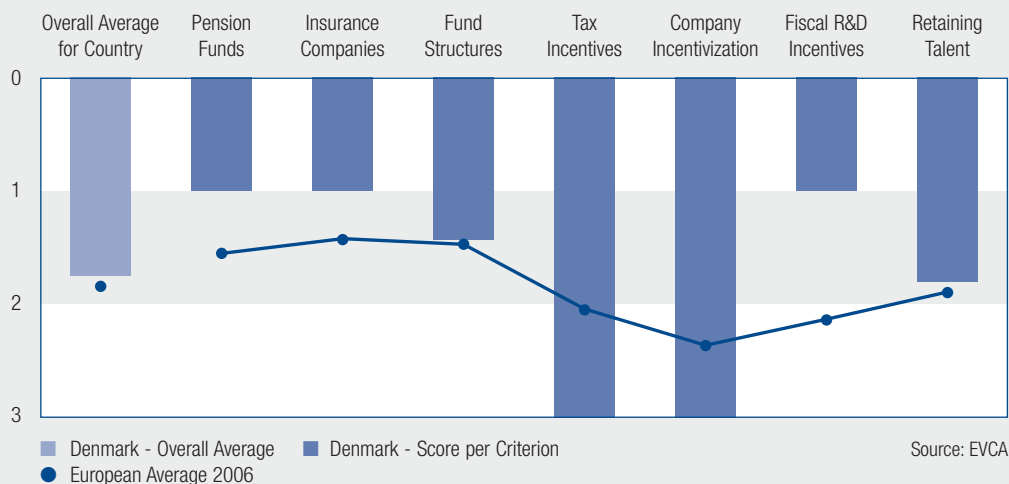
Figure 26: Evolution of Danish tax and legal environment



2. Current situation

Denmark has a favourable tax and legal environment for limited partners and fund managers. Both pension funds and insurance companies can freely invest in private equity and venture capital, and there is a specific fund structure available for investments in the asset class. On the negative side, there are no tax incentives for investing in private equity and venture capital.

Figure 27: Current situation

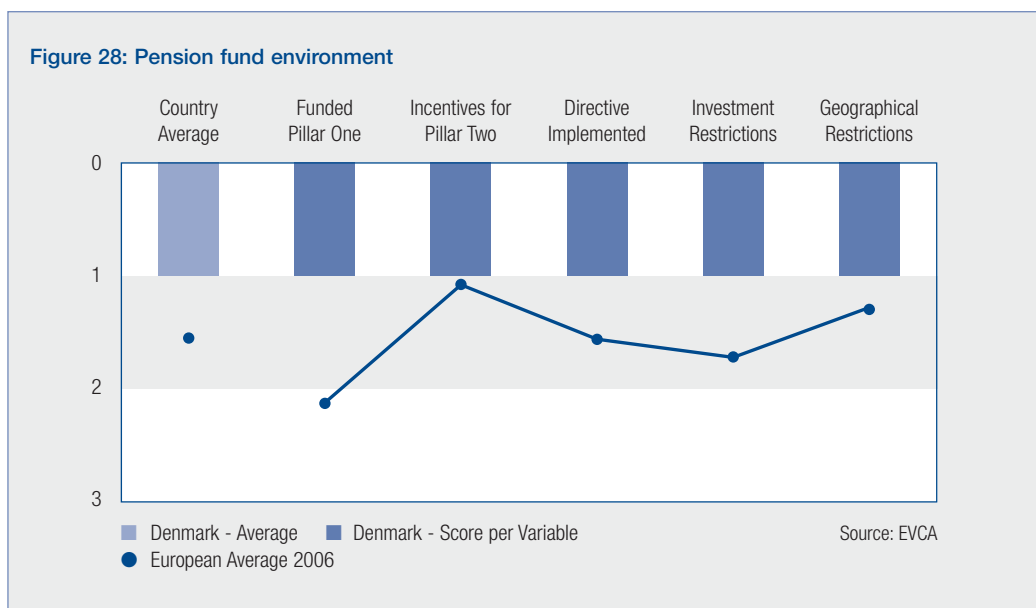


Regarding the environment for investee companies, the country has progressed a lot by introducing several new fiscal R&D incentives. However, there is still room for improvement in the area of company incentivization.

With respect to the environment for retaining talent, the taxation of capital gains and income for private individuals could still be improved.

2.1. The tax and legal environment for limited partners and fund managers

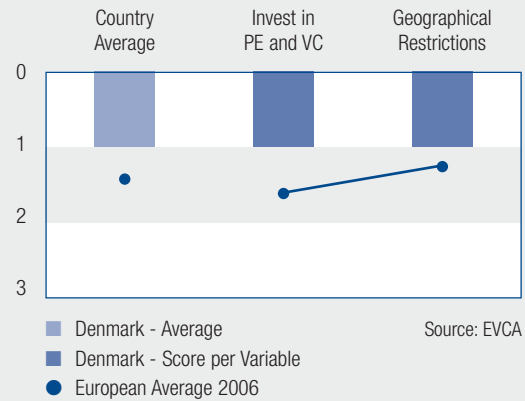
2.1.1. The **pension fund** environment in Denmark is very favourable. The country not only provides a funded pillar one pension system but also tax incentives for complementary pillar two pension systems. Denmark has implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision by way of law no. 1381 of 20 December 2004. Apart from the restrictions defined in the EU Directive, there are no quantitative restrictions for pension funds to invest in private equity and venture capital. Moreover, there are no geographical restrictions for pension funds to invest in other European countries.



2.1.2. **Insurance companies** in Denmark can invest in private equity (PE) and venture capital (VC) under the 10% threshold stipulated in EU Directive 2002/13/EC.

Furthermore, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.

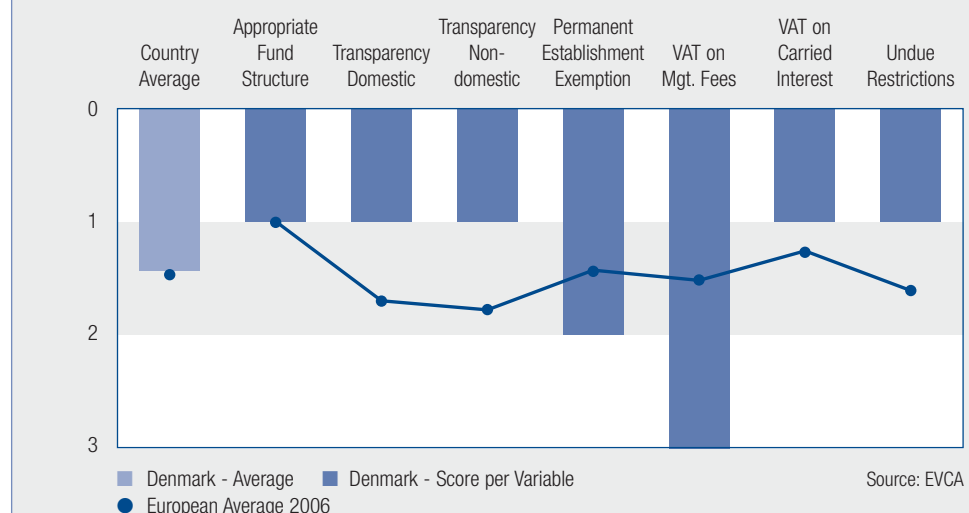
Figure 29: Insurance company environment



2.1.3. **Fund structures**

Denmark has an appropriate, though not dedicated, structure for private equity and venture capital. At the present time, a Limited Partnership is the most used and successful fund structure (this was not the case in previous years). The Limited Partnership is tax transparent for domestic and non-domestic investors, and is free from undue restrictions on investments. Moreover, it provides non-domestic investors with the ability to be exempted from having a permanent establishment when investing through the fund (by ruling). Although there is no VAT on carried interest, management fees are subject to VAT.

Figure 30: Fund structure environment



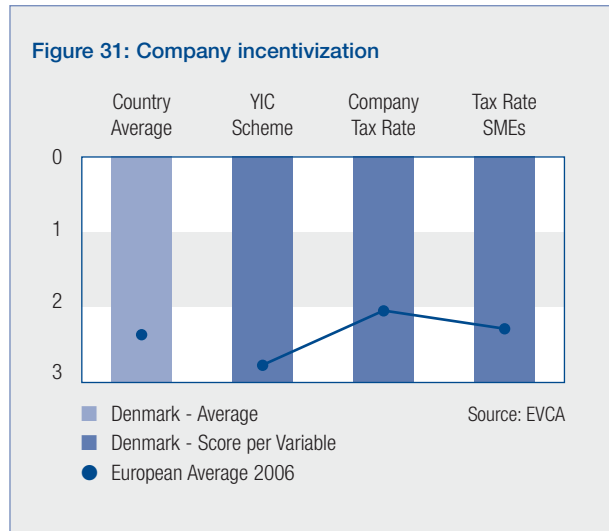
2.1.4. **Tax incentives for private equity and venture capital**

Denmark does not provide any tax incentives for individual investors investing in private equity and venture capital.

2.2. The environment for investee companies

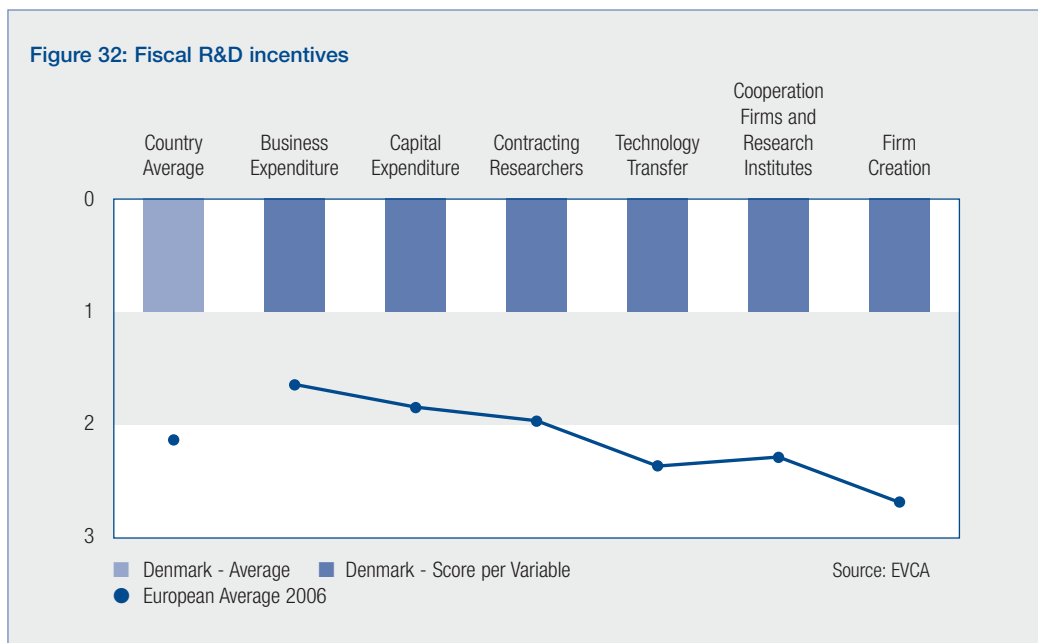
2.2.1. Company incentivization

The environment for company incentivization in Denmark could be improved. The country does not provide a specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC), and the company tax rate of 28% (the same as in 2005) is above the European average of 26.2%. There are no local taxes on corporate income and there is no specific company tax rate for small and medium-sized enterprises (SMEs).



2.2.2. Fiscal R&D incentives

Over the past two years, Denmark has introduced a broad range of new fiscal R&D incentives. The country now provides a fiscal incentive for business R&D expenditure (up to a 150% deduction on certain R&D expenses), R&D capital expenditure, contracting researchers, the transfer of technology, cooperation between firms and research institutes/universities and the creation of innovative firms (e.g. a tax-exempted spin-off may be performed under certain conditions).

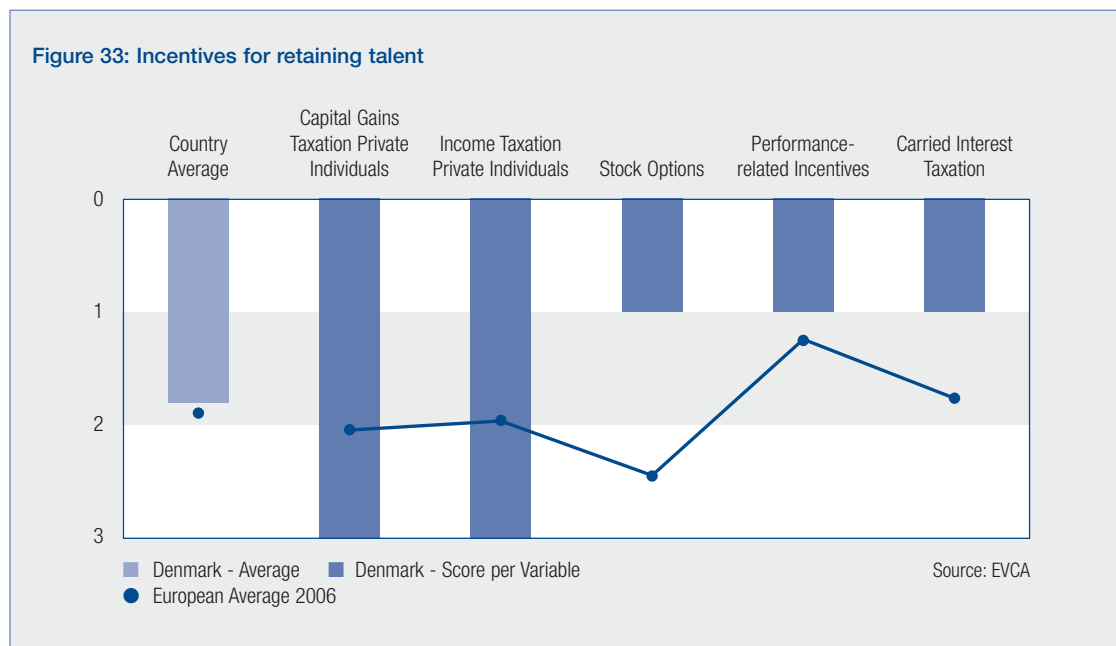


2.3. The environment for retaining talent in investee companies and management funds

The income and capital gains taxation for private individuals is unfavourable. The highest income tax rate for private individuals is 59%, which is well above the European average of 42%. Capital gains for individuals are subject to income tax of up to a maximum of 43%, which is also well above the European average of 15%⁸.

On a positive note, Denmark provides different taxation schemes for stock options of investee company managers and employees, including schemes where the option can be taxed when the underlying shares are sold⁹.

It is also possible to incorporate a performance-related incentive (i.e. carried interest or preference shares) for the fund managers in a Limited Partnership structure. Carried interest is normally structured as part of capital gains and will therefore be subject to capital gains tax for the general partner/management company.



⁸ A 28% tax rate applies if the individual's total share income for the year in question (i.e. dividends and capital gains on shares) is below a limit of DKK 44,300 (€5,942) for singles and DKK 88,600 (€11,884) for married couples. The 43% tax rate applies if share income exceeds this limit.

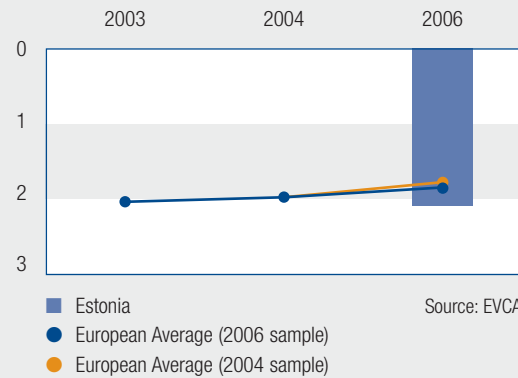
⁹ Please note that in Denmark a different taxation scheme exists where the option can be taxed upon exercise.

1. Evolution

Estonia is one of the countries added to the EVCA Benchmark study this year. Therefore, a comparison of the country's current situation with respect to previous years is not possible.

Although Estonia has obtained an average of **2.08**, which puts the country in the second half of the overall ranking, it is still ahead of other newly added countries and ranks close to the European average of 1.84.

Figure 34: Evolution of Estonian tax and legal environment



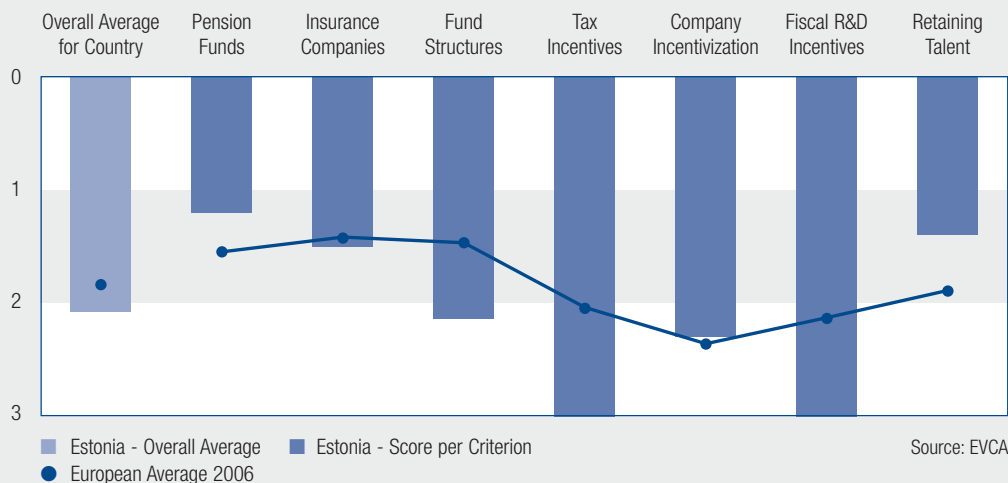
2. Current situation

The tax and legal environment for the development of the private equity and venture capital industry is quite unfavourable in Estonia, mainly due to the tax treatment of institutional investors. Limited partners and fund managers, pension funds and insurance companies are still faced with quantitative restrictions when investing in the asset class. Although there is a suitable domestic fund structure for private equity and venture capital, it is not tax transparent for domestic and non-domestic investors, and not free from undue investment restrictions. Furthermore, the country does not provide any tax incentives for investing in the asset class.

There is also further room for improvement in the situation for investee companies, with regard to both company incentivization and fiscal R&D incentives.

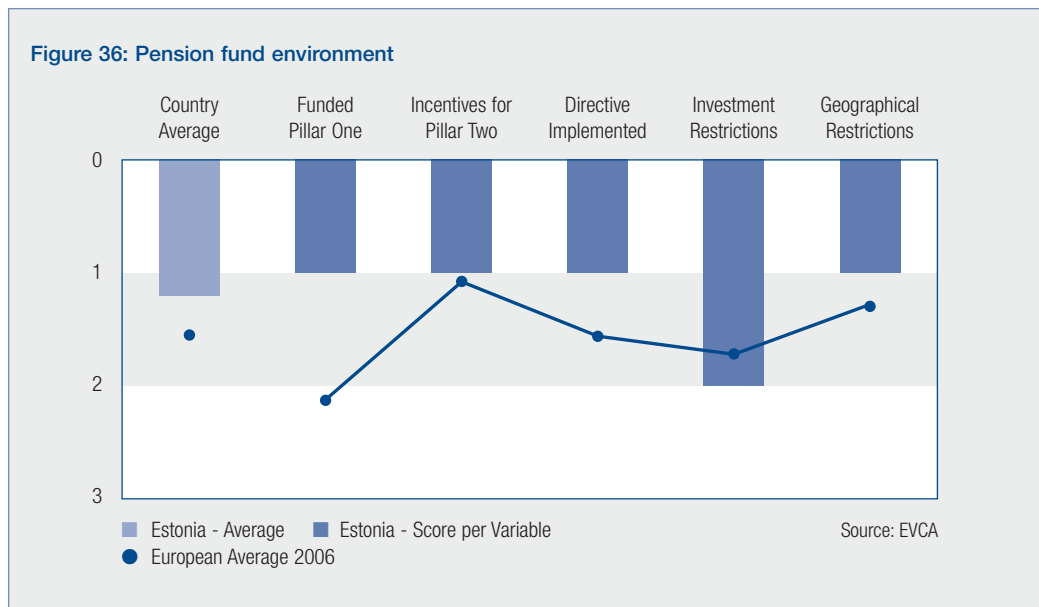
On a more positive note, Estonia has a good environment for retaining talent in investee companies and management funds, although the capital gains taxation for private individuals could still be reviewed.

Figure 35: Current situation

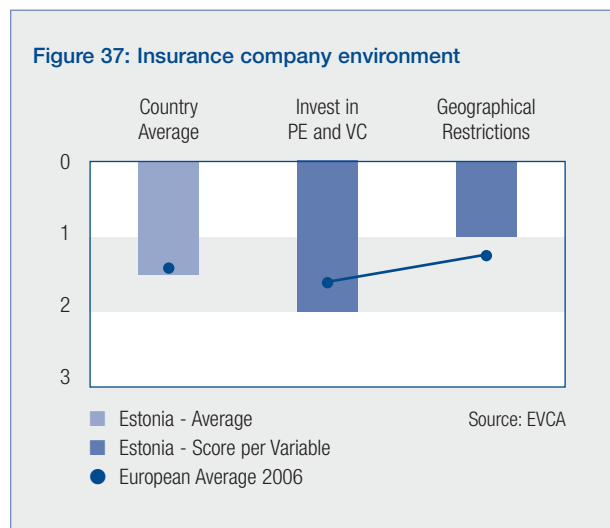


2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Estonia has a favourable **pension fund** environment. The country not only provides a funded pillar one pension system but also incentives for complementary pillar two funded systems. Although EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has been fully implemented, a pension fund investing in the asset class is subject to quantitative restrictions (up to 10% of the total amount of technical provisions, unless the securities in question were issued by a credit institution or another similar establishment supervised by the financial authorities, or unless they are guaranteed by the state. Additionally, no more than 5% can be invested in securities emitted by the same issuer). There are no geographical restrictions for pension funds to invest in other European countries.



2.1.2. **Insurance companies** can invest up to 10% of the total amount of technical provisions and up to 5% in the case of securities of one single issuer in private equity (PE) and venture capital (VC). There are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.

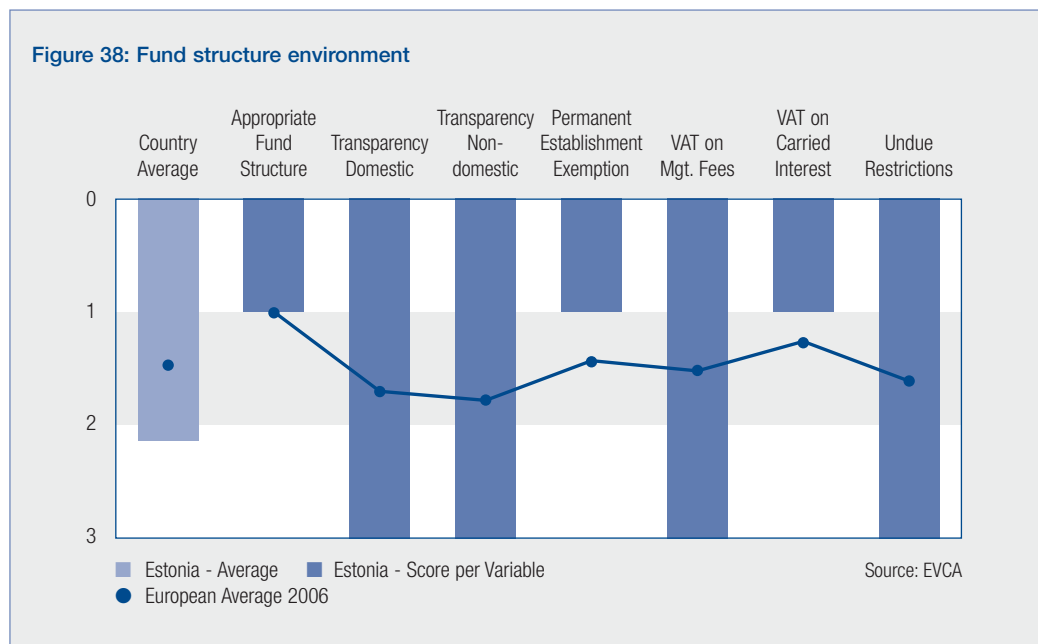


The main impediment to insurance companies investing in private equity and venture capital is the obligation to invest only in shares that can be divested within a short period of time. Such a constraint is not compatible with the usual private equity and venture capital business model of medium to long-term commitment.

2.1.3. Fund structures

No specific structure has been devised for private equity and venture capital investments, and in practice, those investments are mostly done through Limited Liability Companies.

The Limited Liability Company is not tax transparent either for domestic or for non-domestic investors. However, non-domestic investors can avoid a permanent establishment in Estonia when investing through this vehicle. Management fees are subject to VAT but carried interest is not. A Limited Liability Company is not free from undue investment restrictions.



2.1.4. Tax incentives for private equity and venture capital

Estonia does not provide any tax incentives for investing in private equity and venture capital.

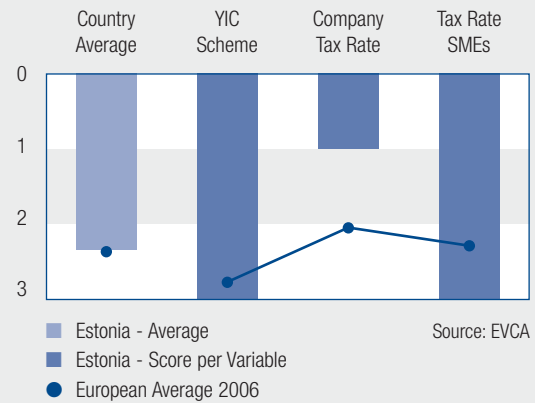
2.2. The environment for investee companies

2.2.1. Company incentivization

Estonia does not provide a favourable environment for company incentivization as there is no specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC). The country also lacks a special company tax rate for small and medium-sized enterprises (SMEs).

On the positive side, since 1 January 2006 the new flat income tax rate in Estonia has been 23% (the previous rate was 24%), which is below the European average of 26.2%.

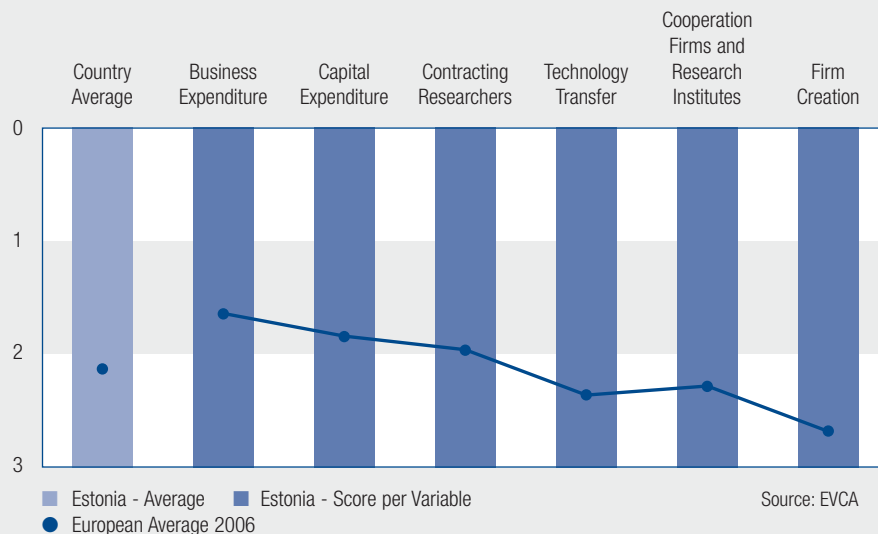
Figure 39: Company incentivization



2.2.2. Fiscal R&D incentives

Estonia does not seem to favour any form of investment in R&D as the country does not provide any of the fiscal R&D incentives evaluated in this study: business R&D expenditure, R&D capital expenditure, contracting researchers, technology transfer, cooperation between firms and research institutes/universities, and the creation of innovative firms.

Figure 40: Fiscal R&D incentives

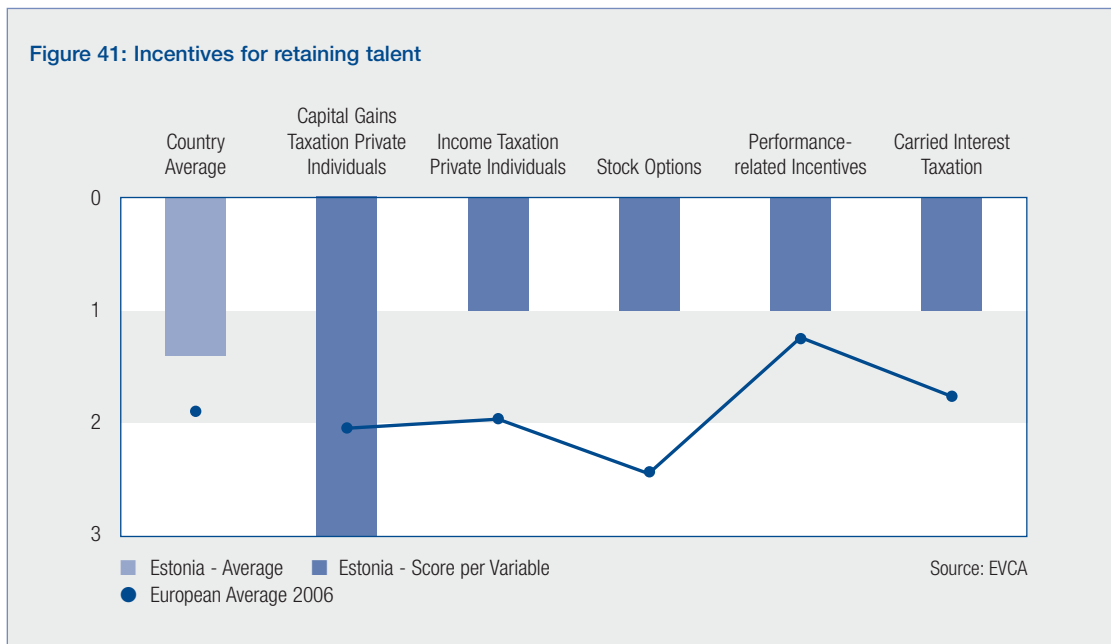


2.3. The environment for retaining talent in investee companies and management funds

Estonia provides a generally favourable environment for retaining talent in investee companies and management funds, even though the capital gains taxation for private individuals could be improved. Capital gains for individuals are taxed as income at the rate of 23%, which is above the European average of 15%. The income tax rate is 23%, a very favourable rate below the European average of 42%.

Estonia also has a favourable tax treatment of stock options for investee company managers and employees, which are taxed only when the underlying shares are sold.

It is possible to incorporate a performance-related incentive for fund managers, and carried interest is taxed as capital gains.



3. Future developments

In the coming years, the income tax rate is expected to be decreased by 1% annually to reach 20% by January 2009.

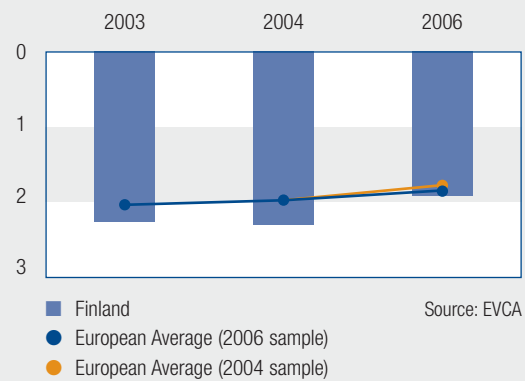
Finland (1.91)

1. Evolution

Between 2003 and 2004 the Finnish tax and legal environment for private equity and venture capital remained quite stable (a composite score of 2.25 in 2003 compared to 2.30 in 2004). Since then the situation has improved considerably, with the country average totalling **1.91** in 2006.

But in spite of this progress, Finland remains ranked close below the European average of 1.84.

Figure 42: Evolution of Finnish tax and legal environment



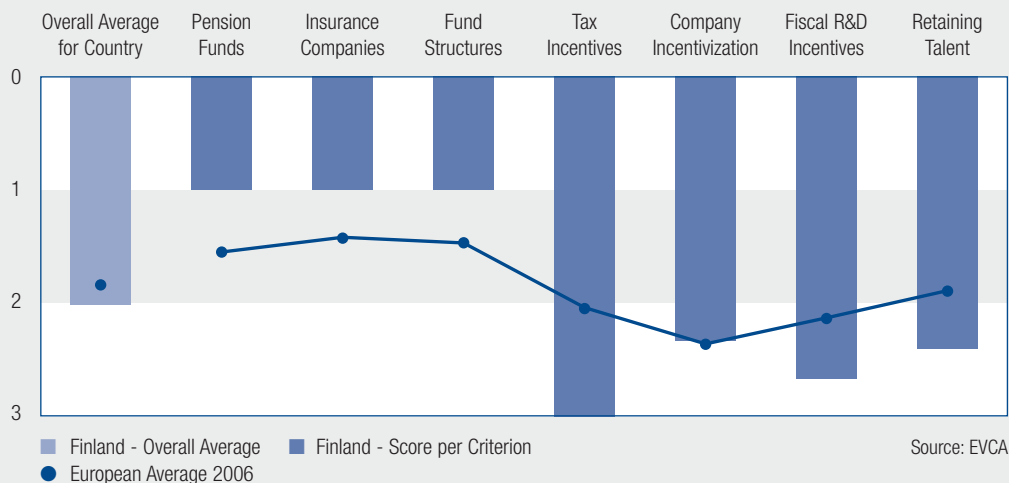
2. Current situation

The general Finnish environment for private equity and venture capital could be improved in a number of areas.

Finland's situation is extremely favourable for pension funds and insurance companies, which – apart from the EU legislation – do not have to face any constraint when investing in the asset class. In addition, an appropriate domestic fund structure is available, scoring positively for each of the six variables assessed.

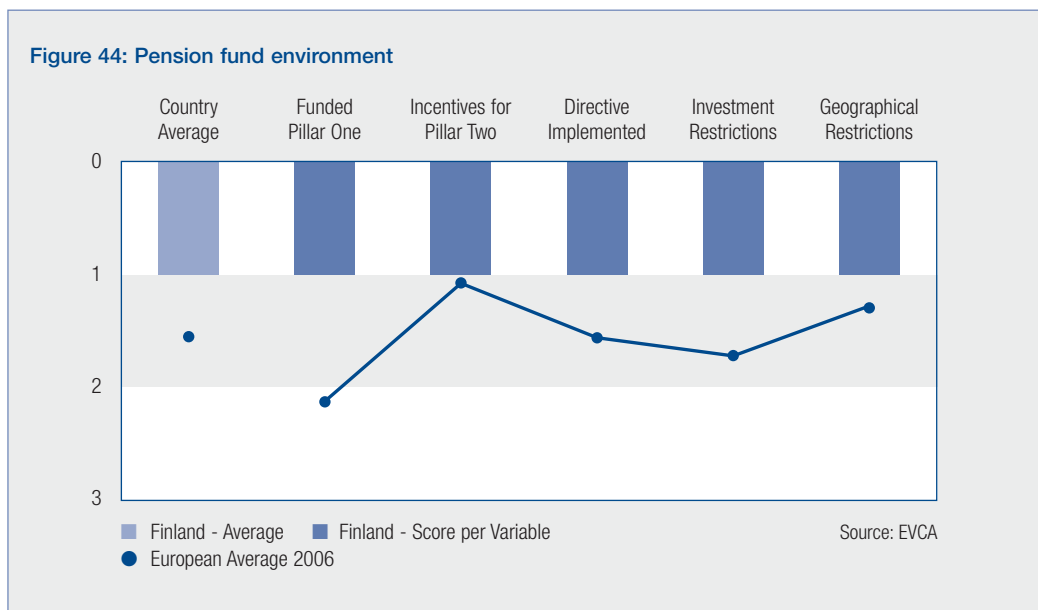
However, there are no tax incentives for private equity and venture capital investments and only few to encourage R&D activity. Moreover, the environments for company incentivization and for retaining talent are weak, partly due to the particularly high capital gains and income tax rates for private individuals.

Figure 43: Current situation



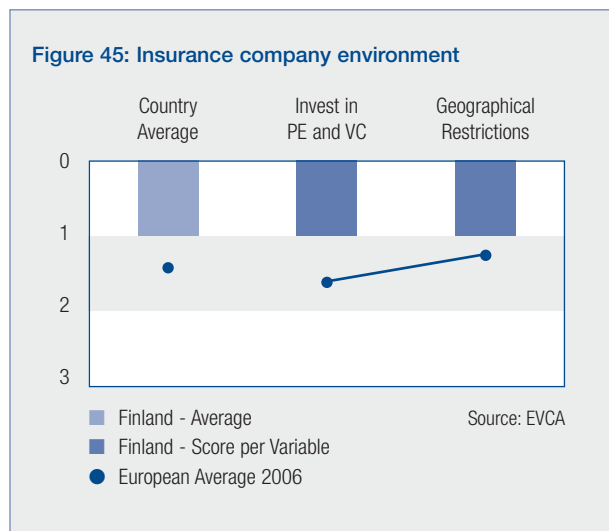
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Finland boasts a very favourable pension fund environment. Not only does the country provide a funded pillar one pension system, but it also provides incentives for complementary pillar two pension systems. Furthermore, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has been implemented (the related legislation came into force on 1 June 2006) and there are no additional constraints on pension funds to invest in Finland or elsewhere in the European Economic Area (EEA).



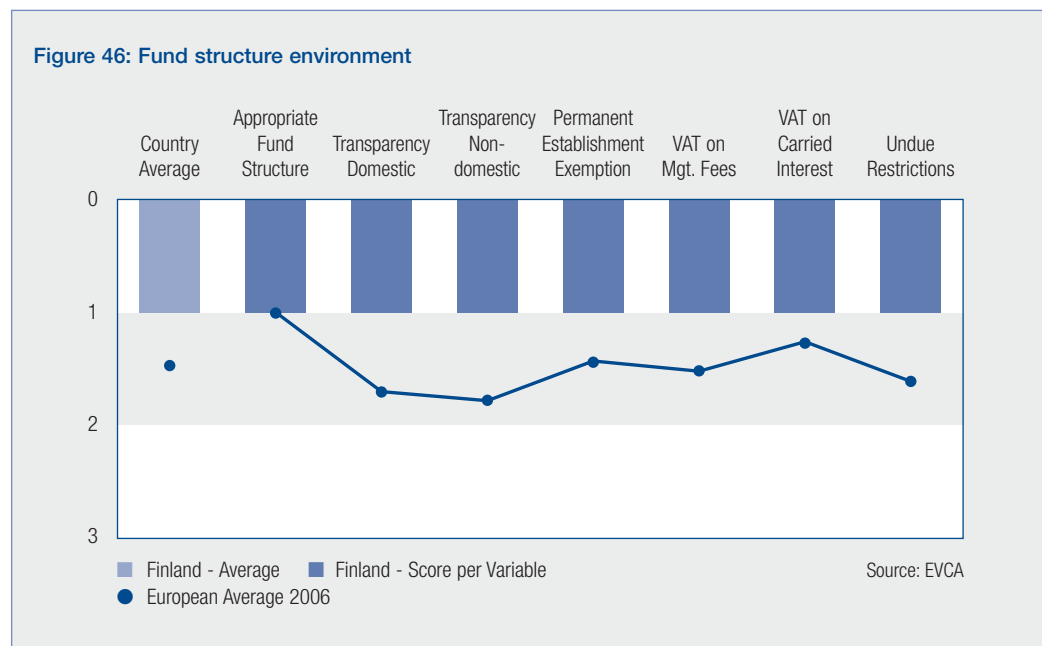
2.1.2. Insurance companies in Finland can invest in private equity (PE) and venture capital (VC), subject to quantitative restrictions that are in line with EU Directive 2002/13/EC.

Apart from that, there are no geographical restrictions for insurance companies to invest in private equity and venture capital abroad.



2.1.3. Fund structures

The most widely used domestic fund structure for private equity and venture capital is the Limited Partnership company (*Kommandiittiyhtiö* or *Ky*), which scores positively for each variable. It is tax transparent for domestic investors and usually also for non-domestic investors, and in most cases the participation of international investors in Finnish funds will not create a permanent establishment. Besides, management fees and carried interest are not liable for VAT, and a Limited Partnership company is free from undue restrictions on investments.



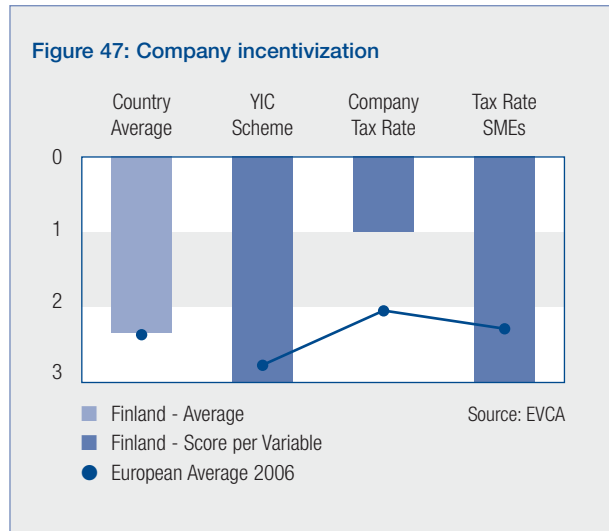
2.1.4. Tax incentives for private equity and venture capital

Finland does not provide any form of tax incentive to encourage investments in private equity and venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

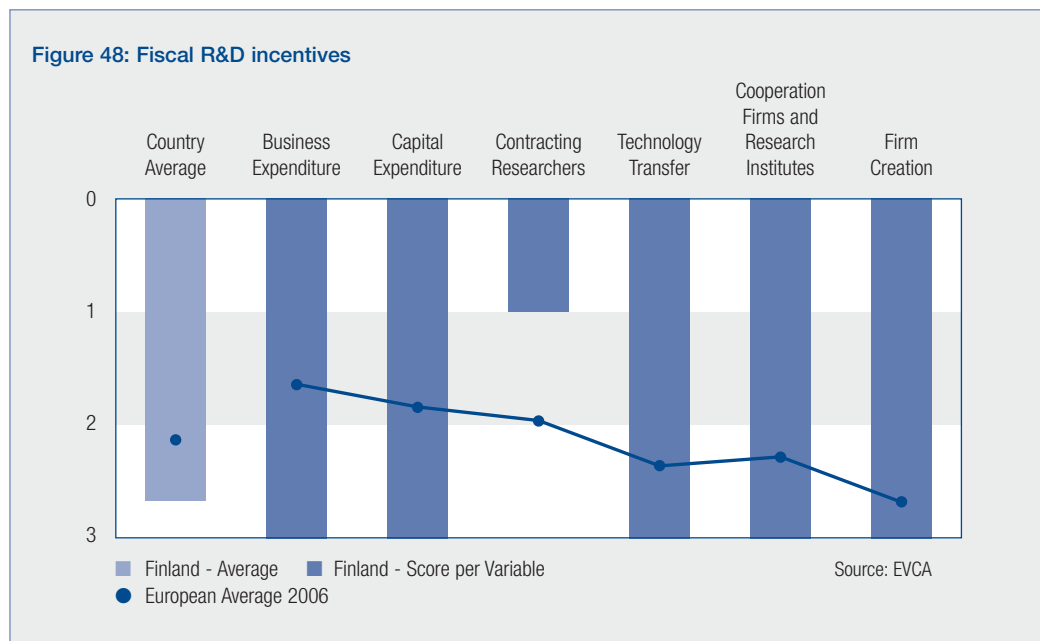
Finland has a less favourable environment with respect to company incentivization. The country does not have a specific scheme for young innovative companies (YIC) and also lacks a special company tax rate for small and medium-sized enterprises (SMEs). On the positive side, by decreasing the company tax rate from 29% in 2004 to 26% in 2006, it has fallen slightly below the European average of 26.2%.



2.2.2. Fiscal R&D incentives

There are not many fiscal R&D incentives available in Finland. From the six incentives evaluated in this paper, Finland only provides one for contracting researchers. Qualifying foreign specialists and executives may apply for a special 35% flat-rate tax treatment on their remuneration for work performed in Finland. Moreover, a temporary expatriate regime applies with respect to employment started by 31 December 2007.

There are no fiscal incentives for business R&D expenditure, R&D capital expenditure, technology transfer, cooperation between firms and research institutes/universities or for the creation of innovative firms.



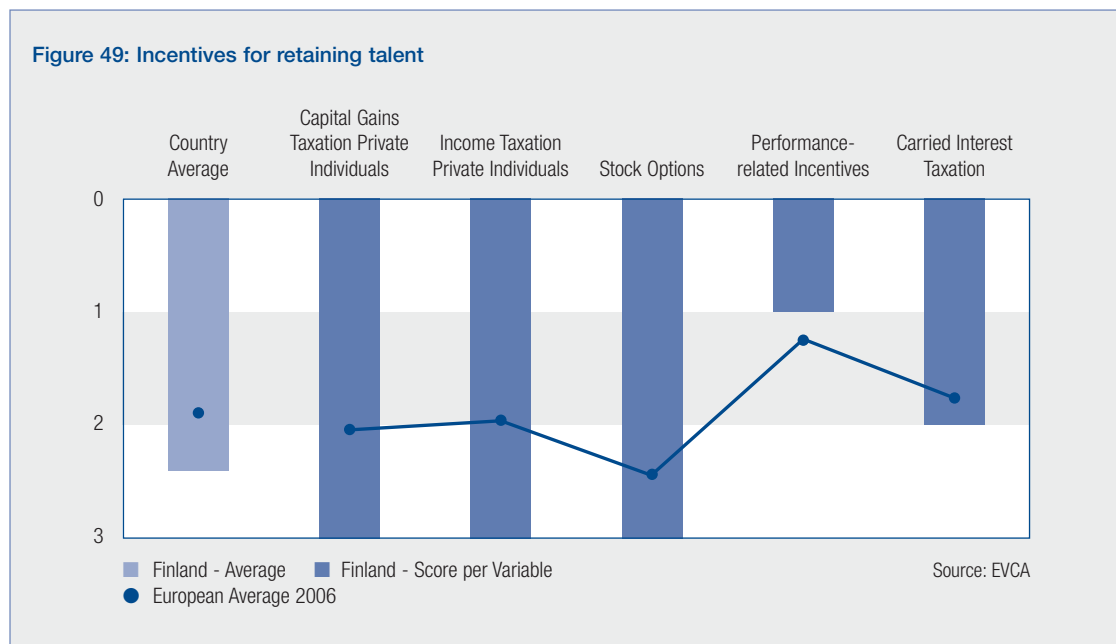
2.3. The environment for retaining talent in investee companies and management funds

There is still room for improving the environment for retaining talent in Finland.

The capital gains and income tax rates for private individuals are a lot higher than elsewhere in Europe. The capital gains tax rate in Finland is 28%, which is above the European average of 15%. Moreover, the aggregate amount of national and local income taxes and health insurance premiums payable is limited to 60%, which is the highest in Europe and well above the European average of 42%.

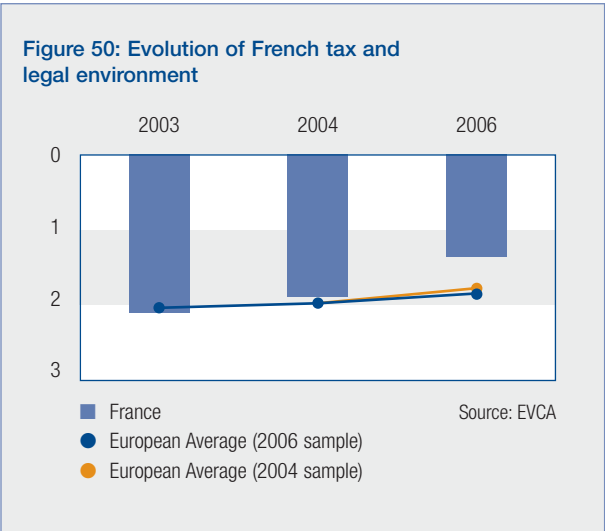
Moreover, stock options of investee company managers and employees are taxed upon exercise.

On a more positive note, there are no burdens to incorporate performance-related incentives for fund managers. Fund managers, usually structured as Limited Liability Companies, pay income tax for their share of profits at the rate of 26%. Carried interest schemes are treated equally.



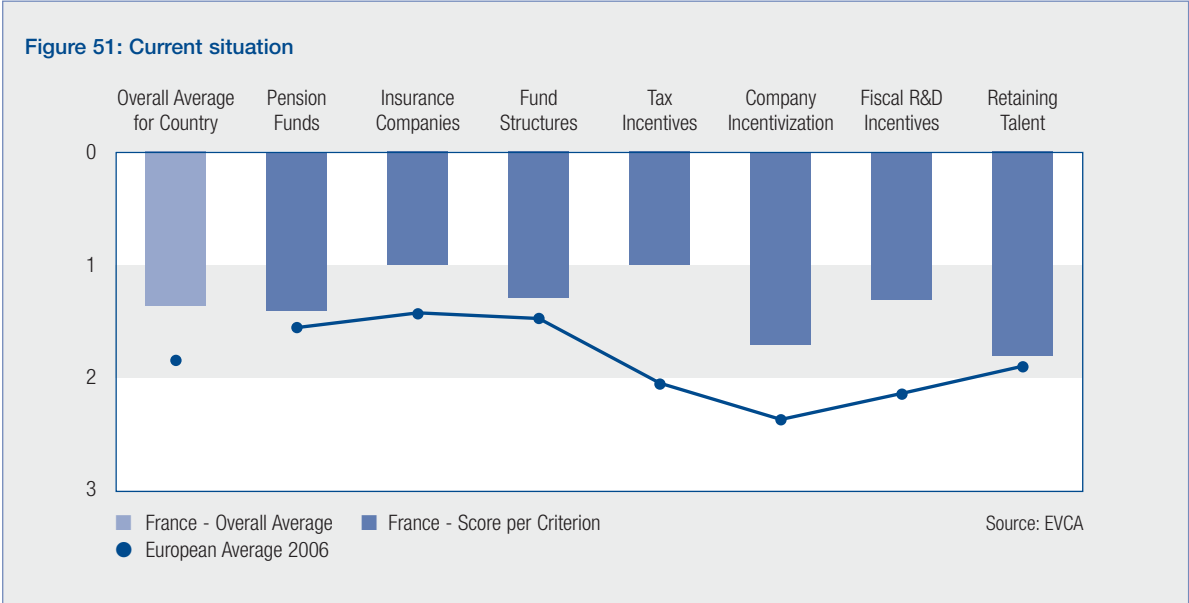
1. Evolution

France is one of the few European countries that has made remarkable improvements to its tax and legal environment for private equity and venture capital over the past four years. At the start of this Benchmark exercise in 2003, France was positioned in the lower part of the European classification with a composite score of 2.09. Since then, France has gradually progressed and has climbed up to second position in the overall 2006 ranking, attaining a country average of 1.36.



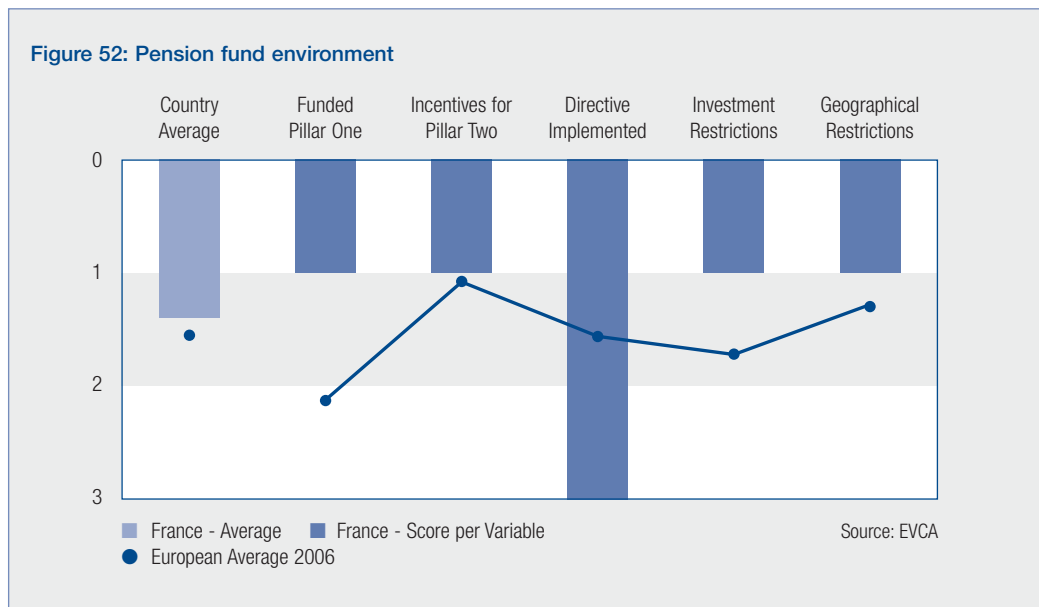
2. Current situation

The overall environment for private equity and venture capital in France is very favourable. It should be noted though that, even if pension funds and insurance companies benefit from a positive environment for investing in the asset class, EU Directive 2003/41/EC has not been implemented yet. The country provides several suitable domestic fund structures, but non-domestic investors do not enjoy completely favourable treatment. There are also tax incentives for investing in private equity and venture capital, and the company incentivization and R&D environments are very good. However, there is further room for improvement in the environment for retaining talent, more specifically with regard to the capital gains and income taxation for private individuals.



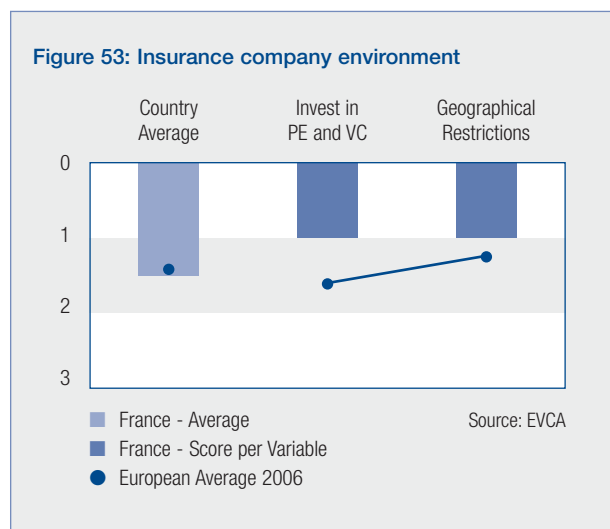
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Overall, the **pension fund** environment in France is very favourable. France not only provides a funded pillar one pension system but also different incentives for complementary funded systems (pillar two). Furthermore, the country does not impose any other quantitative restrictions for pension funds to invest in private equity and venture capital apart from those defined in EU Directive 2003/41/EC, and there are no geographical restrictions for pension funds to invest abroad in other European countries. However, it should be noted that France has only partially notified to the European Commission the implementation of EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.



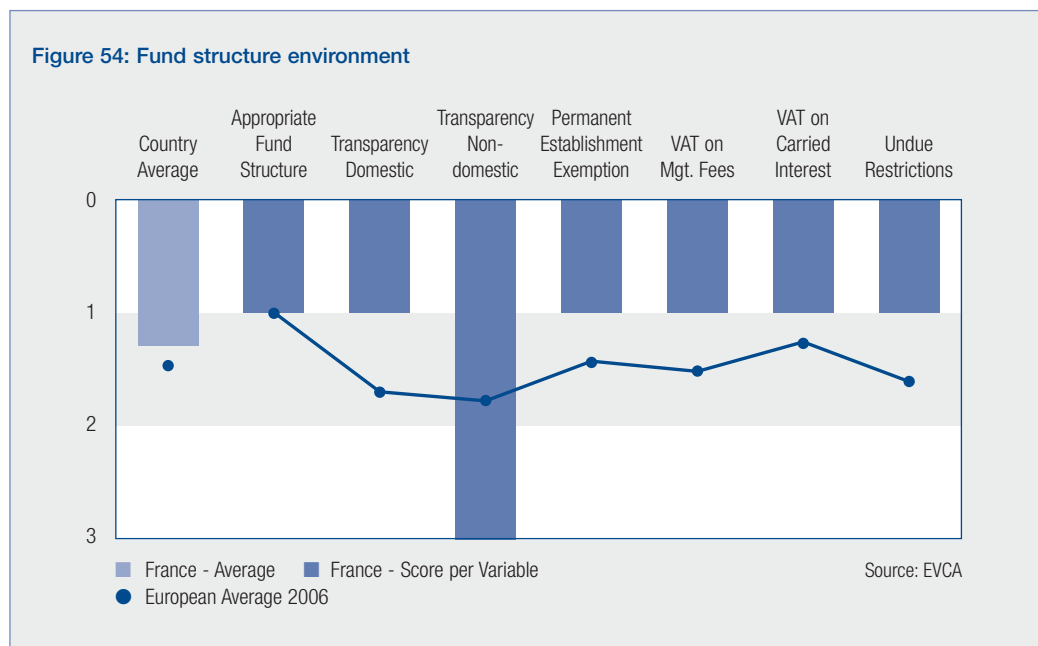
2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC) within the EU quantitative restrictions (a maximum of 10% of their total assets covering technical provisions).

Furthermore, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

The FCPR (*Fonds Commun de Placement à Risques*) is the most commonly used structure for private equity funds¹⁰. Although the FCPR is tax transparent for domestic investors, this is not the case for non-domestic investors. The FCPR provides non-domestic investors with the ability to be exempted from having a permanent establishment when investing through the fund. Moreover, management fees and carried interest are not liable for VAT, and the FCPR is free from undue restrictions on investments.



2.1.4. Tax incentives for private equity and venture capital

France provides the FCPI (*Fonds Commun de Placement dans l'Innovation*) as a tax relief specific to private equity or venture capital to encourage and stimulate investments in particular types of innovative companies.

¹⁰ Although the FCPR is the principal fund structure in France and the only one evaluated in this paper, the FCPI (*Fonds Commun de Placement dans l'Innovation*) and the SCR (*Société de Capital Risqué*) are also possible structures.

2.2. The environment for investee companies

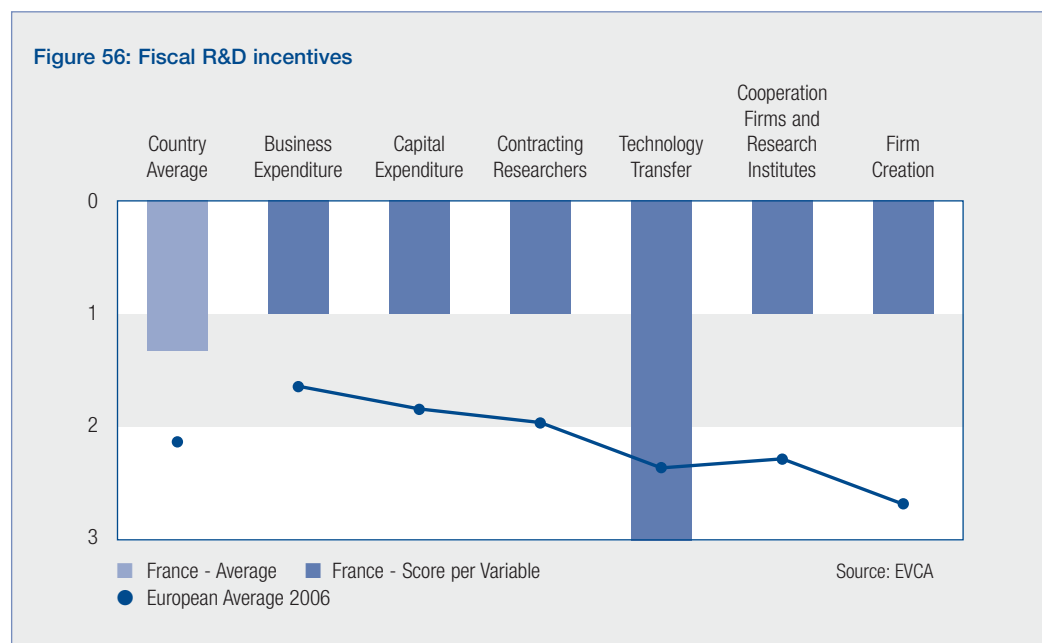
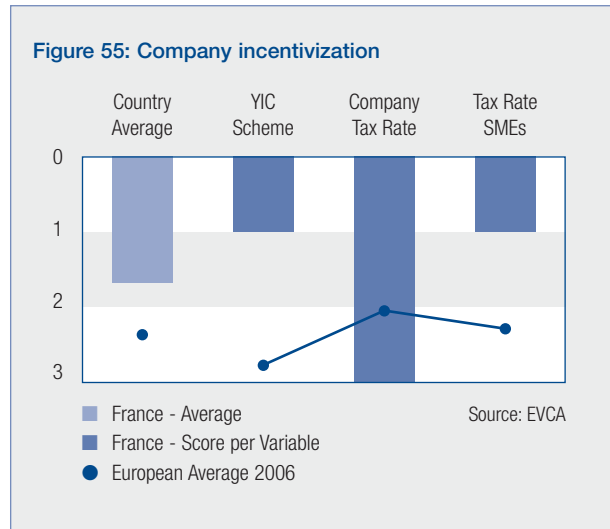
2.2.1. Company incentivization

In 2004, France was the first European country to introduce a specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC or *Jeune Entreprise Innovante* – JEI). Since 2002, a specific company tax rate of 15% applies to the first taxable income of €38,120 per annum for small and medium-sized enterprises (SMEs) fulfilling certain requirements.

However, the company tax rate in France is 33.33% (0.5% lower than in 2005), which remains above the European average of 26.2%.

2.2.2. Fiscal R&D incentives

France has a favourable environment for fiscal R&D incentives. The country provides fiscal incentives for business R&D expenditure (such as the *CIR* or *Crédit d'Impôt Recherche*), R&D capital expenditure and contracting researchers. There are also fiscal R&D incentives for cooperation between firms and research institutes/universities, and for the creation of innovative firms. However, no special tax incentive is provided for the transfer of technology.

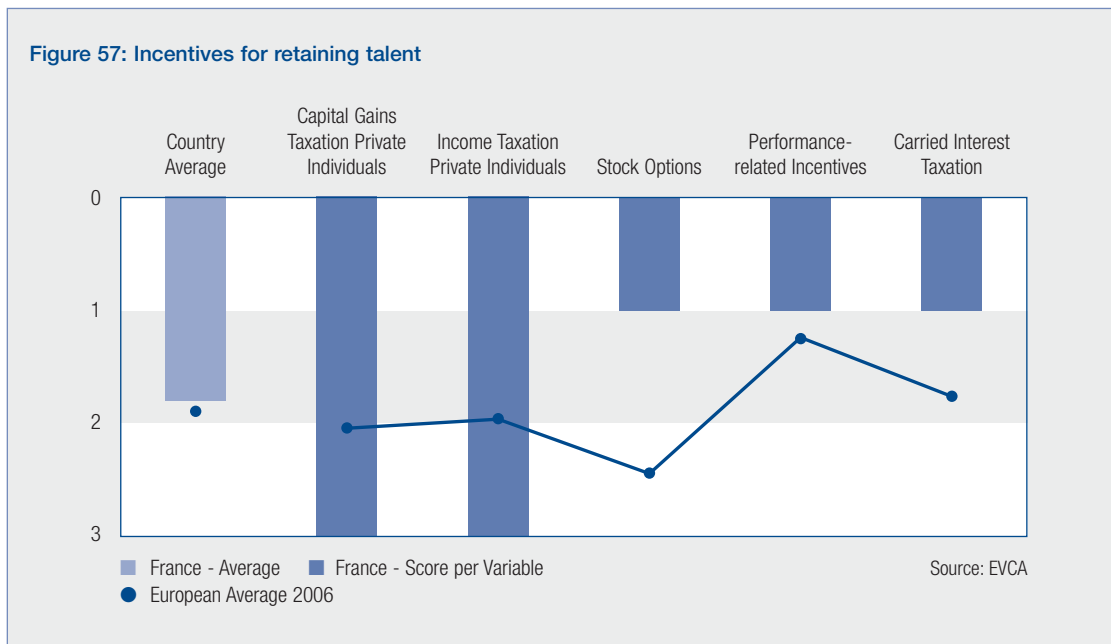


2.3. The environment for retaining talent in investee companies and management funds

Personal income tax rates rise progressively to 48.09%, which is above the European average of 42%. Furthermore, gains derived from the disposition of shares are taxed at 16% plus 11% for social contributions, a total of 27% (provided that the total amount of sales exceeds €15,000), which is above the European average of 15%.

On the positive side, stock options of investee company managers and employees are taxed when the underlying shares are sold.

Performance-related incentives for fund managers can be incorporated provided that certain conditions are fulfilled. Carried interest is taxed as capital gains.



3. Future developments

As of 2007 (relating to assessment year 2006), the top rate of individual income tax will be reduced to 40% and a 60% ceiling on the total amount of tax (including the individual income tax, net wealth tax and local taxes) paid by individuals will apply.

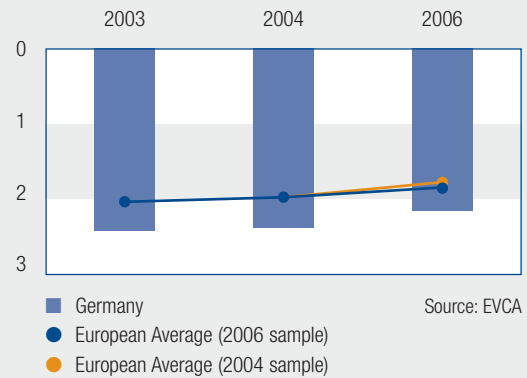
Germany (2.15)

1. Evolution

Since the launch of the EVCA Benchmark in 2003, the German environment for private equity and venture capital has seen only little improvement, thus remaining low in the overall European ranking.

With a 2006 composite score of **2.15**, Germany's environment for private equity and venture capital is not catching up with the development of the European private equity and venture capital industry, thus preventing its national market from strengthening according to its mature economic weight.

Figure 58: Evolution of German tax and legal environment

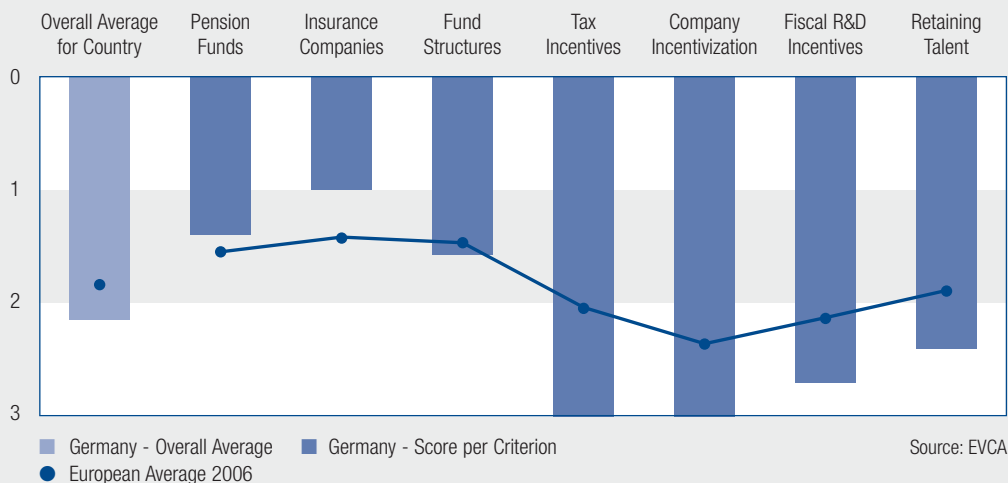


2. Current situation

The overall environment for limited partners and fund managers is quite favourable in Germany with regard to the national pension fund and insurance company legislation which is in line with the respective EU Directives. However, even if the German Limited Partnership is well positioned for this asset class, Germany does not provide any tax incentives for investing in private equity and venture capital.

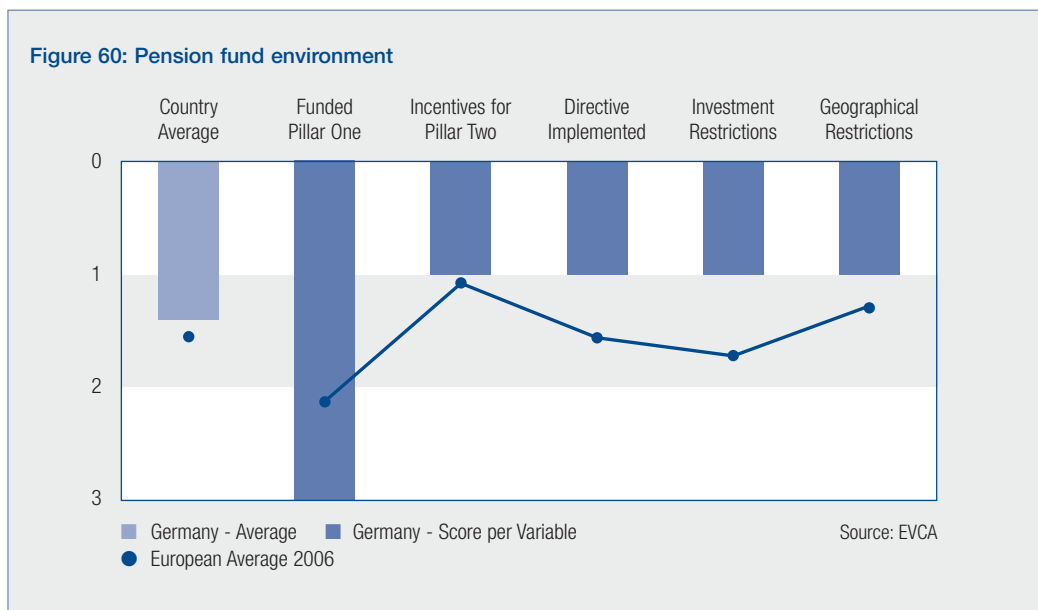
Investee companies would also benefit from extra measures in the areas of company incentivization and fiscal R&D incentives in order to achieve the growth and employment objectives of the Lisbon Agenda. At the same time, there is still room for improvement in the area of retaining talent in investee companies and fund management companies, regarding taxation of capital gains and income for private individuals, stock options and carried interest.

Figure 59: Current situation



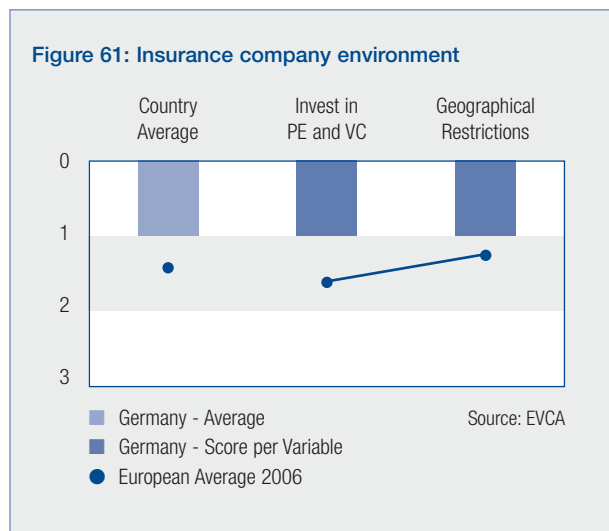
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Overall, the pension fund environment in Germany is favourable. Although there is no funded pillar one pension system, there are fiscal incentives available for pillar two occupational pension plans. Furthermore, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision is fully implemented in Germany and there are no additional quantitative restrictions for pension funds to invest in private equity and venture capital in and outside Germany within Europe.



2.1.2. German insurance companies can invest in private equity (PE) and venture capital (VC) with no quantitative restrictions other than those set by EU Directive 2002/13/EC.

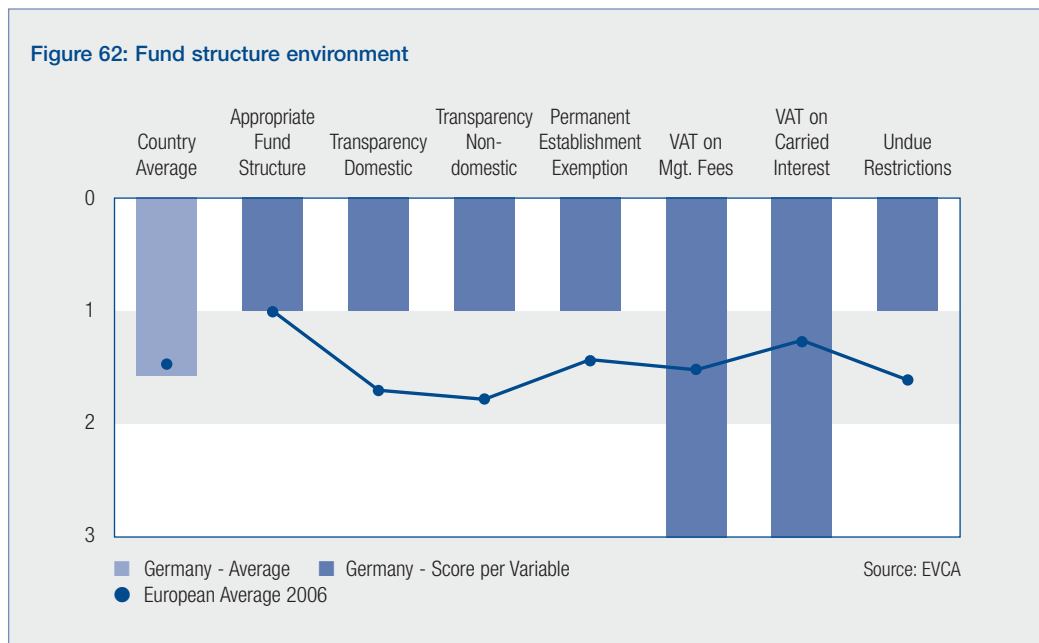
Furthermore, there are no geographical restrictions for insurance companies to invest in the asset class outside Germany within Europe.



2.1.3. Fund structures

The German Limited Partnership (GMBH & Co KG), when considered a non-trading partnership, is an appropriate vehicle to invest in private equity and venture capital. This structure is tax transparent for both domestic and non-domestic investors. When considered as non-trading, the German Limited Partnership provides non-domestic investors with the ability to be exempted from having a permanent establishment when investing through the fund. It is also free from undue investment restrictions.

Management fees are liable for VAT when considered as a fee for services. Likewise, carried interest becomes liable for VAT when considered as a remuneration for services rendered.



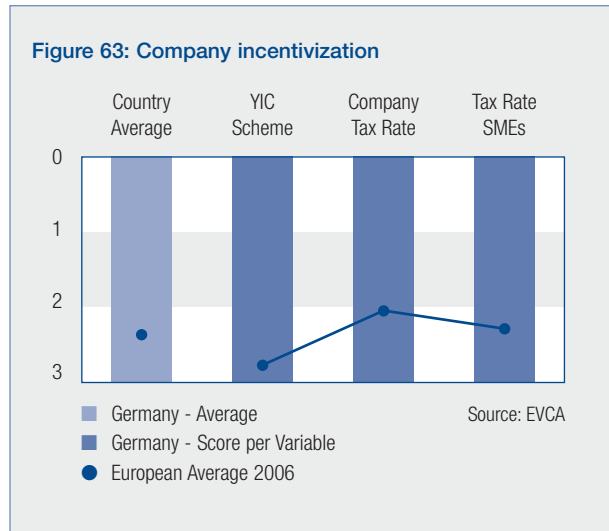
2.1.4. Tax incentives for private equity and venture capital

Germany does not provide any form of tax relief or incentives to encourage or stimulate investments in private equity and venture capital.

2.2. The environment for investee companies

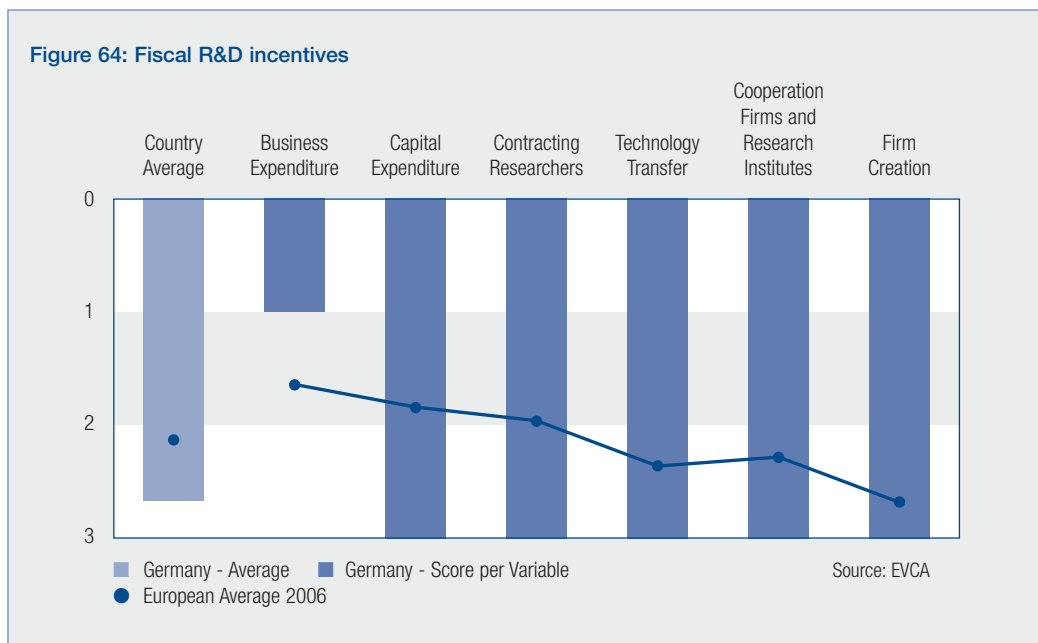
2.2.1. Company incentivization

Germany does not have a specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC). The company tax rate in Germany can be as high as 41% and includes 25% corporate taxes, 5.5% solidarity surcharge and the additional trade tax, which varies depending on the region. This is very much above the European average of 26.2%. Furthermore, the country lacks a specific company tax rate for small and medium-sized enterprises (SMEs).



2.2.2. Fiscal R&D incentives

Germany provides very few fiscal R&D incentives. From the six incentives analysed in this paper, the country only has one for the deduction of business R&D expenditure. No incentives are available for R&D capital expenditure, contracting researchers, the transfer of technology, cooperation between firms and research institutes/universities or the creation of innovative firms.

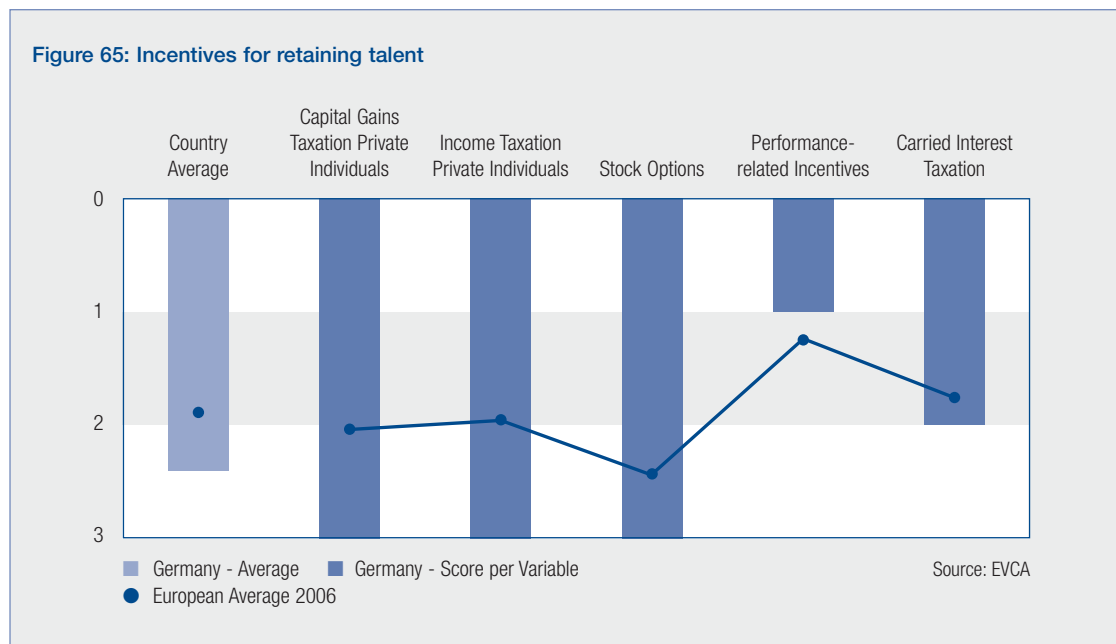


2.3. The environment for retaining talent in investee companies and management funds

With an average of 2.4, the country is ranked below the European average of 1.9. Germany provides quite an unfavourable environment for retaining talent. Capital gains realized by private individuals on participations of more than 1% are taxed at half the income tax rate (i.e. 25%). Participations of less than 1% and held by private individuals for more than one year are tax exempt. The highest income tax rate for private individuals was lowered in 2005 and now comes to 44%, including the solidarity surcharge. This is, however, still above the European average of 42%.

Most stock options for investee company managers and employees are taxed upon exercise. This is the case for schemes where the recipient is not entitled to transfer the option at their own will.

It is possible to structure a performance-related incentive (i.e. carried interest or preference shares) for the fund managers within the German fund structure. Carried interest is usually taxed as income, but under certain conditions and for non-trading partnerships, it can be taxed at half the income tax rate. This would lead to a tax rate similar to a capital gains tax rate.



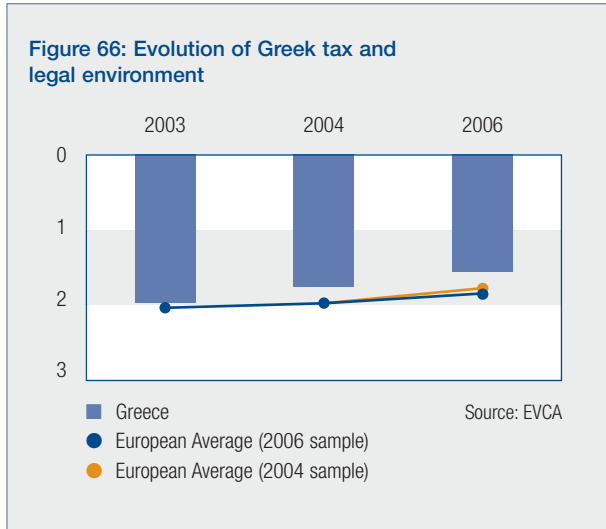
3. Future developments

The German government is currently assessing the environment for private equity and venture capital, with the possibility of implementing further changes in 2007 and/or 2008, together with a corporate tax reform. As part of this reform, the government plans the introduction from 2009 of a definitive tax rate of 25% on all interest income, dividends and capital gains on securities transactions. The one-year holding period required for exemption from capital gains tax (regarded as a speculative period) is to be abolished.

1. Evolution

Greece has maintained its position in the upper part of the overall European ranking since the first EVCA Benchmark paper in 2003.

The country's composite score gradually improved to **1.55** in 2006, leading it to sixth position in the European classification.

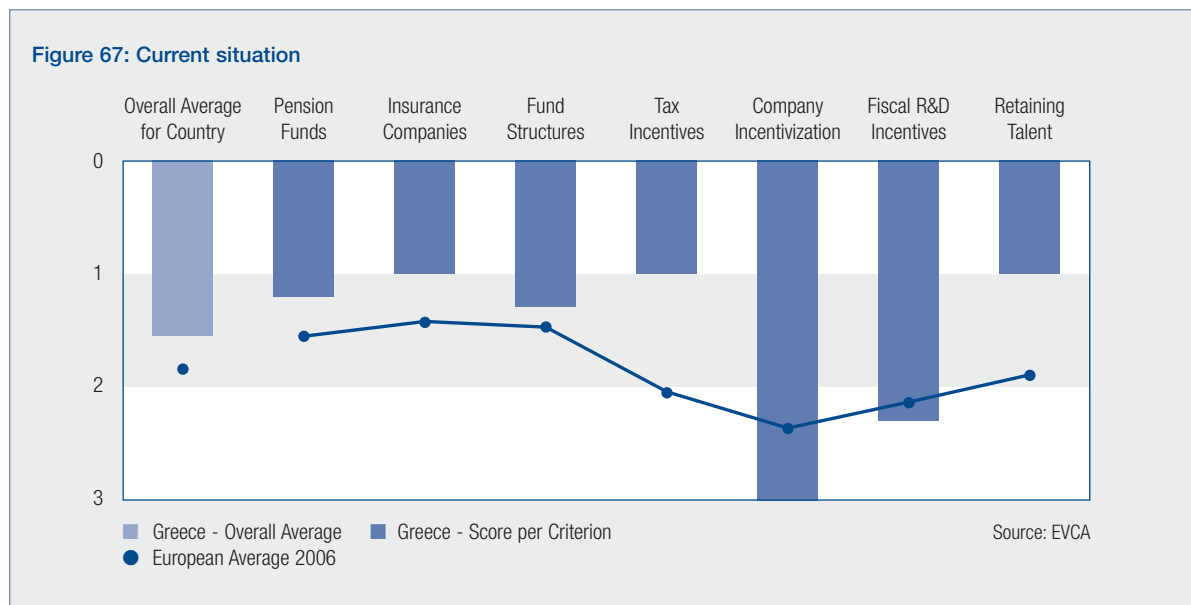


2. Current situation

Despite low activity levels, Greece has a relatively favourable environment for private equity and venture capital.

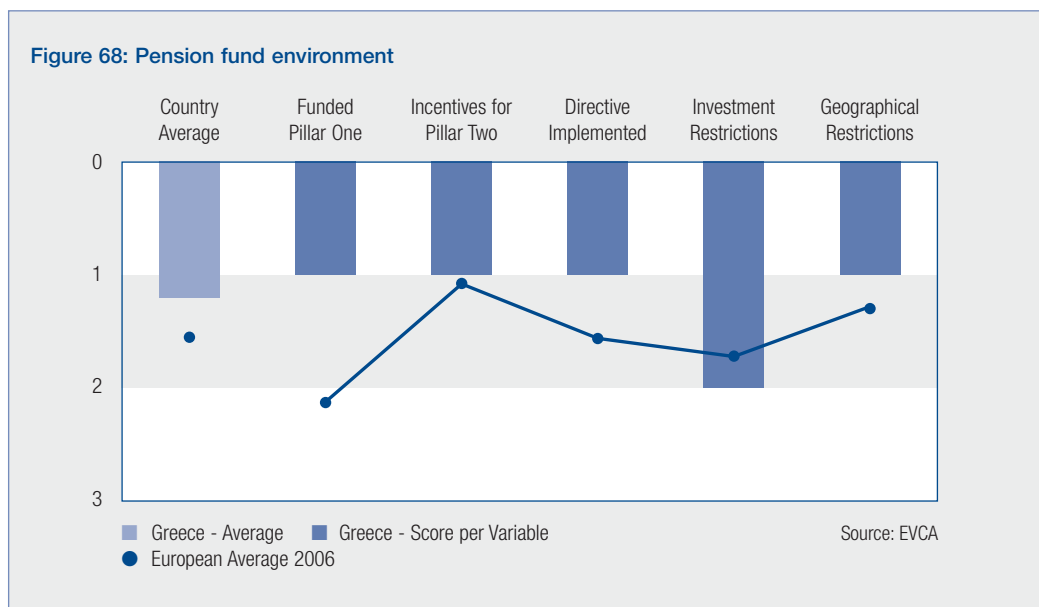
Limited partners and fund managers are able to benefit from a positive tax and legal environment. Not only are insurance companies allowed to invest in private equity and venture capital, but the country also provides a dedicated domestic fund structure and tax incentives for investing in the asset class. However, the environment for pension funds could be improved as they still face quantitative restrictions when investing in the asset class.

Whereas Greece can boast a positive environment for retaining talent, there is still room for improvement in the situation for investee companies, with regard to both company incentivization and incentives to encourage R&D activity.



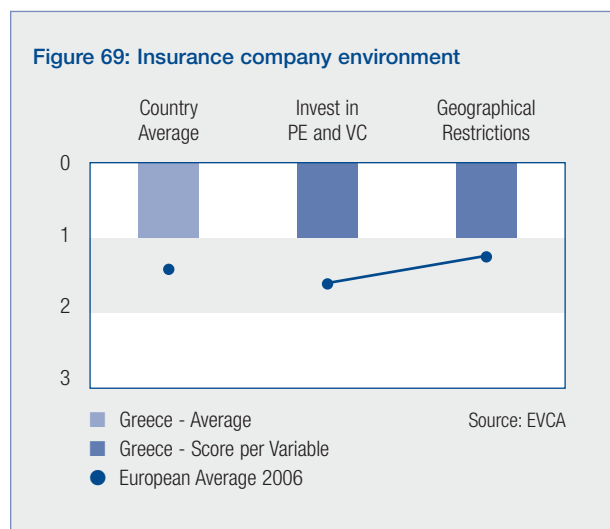
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The **pension fund** situation in Greece is relatively favourable. The country provides a funded pillar one pension system and although the pillar two pension system is not well developed, expenses are tax deductible. Moreover, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has been implemented. Nevertheless, in terms of quantitative restrictions, pension funds can invest only up to 5% in private equity and venture capital and new financial products. At the same time, due to the many restrictions that apply for pension funds, even if they have the potential to invest in the asset class, it is difficult to do so in reality. Investments by pension funds are free from geographical restrictions.



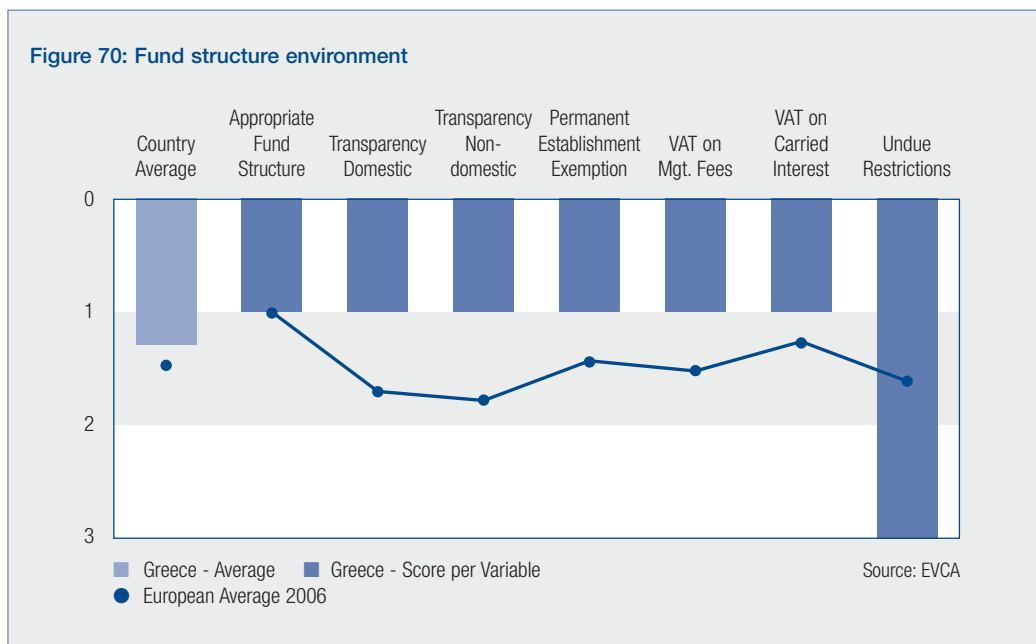
2.1.2. **Insurance companies** in Greece can invest in private equity (PE) and venture capital (VC) without any additional quantitative restrictions beyond those defined in the EU Directive with respect to the allocation by insurance companies to private equity and venture capital.

There are also no geographical restrictions for insurance companies to invest in the asset class outside Greece within Europe.



2.1.3. Fund structures

Greece has an appropriate and dedicated fund structure for private equity and venture capital investments, called AKES (a closed-end venture capital mutual fund, formed as a partnership). This structure is tax transparent for domestic and non-domestic investors, and provides non-domestic investors with the ability to be exempted from having a permanent establishment when investing through the fund. Both management fees and carried interest are not liable for VAT. However, the AKES is not free from undue restrictions and can only invest in non-listed Greek society anonyms and Limited Liability Companies.



2.1.4. Tax incentives for private equity and venture capital

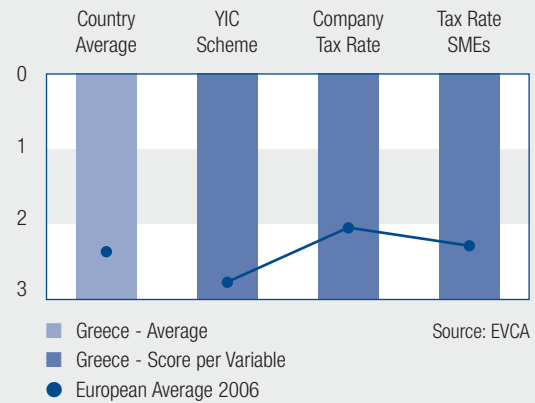
The AKES provides preferential capital gains tax treatment for corporate investors. This can be regarded as an incentive to invest in such a structure.

2.2. The environment for investee companies

2.2.1. Company incentivization

The environment for company incentivization is unfavourable in Greece. The country does not provide a specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC). The company tax rate in 2006 is 29%, which is above the European average (26.2%), but will be lowered to 25% as of January 2007. Greece has no special company tax rate for small and medium-sized enterprises (SMEs).

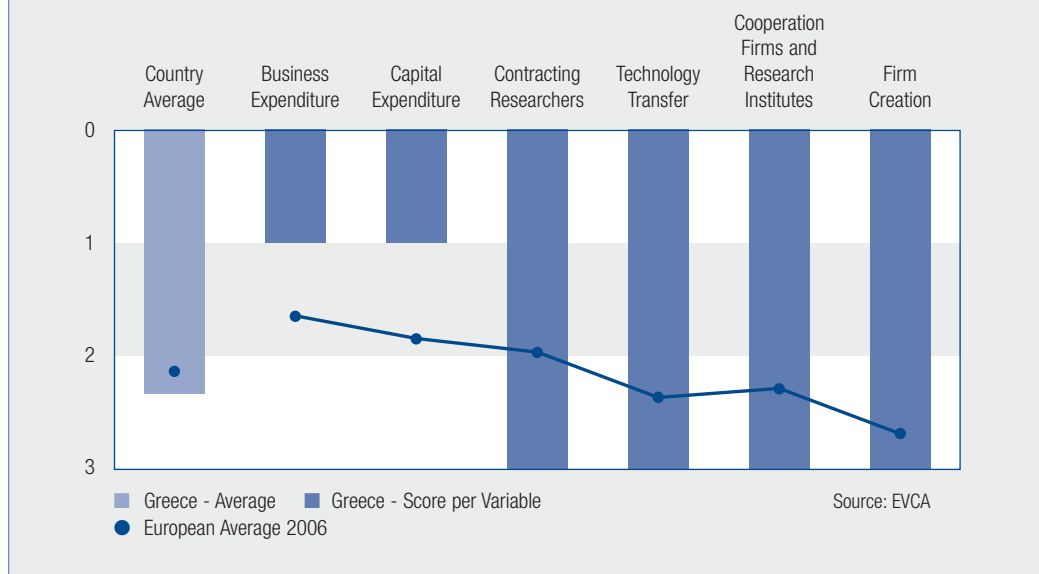
Figure 71: Company incentivization



2.2.2. Fiscal R&D incentives

Greece provides only a very limited number of fiscal R&D incentives with plenty of room for improvement. It allows for the deduction of R&D-related business expenses and R&D capital expenditure. However, there are no fiscal incentives for contracting researchers, technology transfer, cooperation between firms and research institutes/universities or for the creation of innovative firms.

Figure 72: Fiscal R&D incentives

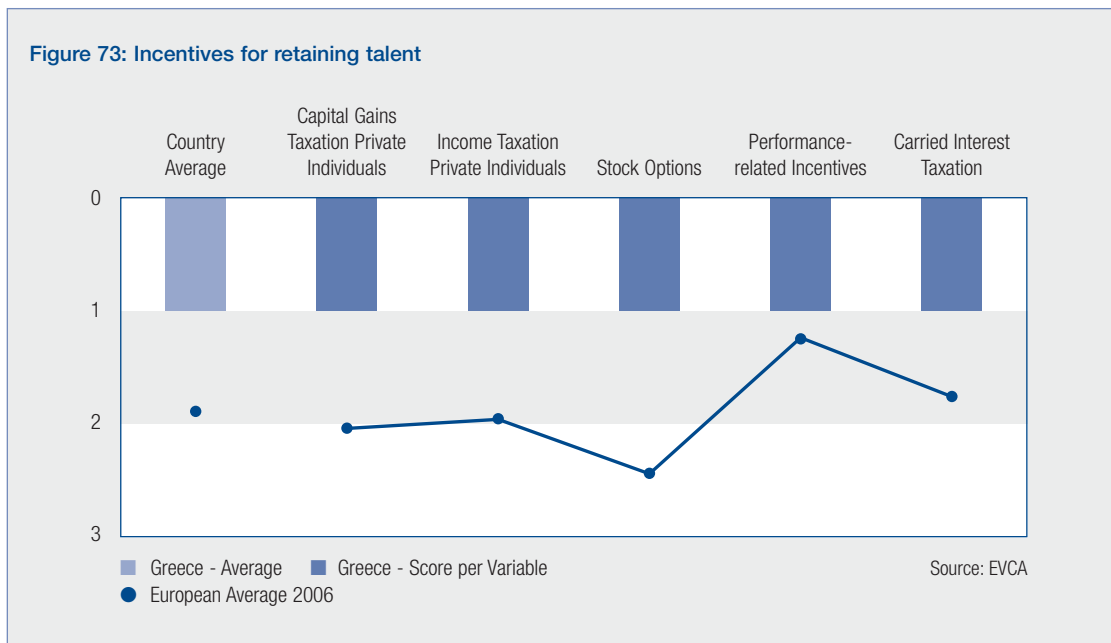


2.3. The environment for retaining talent in investee companies and management funds

Greece has a very favourable environment for retaining talent. Capital gains derived from the sale or transfer of non-listed shares by Greek residents are taxed at the rate of 5% on the transaction value, which is well below the European average of 15%. The highest income tax rate for private individuals in Greece is 40%, again below the European average of 42%.

Stock options for investee company managers and employees are taxed when the underlying shares are sold.

It is possible to structure a performance-related incentive (i.e. carried interest or preference shares) within the AKES and carried interest is taxed as capital gains.



3. Future developments

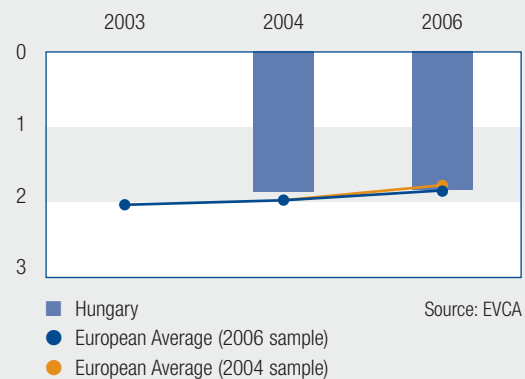
The company tax rate in Greece will be lowered to 25% as of January 2007.

Hungary (1.83)

1. Evolution

Hungary was included in the EVCA Benchmark for the first time in 2004. At that time Hungary obtained a composite score of 1.86, which was better than the European average of 1.97. Since then, the relative positioning of Hungary in the overall European landscape has shifted from the upper third part of the ranking to an average one (a final 2006 score of **1.83** vis-à-vis a European average of 1.84). Hungarian regulation has not been improved recently, while the global environment in its fellow countries has been on the right track.

Figure 74: Evolution of Hungarian tax and legal environment



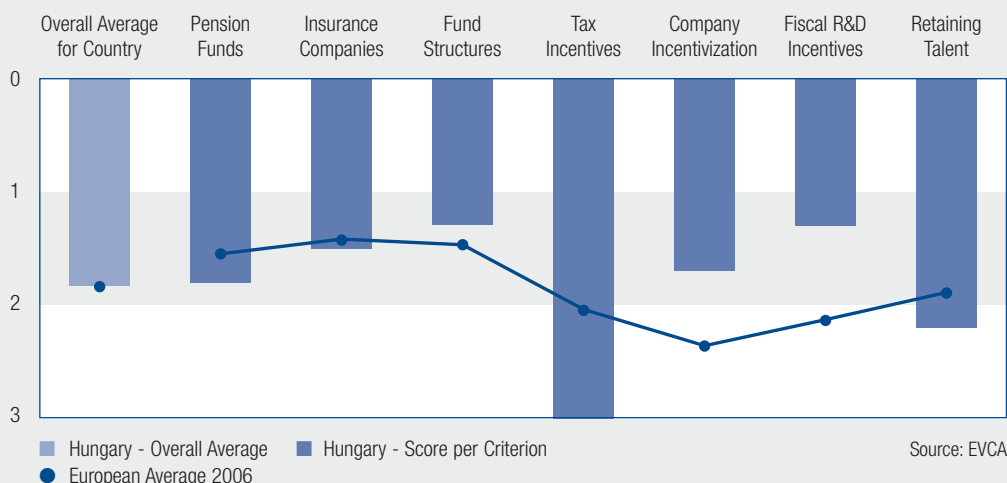
2. Current situation

The overall tax and legal environment for limited partners and fund managers in Hungary is not optimal. Pension funds cannot invest abroad and insurance companies are subject to quantitative restrictions when investing in private equity and venture capital. Although the country provides a specific structure for private equity and venture capital, this vehicle is not free from undue investment restrictions. Moreover, there are no incentives for investing in private equity and venture capital.

The overall situation for investee companies is more favourable, not only with regard to company incentivization but also concerning incentives for encouraging investment in R&D.

Finally, the environment for retaining talent in investee companies and management funds could be greatly improved with respect to the taxation of capital gains for private individuals, stock options and carried interest.

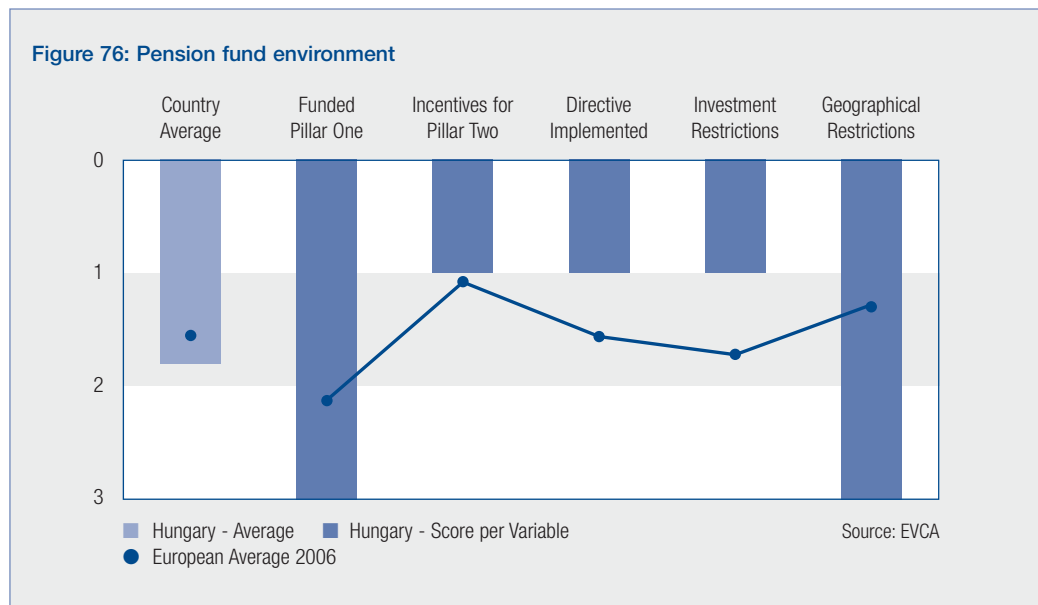
Figure 75: Current situation



2.1. The tax and legal environment for limited partners and fund managers

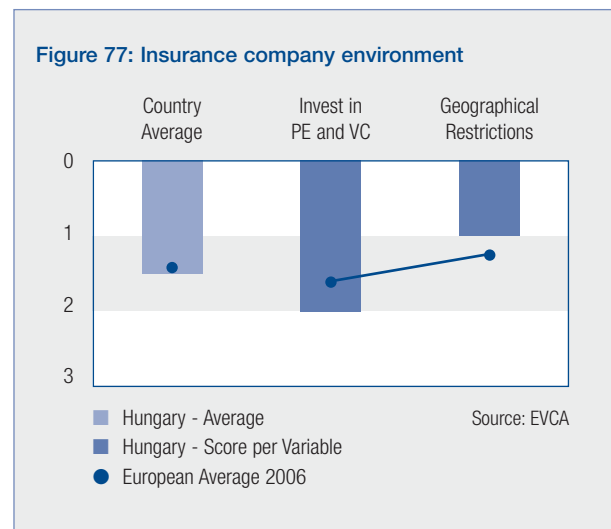
2.1.1. Hungary does not provide a funded pillar one **pension system** and there are geographical restrictions for pension funds to invest in other European countries.

On the positive side, Hungary provides incentives for complementary pillar two pension systems and has implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision. There are no other quantitative restrictions for pension funds to invest in private equity and venture capital, apart from those included in the EU Directive mentioned above.



2.1.2. Although **insurance companies** can invest in private equity (PE) and venture capital (VC), they remain subject to quantitative restrictions (a maximum of 5% of their technical provisions).

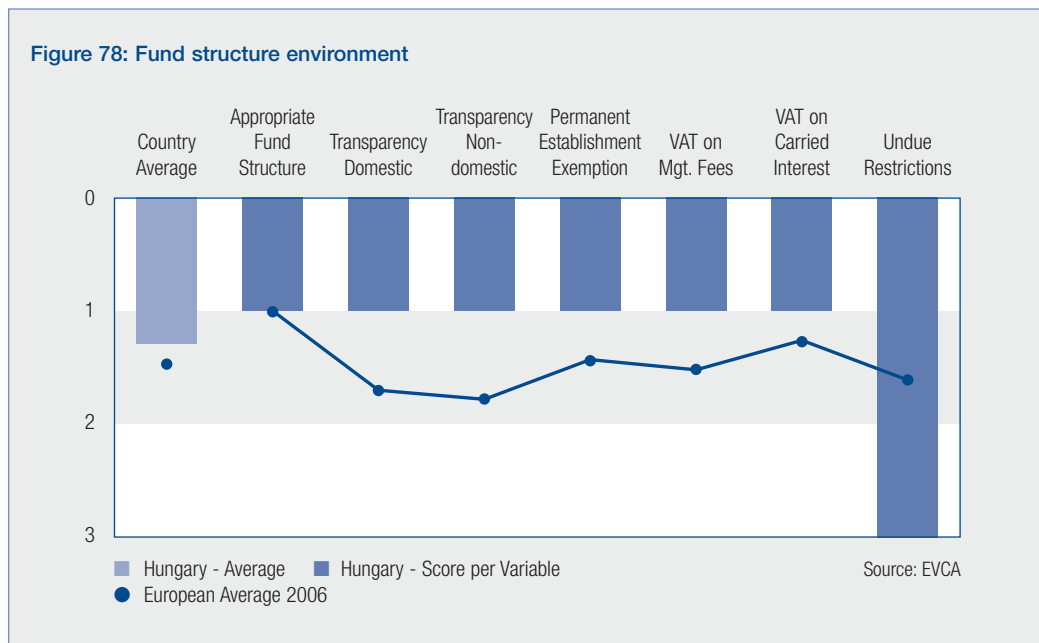
On a positive note, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

Since 1 January 2006 a new act has replaced the previous legislation in relation to private equity investments. Hungarian fund vehicles regulated by domestic law are the private equity fund and the investment fund¹¹.

The private equity fund is tax transparent for domestic and non-domestic investors, and provides non-domestic investors with the ability to be exempted from having a permanent establishment. Management fees and carried interest are not subject to VAT. Nevertheless, this structure is not free from undue quantitative restrictions.



2.1.4. Tax incentives for private equity and venture capital

Hungary does not provide any tax incentive to encourage investment in private equity and venture capital.

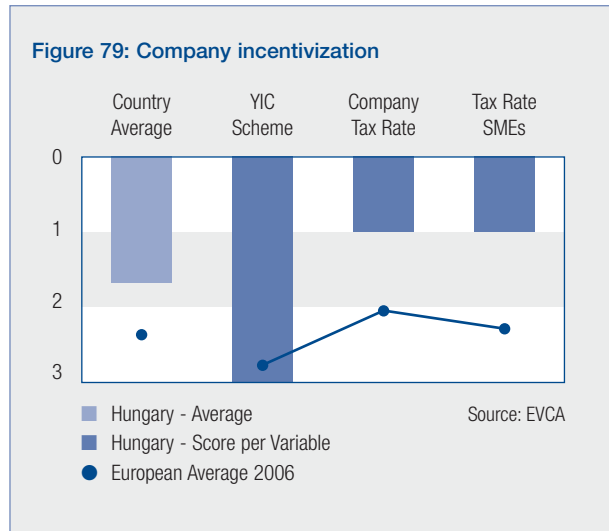
¹¹ However, at present, the most common way of making private equity and venture capital investments is to use a non-Hungarian fund vehicle and to establish a Kft (Limited Liability Company) or Rt (company limited by shares) as an acquisition vehicle.

2.2. The environment for investee companies

2.2.1. Company incentivization

Hungary does not provide a specific fiscal scheme for supporting the creation and growth of innovative, high-potential start-ups (young innovative company – YIC).

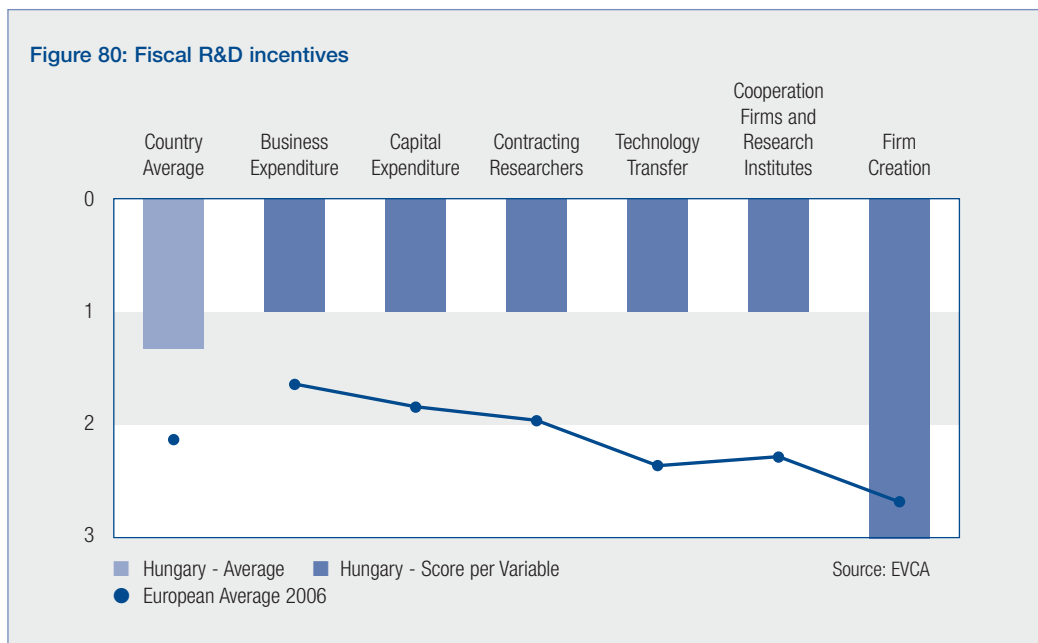
However, the Hungarian corporate tax rate in 2006 is very attractive at 16% for taxable income of up to HUF 5 million or €19,566 (20% as of 1 September 2006), which is below the European average of 26.2%. Furthermore, companies fulfilling certain conditions and having a maximum yearly income of HUF 25 million (€97,827) can opt to be taxed under the SET (Simplified Entrepreneurial Tax) at a fixed rate of 15% on gross revenues of the company.



2.2.2. Fiscal R&D incentives

Hungary provides a favourable environment for encouraging investments in R&D by providing fiscal incentives for business R&D expenditure, R&D capital expenditure, contracting researchers, the transfer of technology and cooperation between firms and research institutes/universities.

Hungary does not provide any incentives for the creation of innovative firms.



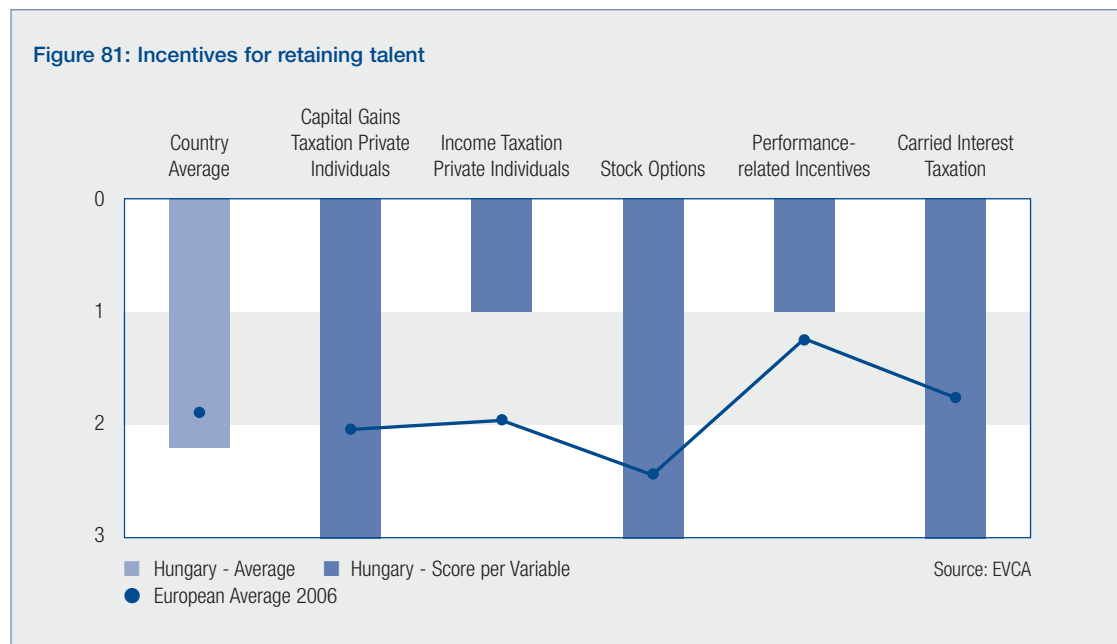
2.3. The environment for retaining talent in investee companies and management funds

There is still room for improvement in Hungary to achieve the right environment for retaining talent in investee companies and management funds, in particular regarding the taxation of capital gains for individuals, stock options and carried interest.

When it comes to capital gains, stock options or carried interest, Hungarian private individuals are heavily taxed. The capital gains tax rate is 25%, which is above the European average of 15%. The income tax rate for private individuals is 36% (of base in excess of HUF 1,550,000 or €6,056 - previously it was 38%), which is below the European average of 42%.

Stock options for investee company managers and employees are taxed at the date of vesting or at the date of exercise (depending on the details of the stock option plan).

It is possible to incorporate a performance-related incentive for fund managers and carried interest is taxed as professional income.

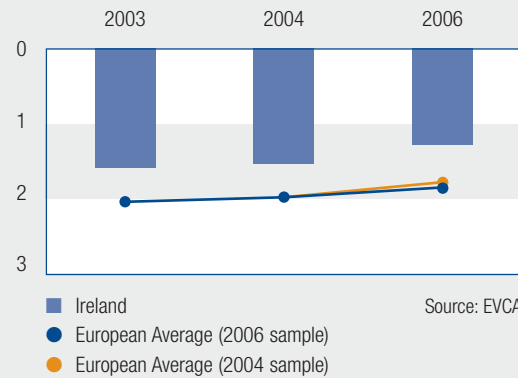


1. Evolution

Although the situation in Ireland improved somewhat between 2003 and 2004, the country fell from second to third position in that period. Since then Ireland has progressed a lot (specifically in the field of fiscal R&D incentives), thus climbing to the top of the European ranking. The country average has improved from 1.58 in the 2003 analysis over 1.53 in 2004 to 1.27 in 2006.

Overall, Ireland ranks well above the European average of 1.84.

Figure 82: Evolution of Irish tax and legal environment

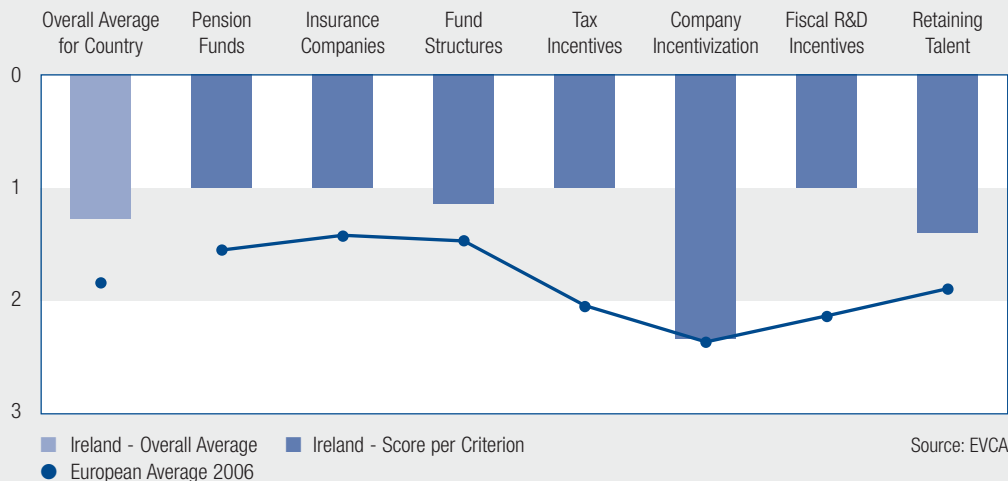


2. Current situation

For the third comparative analysis in a row, Ireland has a very favourable environment for private equity and venture capital, comfortably holding its position in the topmost part of the European ranking. Ireland's pension fund and insurance company legislation is in line with the EU Directives and there are no additional restrictions to invest in private equity and venture capital in and outside Ireland in other European countries. Moreover, the country provides a suitable domestic fund structure and several incentives for investing in the asset class.

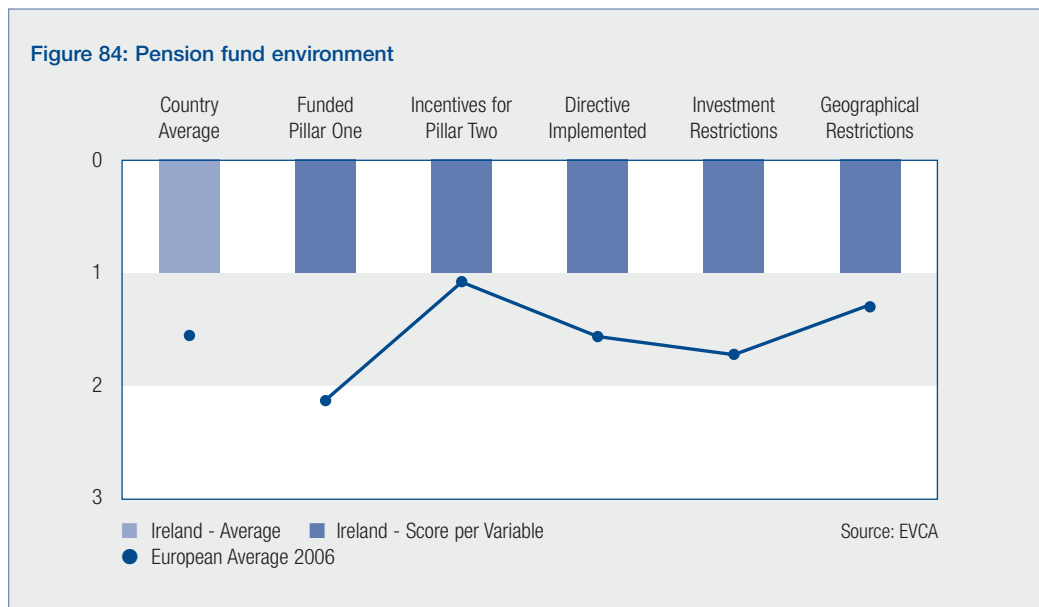
Although the overall environment for investee companies is positive with respect to fiscal R&D incentives, improvements could still be made in the area of company incentivization. Apart from the capital gains taxation for private individuals, Ireland can also boast a good environment for retaining talent.

Figure 83: Current situation



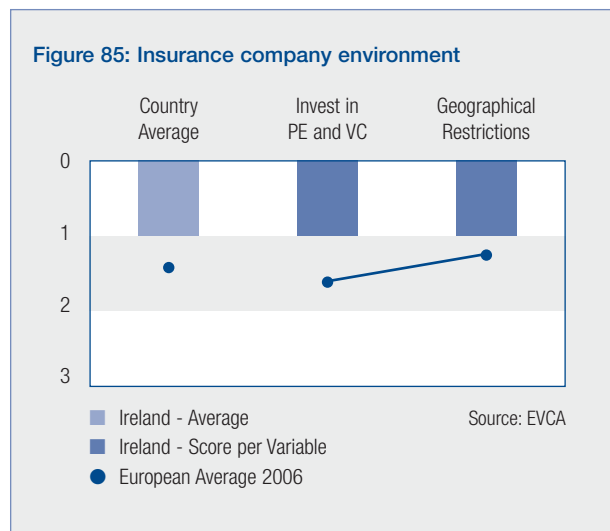
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Ireland has a very favourable **pension fund** environment, with a positive score for each of the five variables. Besides a funded pillar one pension system, there are incentives available for complementary funded systems. EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision was fully implemented last year through the Social Welfare and Pensions Bill 2005. Apart from the limitations stipulated in the above-mentioned Directive, there are no additional restrictions for pension funds to invest in private equity and venture capital in and outside Ireland in other European countries.



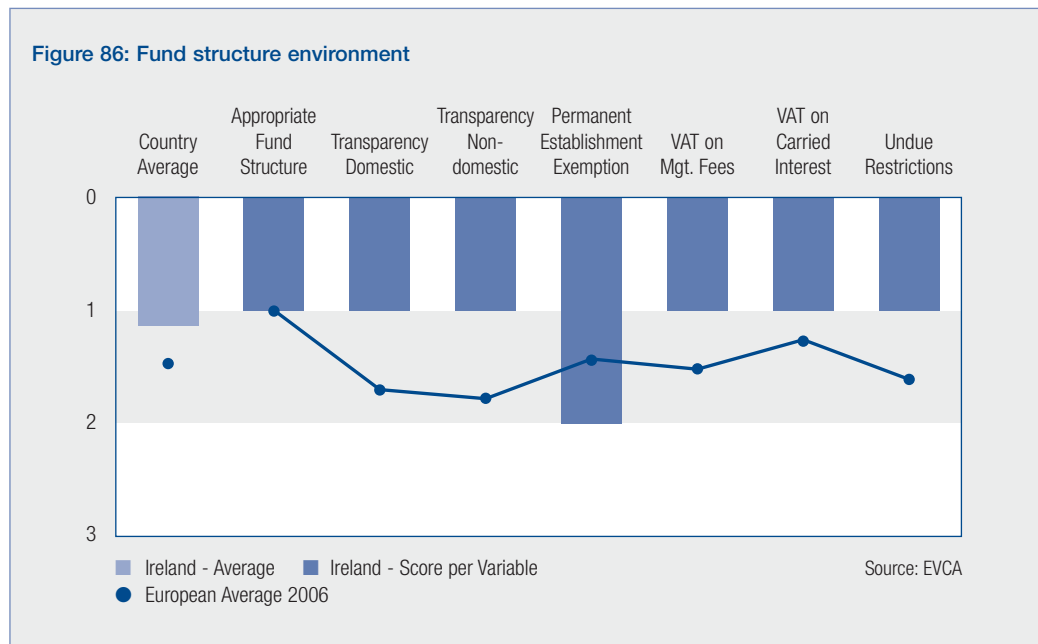
2.1.2. The quantitative restrictions for **insurance companies** to invest in private equity (PE) and venture capital (VC), as set out in the Framework Regulations 1994, are fully in line with EU Directive 2002/13/EC.

Moreover, there are no geographical restrictions for insurance companies to invest outside Ireland.



2.1.3. Fund structures

The Limited Partnership is the most common structure used for Irish domestic private equity and venture capital investment. It is tax transparent for both domestic and non-domestic investors. The Irish Limited Partnership has been specifically established as non-trading. Thus, investing in the vehicle should – by ruling – not create a permanent establishment for international investors. Moreover, management fees as well as carried interest are not necessarily liable for VAT, and there are no undue restrictions on the types of investment undertaken.



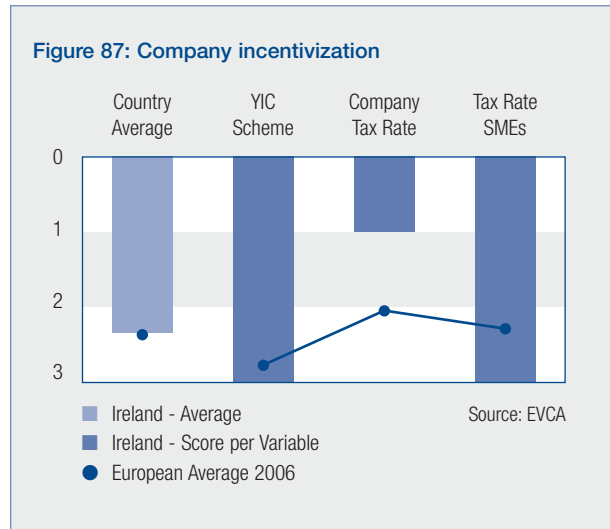
2.1.4. Tax incentives for private equity and venture capital

Ireland offers several incentives to encourage investment in private equity and venture capital, such as the BES (Business Expansion Scheme), Seed Capital and Renewable Energy Reliefs.

2.2. The environment for investee companies

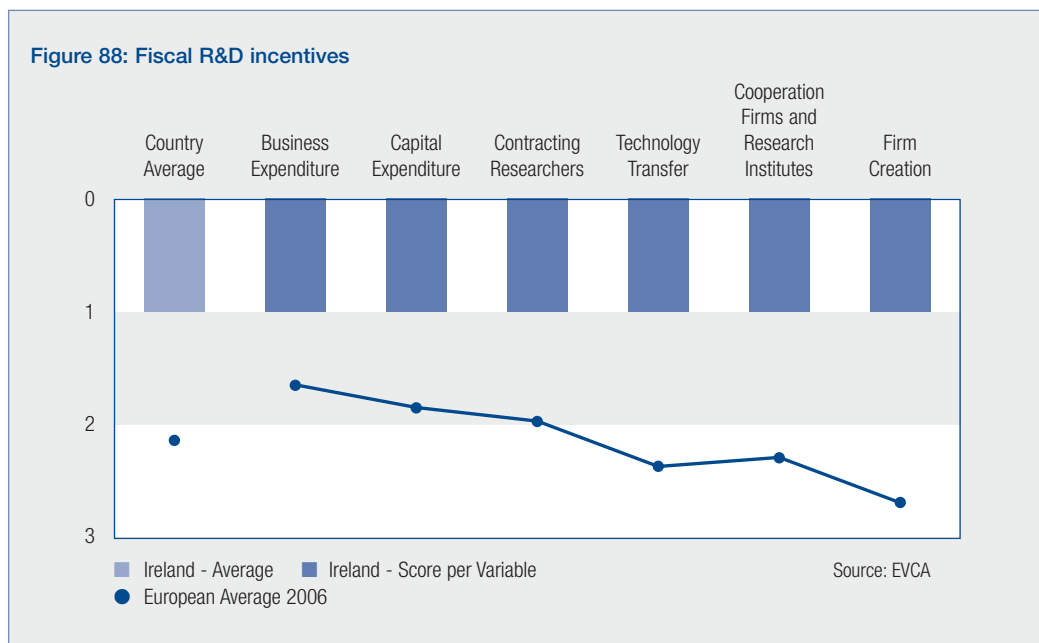
2.2.1. Company incentivization

Even if Ireland is very well advanced when it comes to fiscal R&D incentives, as can be seen in the paragraph below, the country has not yet developed an appropriate status for young innovative companies (YIC) or a special company tax rate for small and medium-sized enterprises (SMEs). However, the company tax rate of 12.5%, which applies to all trading income in Ireland, is the lowest in Europe and thus far below the European average of 26.2%.



2.2.2. Fiscal R&D incentives

Ireland has progressed a lot in the field of fiscal R&D incentives. The Finance Act 2004 introduced a new Research and Development Credit, which came into operation with effect from 1 January 2004 and which includes fiscal incentives for business R&D expenditure, R&D capital expenditure and cooperation between firms and research institutes/universities.



As such, a tax credit of 20% is available in respect of the qualifying R&D expenditure in addition to a corporate tax deduction at 12.5%, and in respect of capital expenditure on buildings or structures used for the purpose of carrying out an R&D activity. Moreover, it has settled a tax deduction for non-capital expenditure on scientific research including payments to universities to carry out such research.

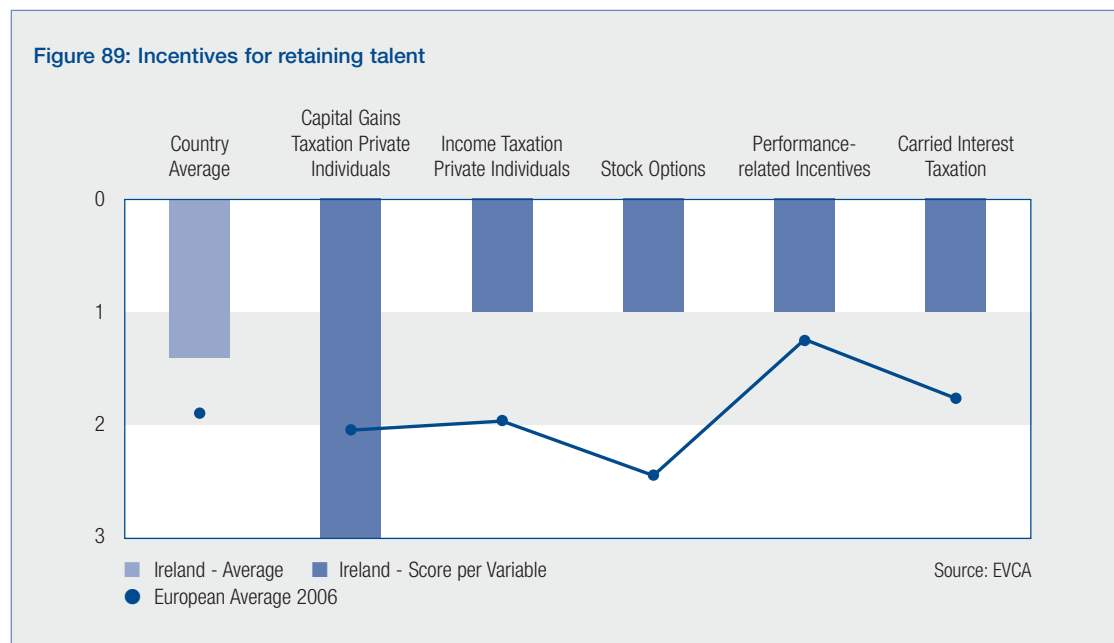
In addition, Ireland provides fiscal incentives for contracting researchers, technology transfer (in the form of patent exemption) and the creation of innovative firms (through, for example, the Seed Capital Relief).

2.3. The environment for retaining talent in investee companies and management funds

However positive the environment for retaining talent in Ireland is, there is room for improvement as capital gains of private individuals are subject to a 20% tax rate, which is above the European average of 15%. Private individuals' income is taxed at progressive rates up to 42%, which is just below the European average of 42.03%. Taxable income below €32,000 will be taxed at the standard rate of 20%. Separately, there is a health levy at 2%, which is levied on all income.

The tax treatment of stock options for investee company managers and employees depends on whether the share option scheme is approved by the Irish Revenue or not. In the case of approved schemes, capital gains tax is chargeable on the gain on the disposal of the shares¹².

Furthermore, it is possible to incorporate performance-related incentives for fund managers and it may be possible to structure such a scheme so as to fall within the charge to capital gains tax rather than income tax.



¹² To qualify for approval, the scheme must have provisions such that the option price must not be less than the market value of the option at the date of grant, the shares acquired must not be sold within three years of the date of grant and the share options must be awarded to all eligible employees on "similar terms".

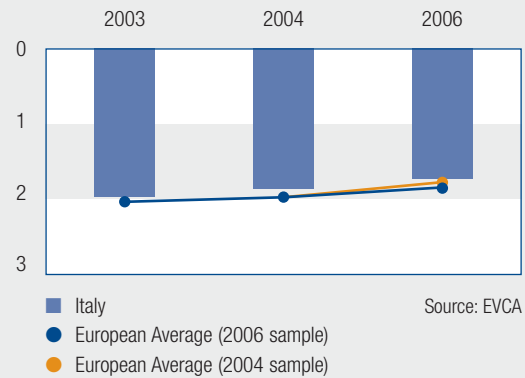
Italy (1.72)

1. Evolution

Over the past four years, the Italian tax and legal environment for private equity and venture capital has gradually improved. The country's composite score has changed from 1.96 in 2003 over 1.86 in 2004 to **1.72** in 2006.

The relative positioning of Italy in 2004, not far from the European average, has not changed dramatically in 2006 as its evolution followed the same pace as the average European countries.

Figure 90: Evolution of Italian tax and legal environment



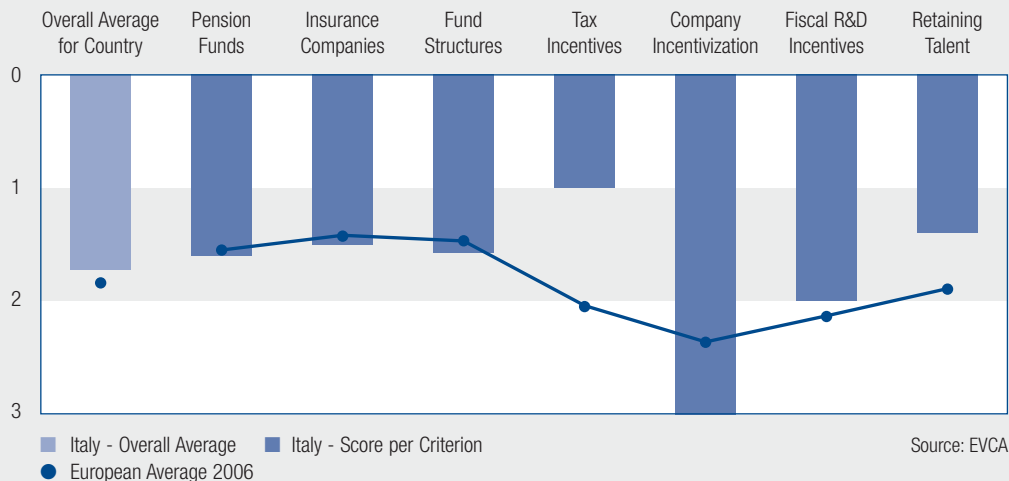
2. Current situation

While Italy has quite a favourable environment for limited partners and fund managers, and for retaining talent, the situation could still be improved for investee companies.

Although the country provides a specific domestic fund structure (*Fondo Chiuso*) and incentives for investing in private equity and venture capital, pension funds and insurance companies are still faced with several restrictions when investing in the asset class.

The overall situation for investee companies is unfavourable, with regard to both company incentivization and fiscal incentives to encourage R&D activity. The environment for retaining talent in investee companies and management funds is more positive, although the tax treatment of income for private individuals could still be improved.

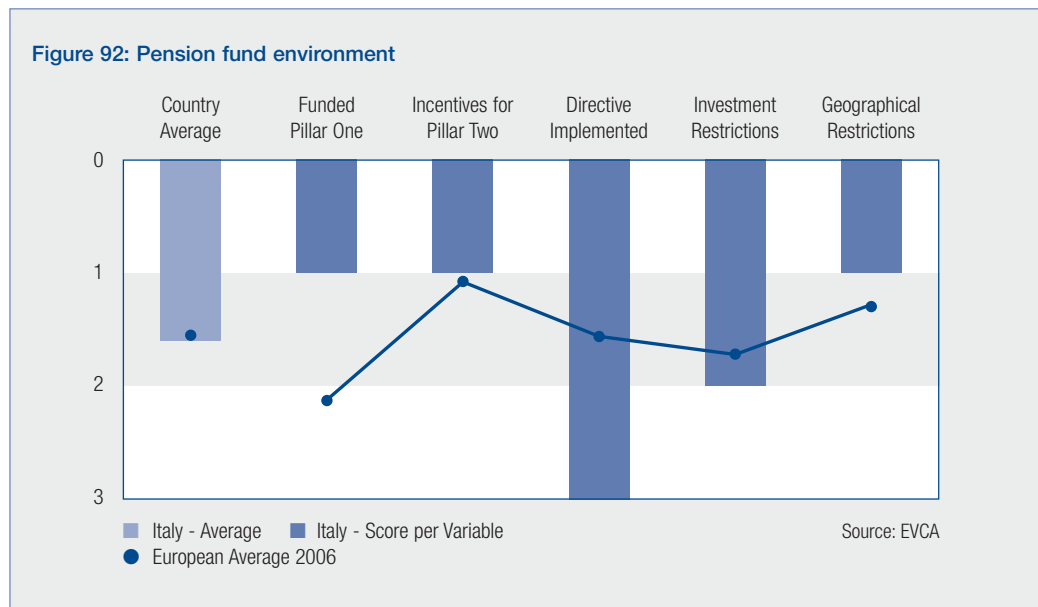
Figure 91: Current situation



2.1. The tax and legal environment for limited partners and fund managers

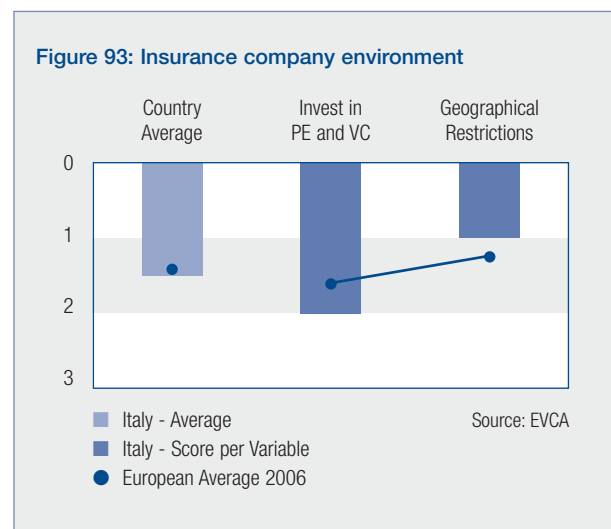
2.1.1. Italy does not provide a favourable environment for **pension funds**. Although they can invest in private equity and venture capital, their investments are subject to quantitative restrictions. Furthermore, Italy has not implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.

On the positive side, Italy provides a funded pillar one pension system, and tax incentives for complementary funded systems (pillar two). There are no geographical restrictions for pension funds to invest abroad in other European countries.



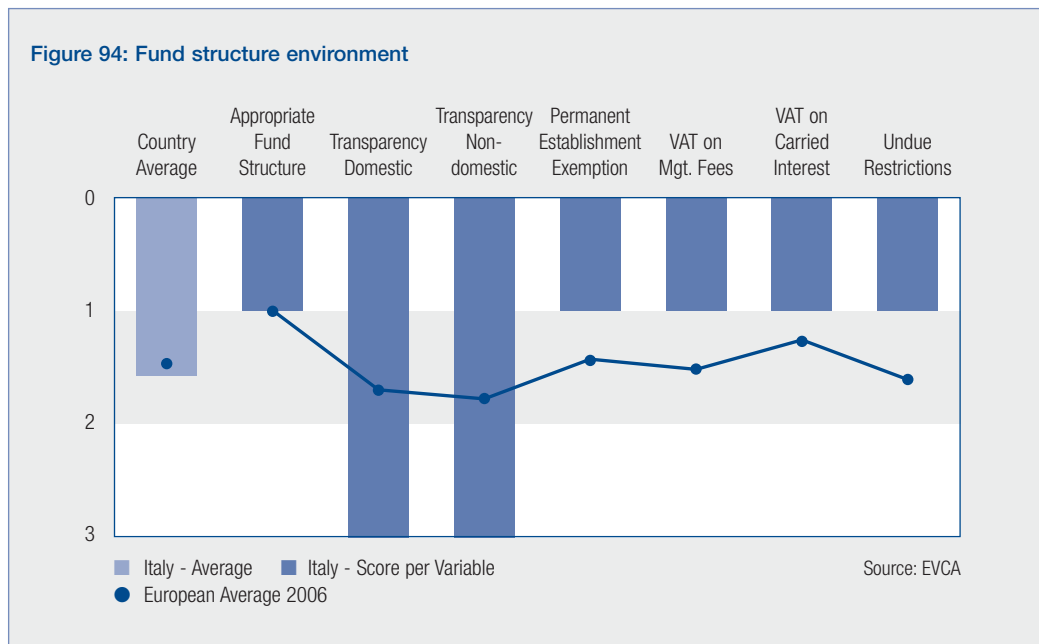
2.1.2. Although **insurance companies** can invest in private equity (PE) and venture capital (VC), they are subject to certain quantitative limitations (investments in listed closed-end funds in the European Union are possible only if the units of the funds are listed on a regulated market and if up to 5% of the technical reserves is covered). More restricted limits can be adopted for investments in non-harmonised funds.

On a more positive note, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

The typical structure available in Italy for private equity and venture capital investments is the *Fondo Chiuso* (closed-end fund). The *Fondo Chiuso* is not tax transparent for domestic and non-domestic investors¹³, but provides non-domestic investors with the ability to be exempted from having a permanent establishment when investing through the fund. Both management fees and carried interest are not liable for VAT, and the *Fondo Chiuso* is free from undue restrictions on investments.



2.1.4. Tax incentives for private equity and venture capital

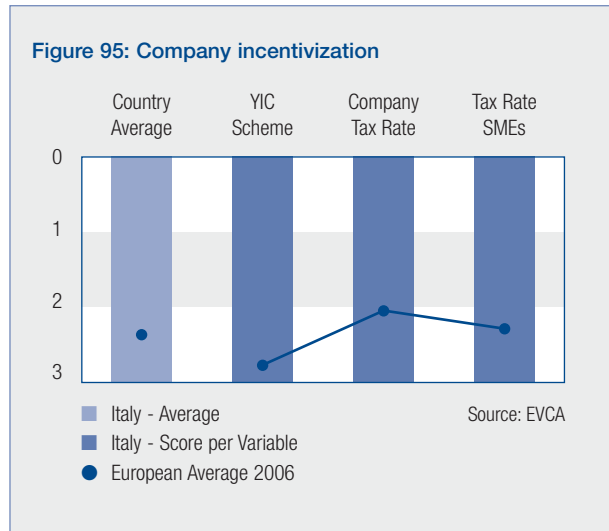
Italy provides tax incentives for investing in the *Fondo Chiuso* (a favourable treatment of 12.5% tax is applied at the fund level).

¹³ Despite the fact that the *Fondo Chiuso* is not tax transparent, non-business investors and all international investors from Treaty Countries benefit from specific exemptions, which in substance give the same results as tax transparency.

2.2. The environment for investee companies

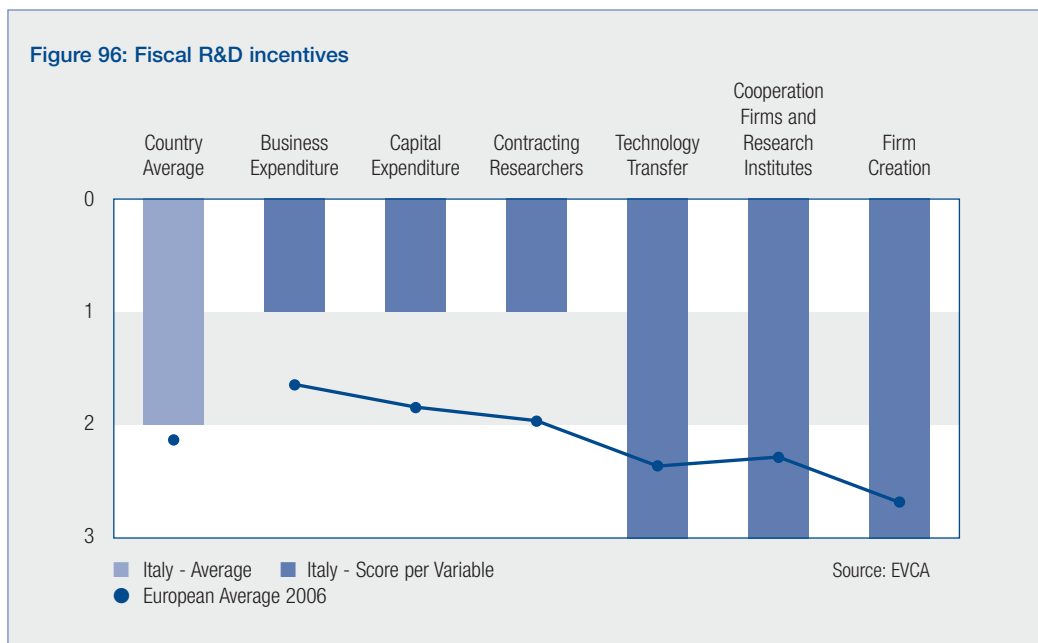
2.2.1. Company incentivization

The environment for company incentivization is very unfavourable in Italy. The country does not provide a specific scheme for supporting the creation and growth of innovative, high-potential start-ups (young innovative company – YIC). In addition, the company tax rate is 37.25%, which is above the European average of 26.2%. This rate consists of a 33% corporate income tax (the so-called IRES) and a basic 4.25% regional tax (IRAP). Furthermore, Italy does not provide a specific company tax rate for small and medium-sized enterprises (SMEs).



2.2.2. Fiscal R&D incentives

Italy provides fiscal incentives for business R&D expenditure, R&D capital expenditure and contracting researchers. However, there are no fiscal incentives available for the transfer of technology, cooperation between firms and research institutes/universities or the creation of innovative firms.

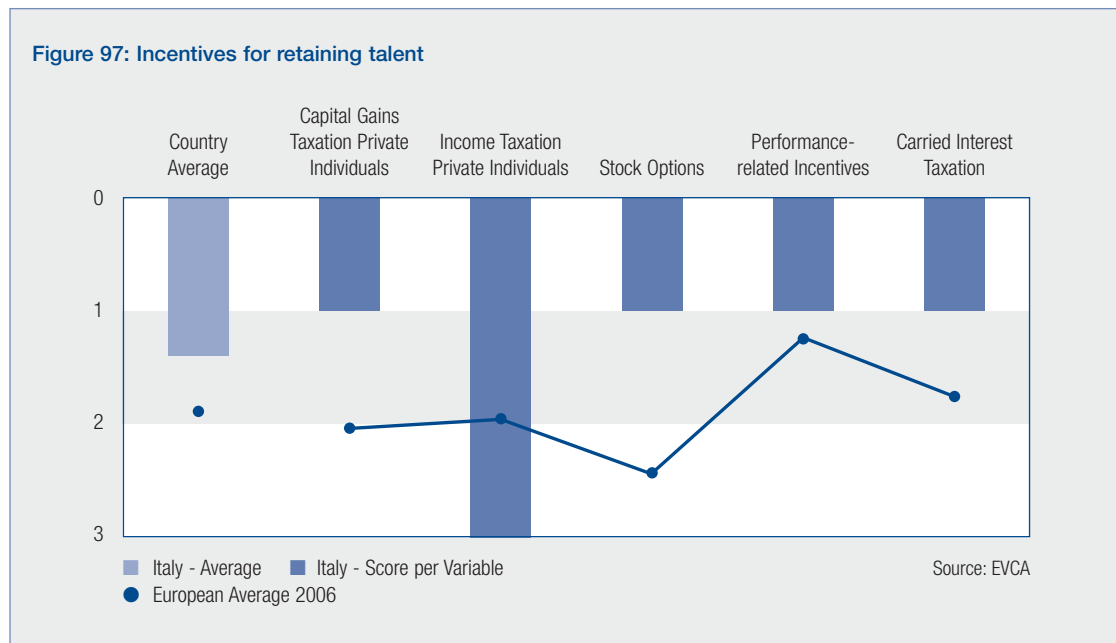


2.3. The environment for retaining talent in investee companies and management funds

Italy's highest income tax rate for private individuals is 43%, which is slightly above the European average of 42%. However, revenues derived from investment activities by private individuals are favourably taxed. Capital gains deriving from the disposal of "non-qualified" participation benefit from a tax rate of 12.5%, below the European average of 15%¹⁴.

Stock options for investee company managers and employees are taxed upon sale, subject to certain conditions.

Provided that certain conditions are met, performance-related incentives for fund managers can be incorporated and carried interest can be subject to capital gains treatment.



3. Future developments

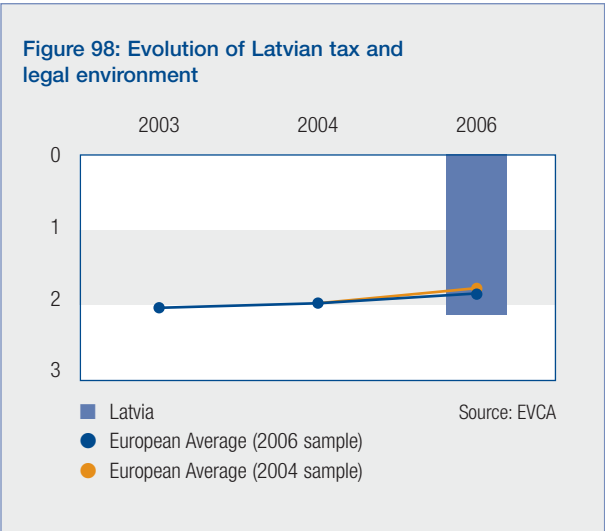
According to law no. 248 of 4 August 2006, the favourable tax treatment of stock options is subject to two further conditions: the shares cannot be sold or pledged earlier than five years from the assignment and the value of the shares assigned may not be higher than the annual gross compensation of the employee in the preceding fiscal year.

¹⁴ Capital gains from "qualified" participation are included in ordinary income for 40% of their amount. A participation is considered "qualified" if it represents more than 2% of the voting rights or 5% of the capital in the case of listed companies. Such thresholds are, respectively, 20% or 25% in the case of non-listed companies.

1. Evolution

Latvia is one of the countries added to the EVCA Benchmark study this year. Therefore, a comparison of the country’s current situation with respect to previous years is not possible.

As a new country in the European environment, Latvia has attained a composite score of 2.12, leaving room for improvement when compared to the European average of 1.84.

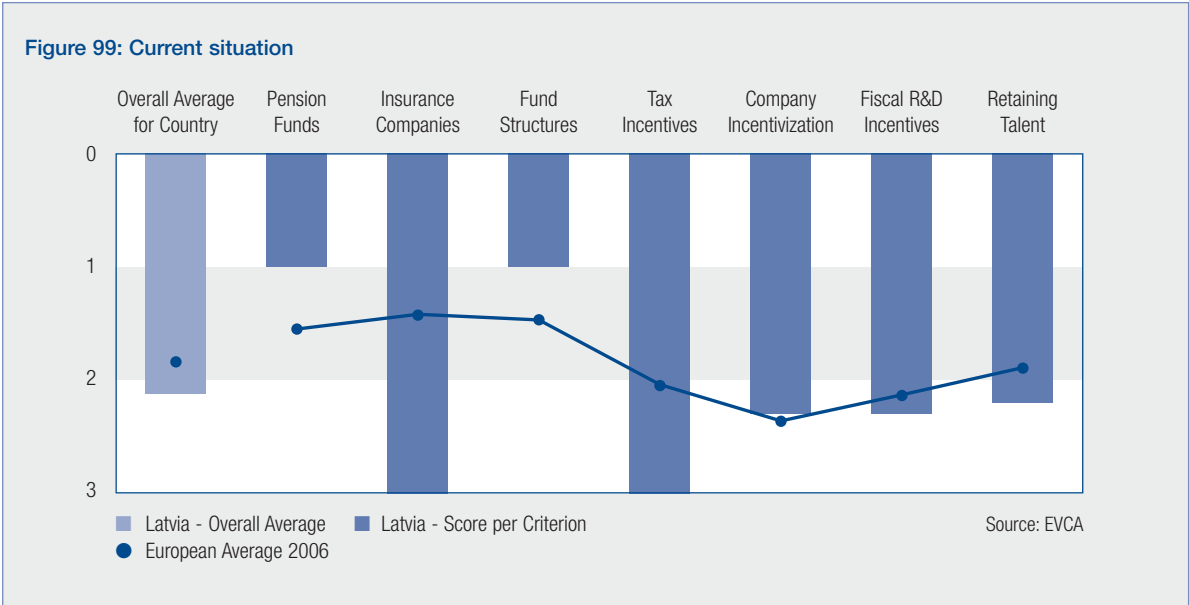


2. Current situation

The overall environment for private equity and venture capital in Latvia is quite unfavourable, although pension funds are free to invest in private equity and venture capital, and a suitable domestic fund structure is available. The fact that insurance companies cannot invest in the asset class and the lack of tax incentives to encourage private equity and venture capital investments played a strong and negative role in the country’s composite score.

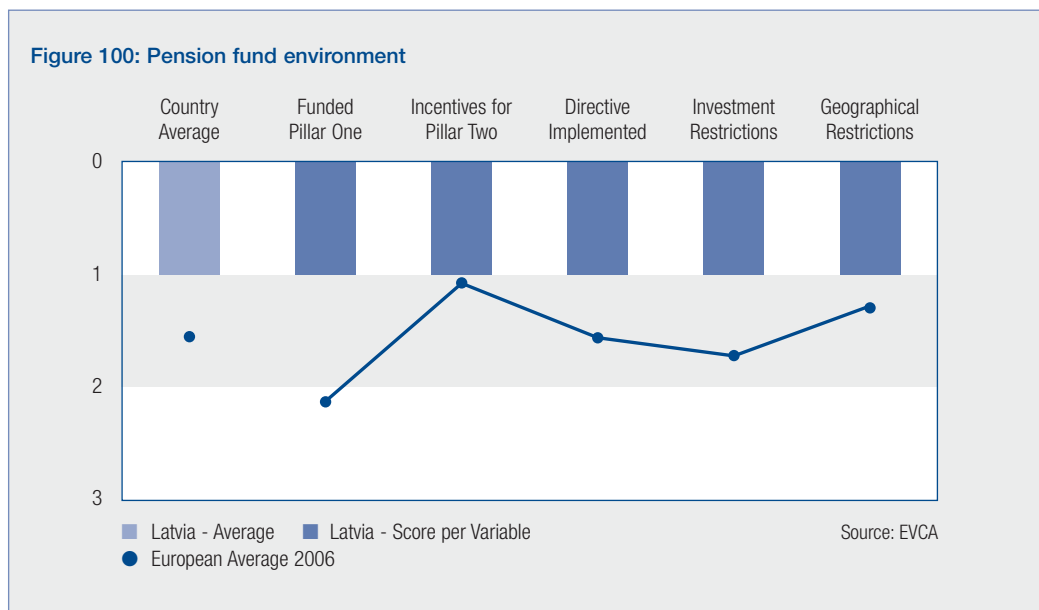
The areas of company incentivization and incentives to encourage R&D investment are almost in line with the European average, but still need improvement.

Finally, Latvia should take more steps to retain talent in investee companies and management funds, particularly with respect to the taxation of stock options, and performance-related incentives.

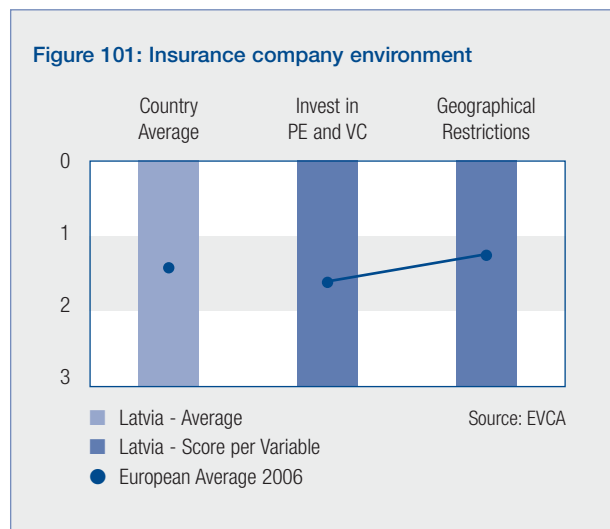


2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Latvia has a favourable **pension fund** environment. The country provides a funded pillar one pension system and tax incentives for complementary pillar two pension systems. EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has been implemented in Latvia and there are no additional quantitative restrictions for pension funds to invest in private equity and venture capital. There are also no geographical restrictions for pension funds investing across Europe.



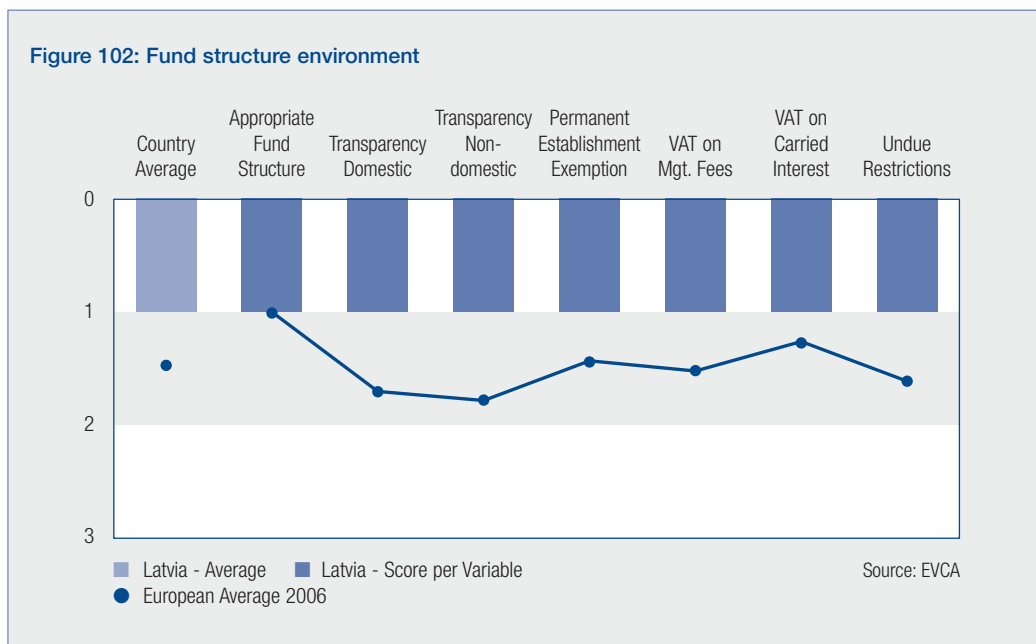
2.1.2. **Insurance companies** in Latvia cannot invest in private equity (PE) and venture capital (VC) as only investments on regulated markets are allowed at the moment. This impedes investment into private equity and venture capital outside Latvia within Europe.



2.1.3. Fund structures

Latvia has an appropriate domestic fund structure in the form of the Latvian Limited Partnership (*Komanditsabiedriba*). This structure is tax transparent for domestic and non-domestic investors. Non-domestic investors are, by law, not treated as having a permanent establishment in Latvia when investing through the fund. Both management fees and carried interest are not liable for VAT. The Latvian Limited Partnership is also free from undue restrictions on investments.

Overall, the Latvian situation is very favourable.



2.1.4. Tax incentives for private equity and venture capital

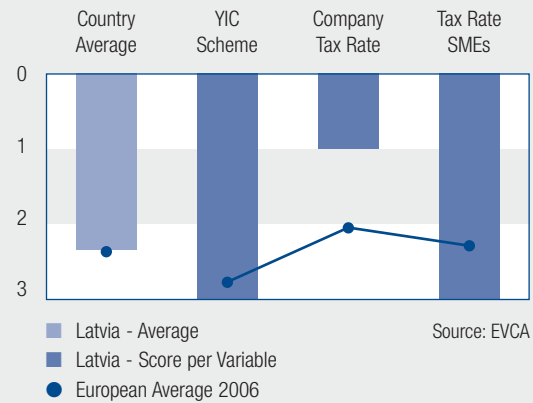
There are no tax incentives available for investing in private equity and venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

There is no specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC) in Latvia. However, the company tax rate of 15% is well below the European average of 26.2%. The country has no special company tax rate for small and medium-sized enterprises (SMEs).

Figure 103: Company incentivization

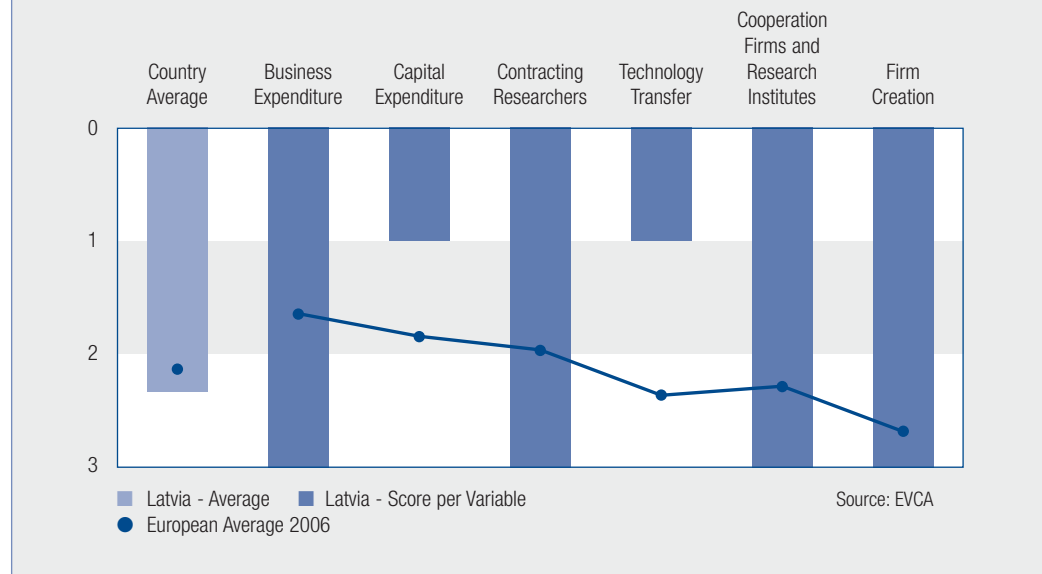


2.2.2. Fiscal R&D incentives

Although Latvia provides certain fiscal R&D incentives, there is still some room for improvement to catch up with the more advanced economies. Fiscal incentives are available for the transfer of technology and for the deduction of R&D capital expenditure, with an accelerated depreciation for the development of high-tech equipment.

Latvia provides no fiscal incentives for business R&D expenditure, contracting researchers, cooperation between firms and research institutes/universities, or the creation of innovative firms.

Figure 104: Fiscal R&D incentives



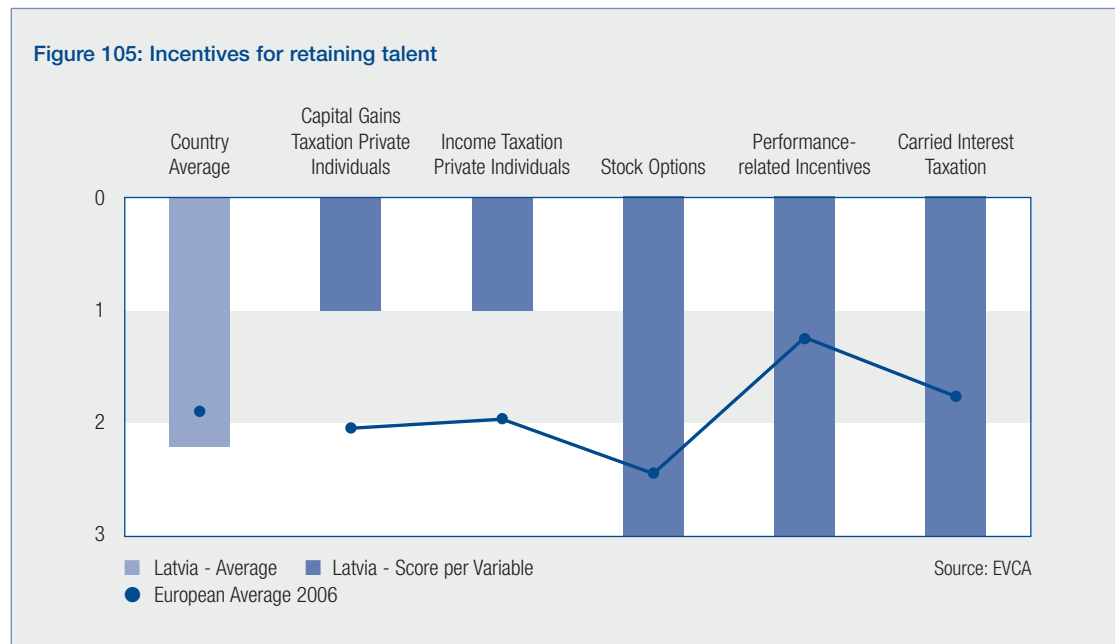
2.3. The environment for retaining talent in investee companies and management funds

While private individuals benefit from extremely favourable capital gains and income taxes, the situation for investee company managers and employees is very different, with no suitable incentives linked to their performance.

Capital gains for private individuals are tax free and income is taxed at a flat rate of 25%, which is below the European average of 42%.

Stock options for investee company managers and employees are taxed upon exercise.

It is not possible to structure a performance-related incentive (i.e. carried interest or preference shares) within the Latvian Limited Partnership and carried interest is taxed as income.



Luxembourg (1.62)

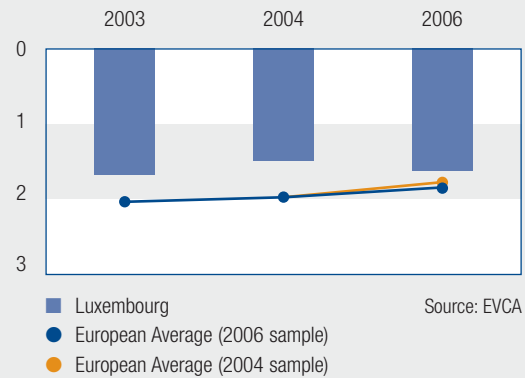
1. Evolution

After having climbed up the European ranking from third to second position between 2003 and 2004, Luxembourg has now fallen to eighth position, mainly due to the lack of a positive environment for company incentivization and fiscal R&D incentives.

Although the current composite score is less favourable than previously (1.49 in 2004 compared to 1.62 in 2006), this should be interpreted with care, as there have been quite some changes in the selection and number of variables assessed.

Overall, the country average is still a lot better than the European average of 1.84.

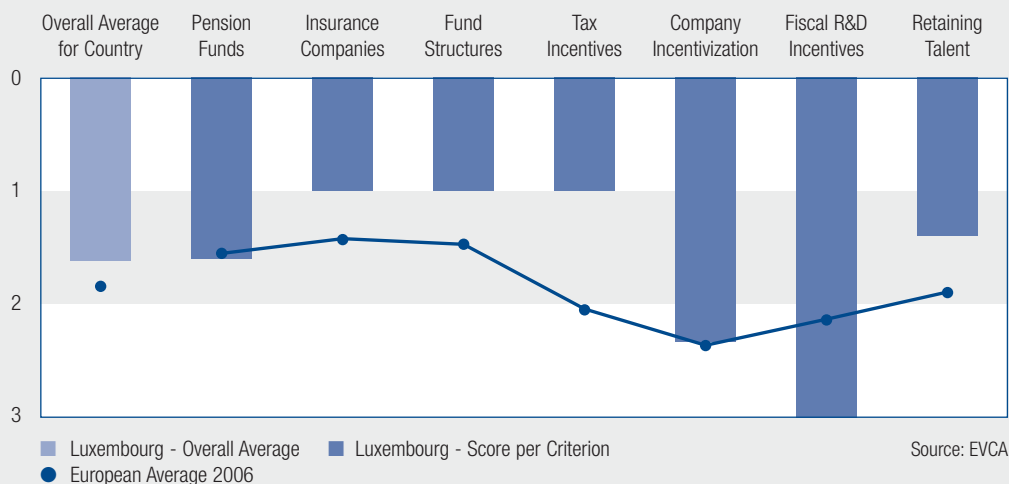
Figure 106: Evolution of Luxembourg tax and legal environment



2. Current situation

Luxembourg has a very favourable environment for limited partners and fund managers. Pension funds as well as insurance companies can participate in the private equity and venture capital market. Moreover, the country not only provides a specialised vehicle for private equity and venture capital (SICAR), but also certain tax incentives for investors in venture capital.

Figure 107: Current situation



However, there is plenty of room for improvement in the areas of company incentivization and fiscal incentives to encourage R&D activity.

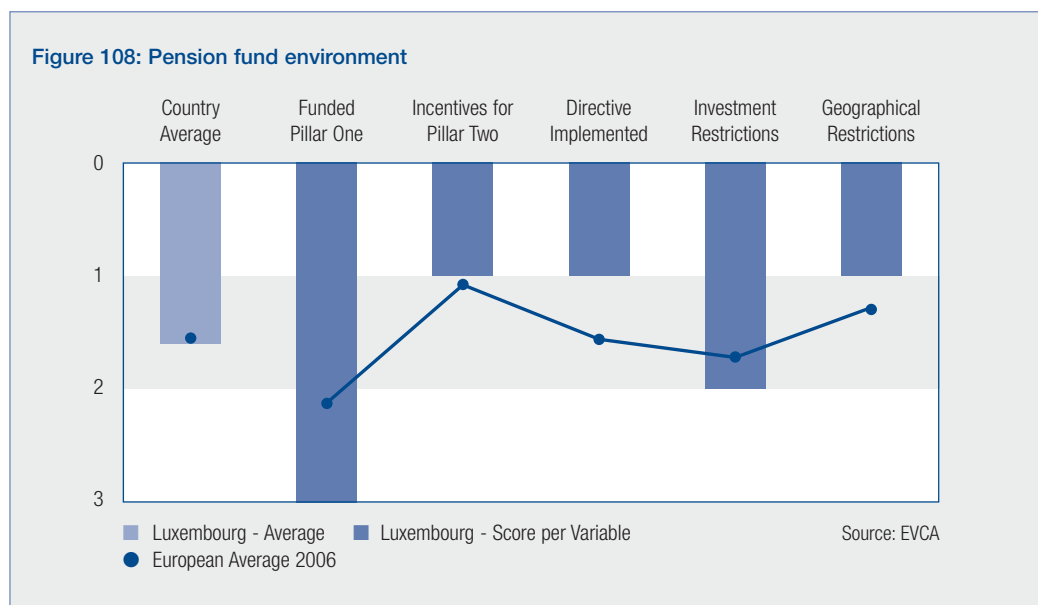
Finally, although the overall environment for retaining talent is positive, the tax treatment of stock options could still be improved.

2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Luxembourg has a relatively favourable **pension fund** environment. Although there is no funded pillar one pension system, the country does provide incentives for pillar two occupational pension systems.

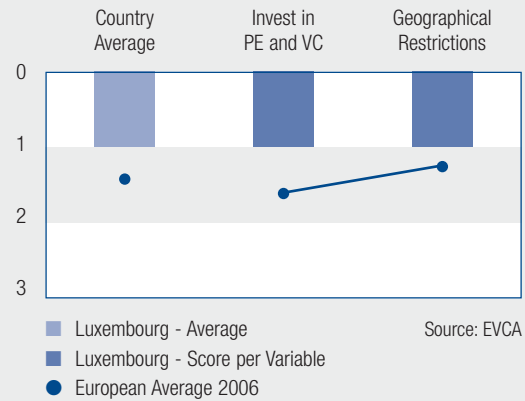
Apart from the investment rules defined by EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, which was implemented in 2005, pension funds are faced with some additional constraints. In principle, they can only invest in alternative investments, such as private equity and venture capital, provided the CSSF's (*Commission de Surveillance du Secteur Financier*) prior approval is granted to the projected investment policy and certain conditions are met.

There are no geographical restrictions for pension funds to invest outside Luxembourg in other European countries.



2.1.2. **Insurance companies** in Luxembourg can invest in private equity (PE) and venture capital (VC), complying with some maximum rules that are above the 10% threshold laid down in EU Directive 2002/13/EC. As such, investments in non-listed companies should not represent more than 20% of the total provision of the insurance company. Moreover, no discrimination is made between investments in Luxembourg or elsewhere in Europe.

Figure 109: Insurance company environment

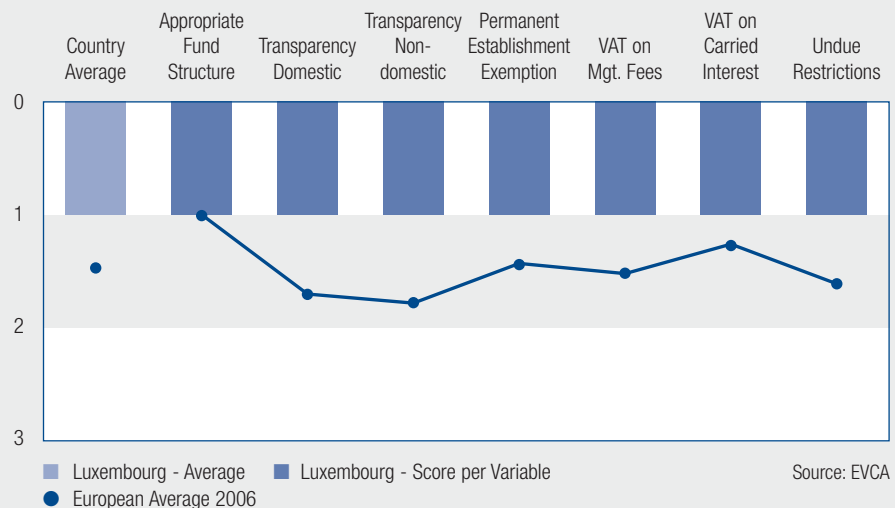


2.1.3. Fund structures

Luxembourg provides a number of attractive vehicles for private equity and venture capital, such as an FCP (*Fonds Commun de Placement* or mutual fund), a SICAV (*Société d'Investissement à Capital Variable* or variable capital investment company), a SICAF (*Société d'Investissement à Capital Fixe* or fixed capital investment company) and a SICAR (*Société d'Investissement en Capital à Risque* or venture capital fund), which will be further evaluated.

A SICAR is tax transparent for domestic and non-domestic investors if it is established in the form of a Limited Partnership (SCS or *Société en Commandite Simple*). However, for non-domestic investors it also depends on foreign domestic law and should therefore be analysed in the investors' country of residence.

Figure 110: Fund structure environment



Furthermore, international investors can avoid a permanent establishment when investing through this fund, and the management fees as well as the carried interest are not subject to VAT. Finally, a SICAR is free from undue investment restrictions.

2.1.4. Tax incentives for private equity and venture capital

Certain tax incentives exist for investors in venture capital. Taxpayers holding certificates of investment in venture capital at the end of the tax year obtain, on request, an income tax credit fixed at 30% of the face value of the certificate. This tax credit is limited to 30% of the taxpayer's taxable income.

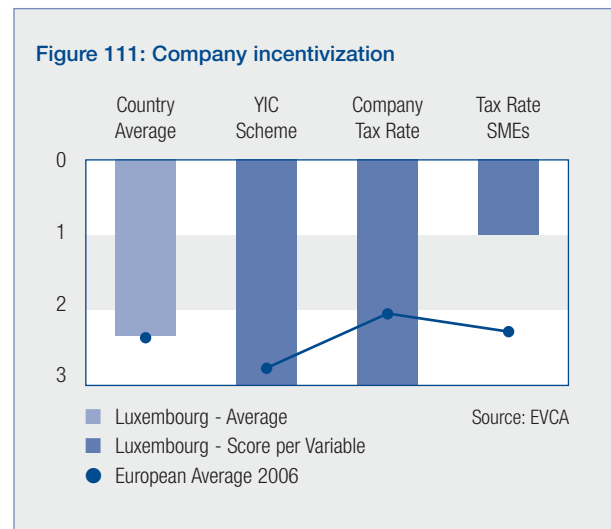
2.2. The environment for investee companies

2.2.1. Company incentivization

As regards the environment for company incentivization, there is still room for improvement in Luxembourg. There is no specific scheme available for young innovative companies (YIC) and the aggregate maximum company tax rate can be as high as 29.63% (Luxembourg-City). Even though this is already lower than two years ago when it amounted to 30.38%, it is still above the European average of 26.2%. Moreover, based on a statement by the Luxembourg

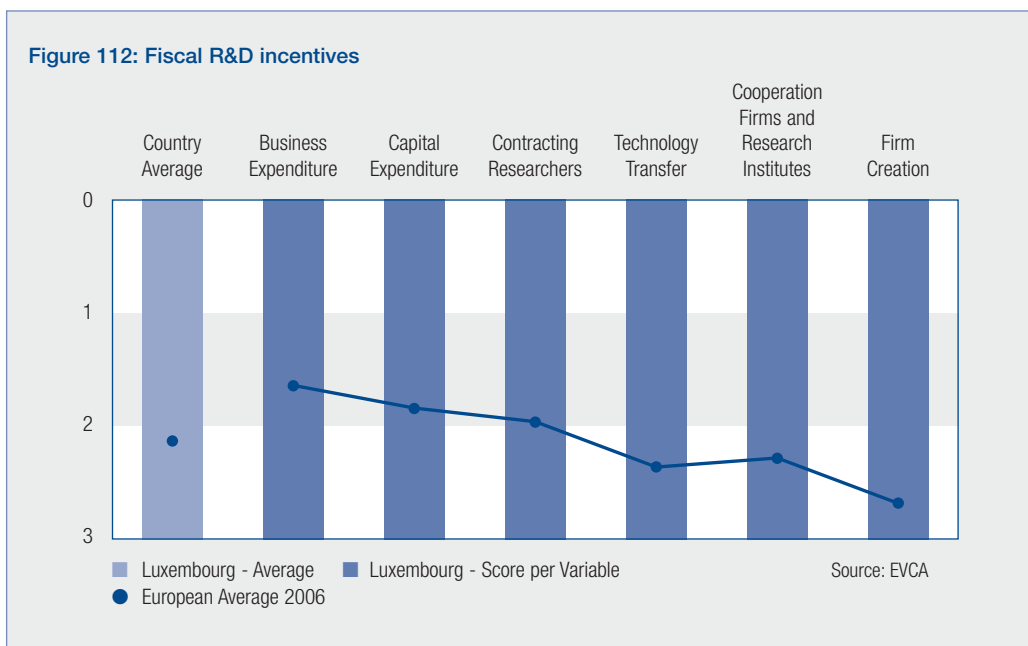
Government on 2 May 2006, this rate will be increased to 29.85% as of 2007, following an increase in the contribution to the unemployment fund.

Although there is no specific company tax rate for small and medium-sized enterprises (SMEs), Luxembourg companies, whether they qualify as SMEs or not, are subject to progressive tax rates. As such, companies with a taxable income of up to €10,000 will be subject to a 28.3% tax rate.



2.2.2. Fiscal R&D incentives

Luxembourg does not provide any fiscal incentives for business R&D expenditure, R&D capital expenditure, contracting researchers, technology transfer, cooperation between firms and research institutes/universities or the creation of innovative firms.



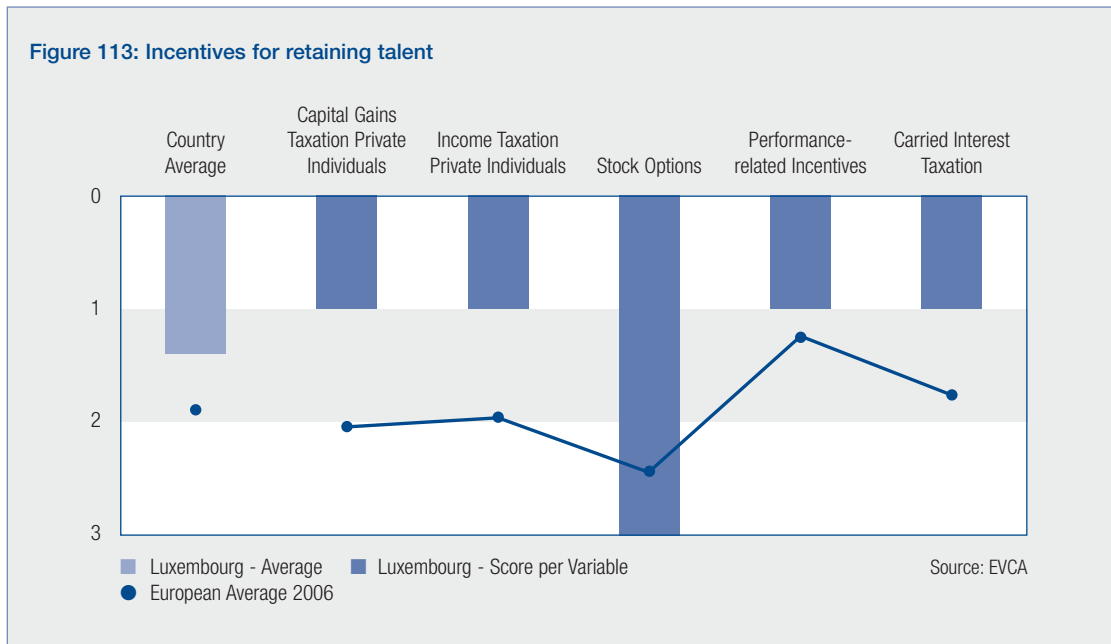
2.3. The environment for retaining talent in investee companies and management funds

With respect to the taxation of income and capital gains for private individuals, Luxembourg scores quite well in comparison with the rest of Europe. The income tax rate for private individuals is progressive, the highest rate adding up to 38.95%, which is below the European average of 42%. However, as of 2007, this tax rate will be raised to 39.33% due to an increase in the surcharge for the unemployment fund. Capital gains on securities are tax free if the individual has held these securities for more than six months and if they do not hold, directly or indirectly, a substantial proportion (i.e. more than 10%)¹⁵.

Transferable stock options for investee company managers and employees are taxed at the date of grant at the level of the holders and non-transferable options are taxed upon exercise, also at the level of the holders. Capital gains on the sale of options realized by an investor are subject to income tax, but under certain conditions no taxes will be due on capital gains resulting from the sale of options or underlying shares.

Finally, it is possible to incorporate performance-related incentives for fund managers and carried interest schemes tend to be structured as capital gains and/or dividends, depending on the tax status of the manager and the form of the carried interest.

¹⁵ Capital gains on securities realised within six months are taxable at the normal tax rate together with the other income (current maximum rate of 38.95%).



3. Future developments

As mentioned earlier, fiscal pressure is set to slightly increase as contributions to the unemployment fund will rise to 3.5% on the current tax rate.

Approval of the SICAR fund structure is still pending at European level.

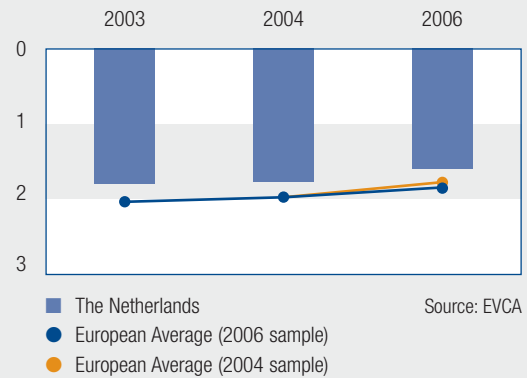
The Netherlands (1.60)

1. Evolution

The Netherlands has a favourable environment for private equity and venture capital with a composite score of **1.60**, which is better than the European average of 1.84.

Although only a slight improvement in the tax and legal environment has been recorded since 2004, the country has kept its position in the top ten of the 2006 European ranking.

Figure 114: Evolution of the Dutch tax and legal environment

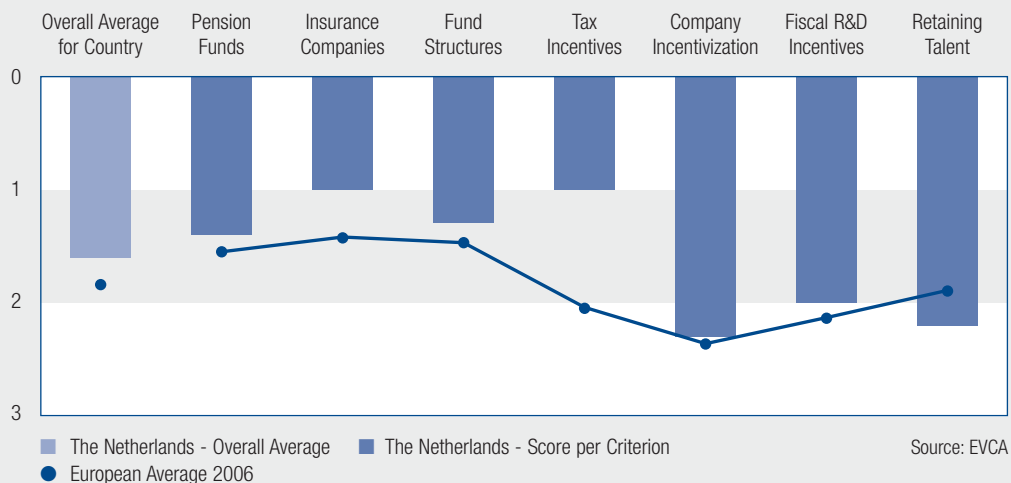


2. Current situation

The Netherlands provides a good environment for limited partners and fund managers, not only because pension funds and insurance companies can both participate in the private equity and venture capital market, but also because there are several appropriate domestic fund structures available, as well as tax incentives to encourage investment in the asset class.

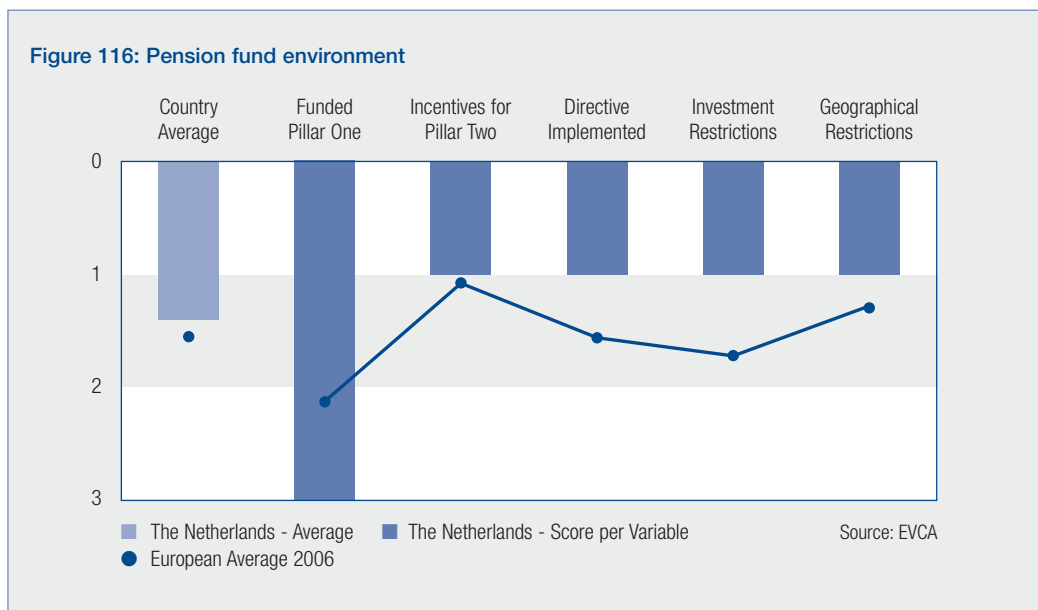
However, improvements could still be made with regard to company incentivization, fiscal R&D incentives and retaining talent in investee companies and management funds.

Figure 115: Current situation



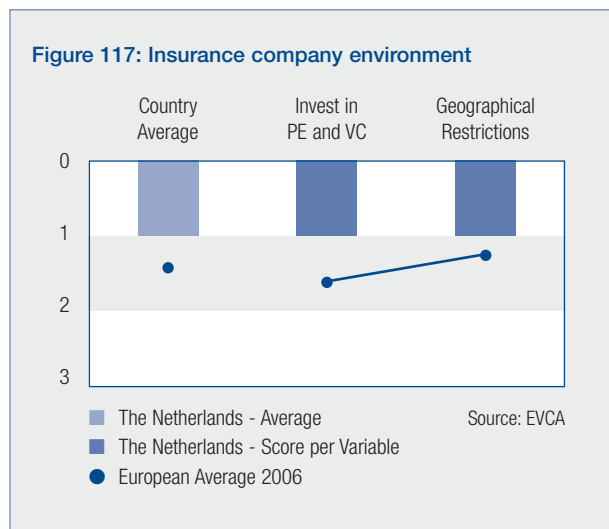
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The Netherlands has a very favourable pension fund environment, with some of its occupational pension funds being very active investors in the private equity and venture capital market. Although there is no funded pillar one pension system, incentives for pillar two pension plans are available. Furthermore, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision is fully implemented and there are no further quantitative restrictions for pension funds to invest in private equity and venture capital in and outside the Netherlands within Europe.



2.1.2. Insurance companies can invest in private equity (PE) and venture capital (VC) with no quantitative restrictions other than those set by EU Directive 2002/13/EC.

Furthermore, there are no geographical restrictions for insurance companies to invest in the asset class outside the Netherlands within Europe.



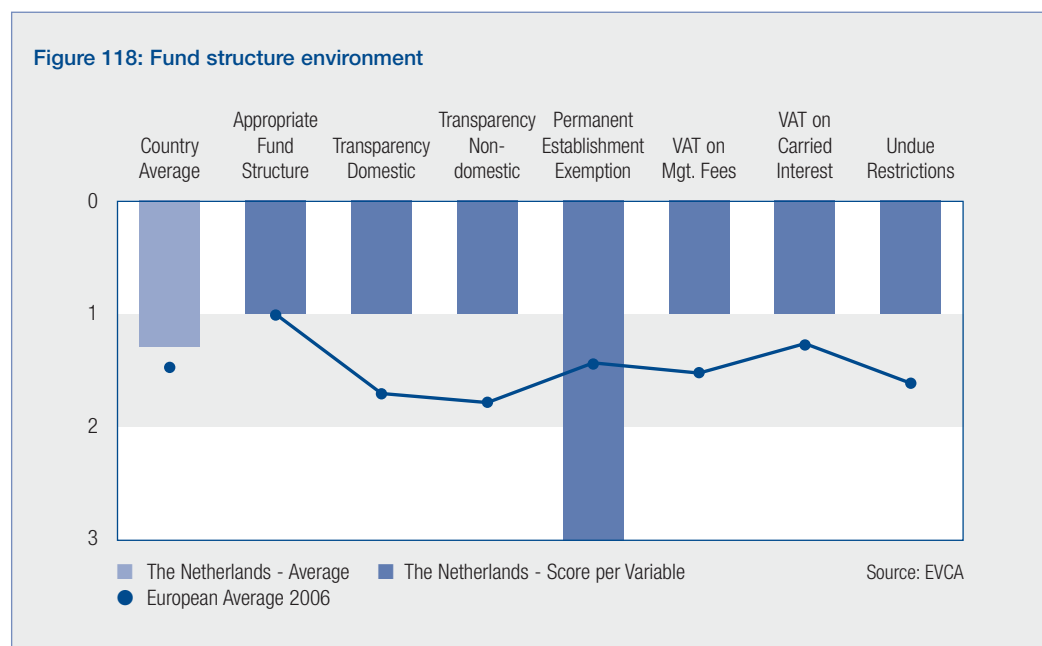
2.1.3. Fund structures

The Netherlands has two domestic fund structures that are suitable for investments in private equity and venture capital: the *Commanditaire Vennootschap* (CV) or Limited Partnership and the *Besloten Vennootschap* (BV) or Limited Liability Company.

The CV¹⁶ is tax transparent for both domestic and non-domestic investors, provided that the admission and substitution of a limited partner is subject to the consent of all other partners.

However, the Netherlands is one of the few European countries where the participation of international limited partners creates a permanent establishment, thus becoming liable for taxes. But it is possible to achieve tax exemption under the participation exemption regime.

Management fees and carried interest are not necessarily liable for VAT, and the CV is free from undue restrictions on investments.



2.1.4. Tax incentives for private equity and venture capital

The Netherlands provides tax incentives for private individuals investing in certain “designated venture capital funds” where the return can be excluded from taxable income and losses incurred can be deducted.

2.2. The environment for investee companies

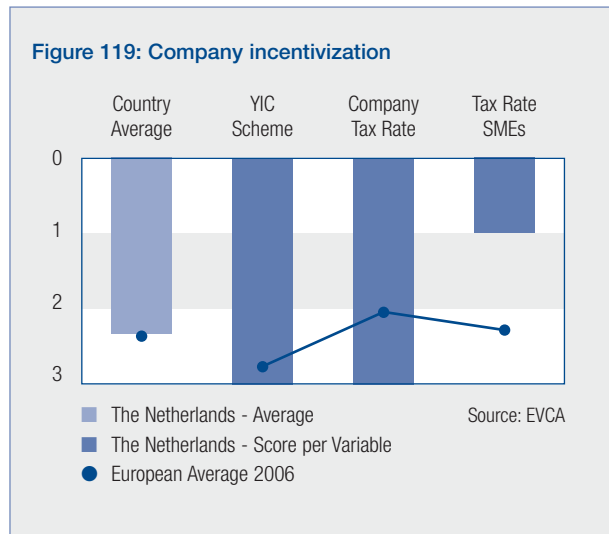
2.2.1. Company incentivization

There is no specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC) in the Netherlands.

¹⁶ The analysis presented refers to the CV only. Please note that the BV is not tax transparent, but provides the ability of avoiding a permanent establishment.

The company tax rate is 29.6% for profits above €22,689, which is slightly higher than the European average (26.2%). This rate is lower than the 31.1% rate applied in 2005 and there are further plans to reduce it to 25.5% as of 2007.

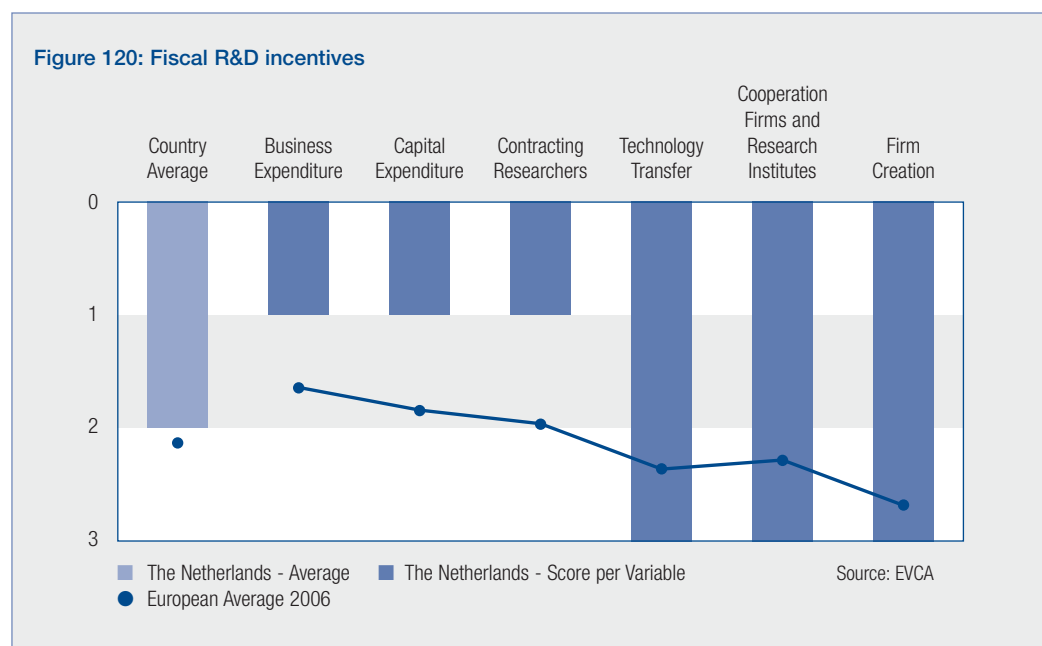
At the same time, a lower tax rate of 25.5% is available for profits of up to €22,689, with plans to lower this rate further in 2007.



2.2.2. Fiscal R&D incentives

A number of fiscal R&D incentives are available in the Netherlands. The country provides fiscal incentives for business R&D expenditure (WBSO or Research and Development (Promotion) Act) and R&D capital expenditure, allowing for a reduction in wage taxes with respect to R&D-related salaries. Moreover, free depreciation is available for investments in specific types of fixed assets (including environment-friendly investments or investments employed in start-up companies). Finally, the Netherlands provides a fiscal incentive for contracting researchers, including those coming from outside the Netherlands.

No fiscal incentives are available for the transfer of technology or cooperation between firms and research institutes/universities. Dutch tax legislation provides tax incentives in case of certain spin-offs, but these incentives are not specific for innovative firms.



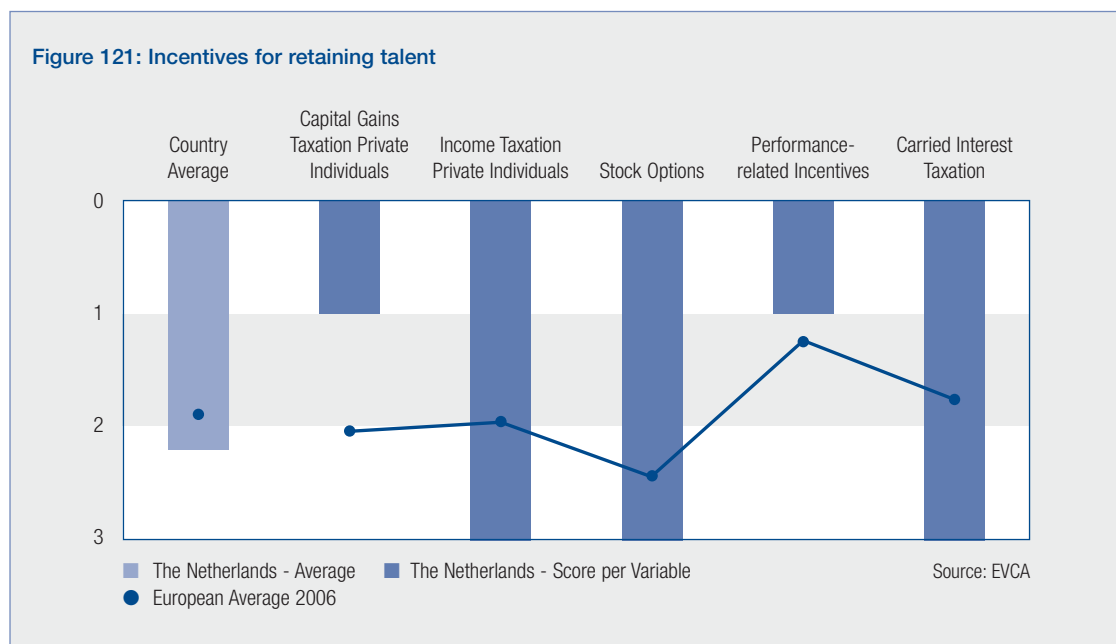
2.3. The environment for retaining talent in investee companies and management funds

Retaining talent in investee companies and management funds is the only area covered in this paper where the Netherlands is less well positioned with respect to the European average (2.20 compared to a European average of 1.89).

The income tax rate for private individuals can be as high as 52%, which is above the European average of 42%. Capital gains on shares held by private individuals, however, are exempt from taxation where less than a “substantial interest” is owned (i.e. 5% of the issued share capital of a company). If ownership exceeds this percentage, capital gains are taxed at a flat rate of 25%.

Stock options for investee company managers and employees are taxed upon exercise, which is sub-optimal when compared to the taxation on the sale of the underlying shares.

Finally, it is possible to structure a performance-related incentive (i.e. carried interest or preference shares) within the CV and the BV, but the Dutch revenue authority argues that carried interest should be taxed as income from employment.



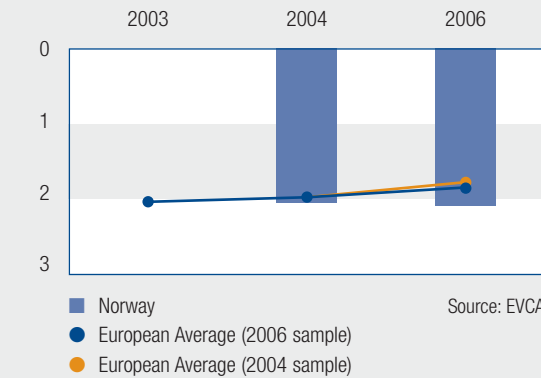
3. Future developments

Besides further plans to reduce the company tax rate from 29.6% to 25.5% in 2007, the country intends to introduce a “patentbox” in January 2007 that – provided certain conditions are met – allows royalty income to be taxed against a probable 10% tax rate.

1. Evolution

Since its first entry in the EVCA Benchmark exercise in 2004, Norway's situation has remained quite stable, ranked slightly below the overall European average of 1.84 at **2.08**. As the rest of Europe has improved at a higher pace, Norway's relative positioning in the overall European classification has gone slightly backwards.

Figure 122: Evolution of Norwegian tax and legal environment

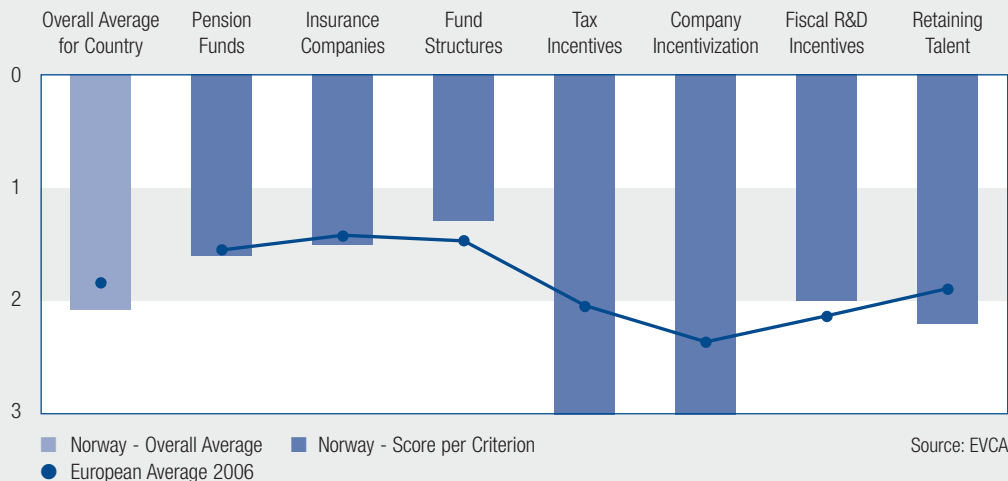


2. Current situation

The Norwegian tax and legal environment for private equity and venture capital still leaves room for improvement. Pension funds as well as insurance companies in Norway are allowed to invest in the asset class, but are subject to certain quantitative restrictions. Moreover, the country does not have any tax incentive to encourage private equity and venture capital investments.

Regarding the overall environment for investee companies and retaining talent, taxation remains a key issue, both for companies and for private individuals.

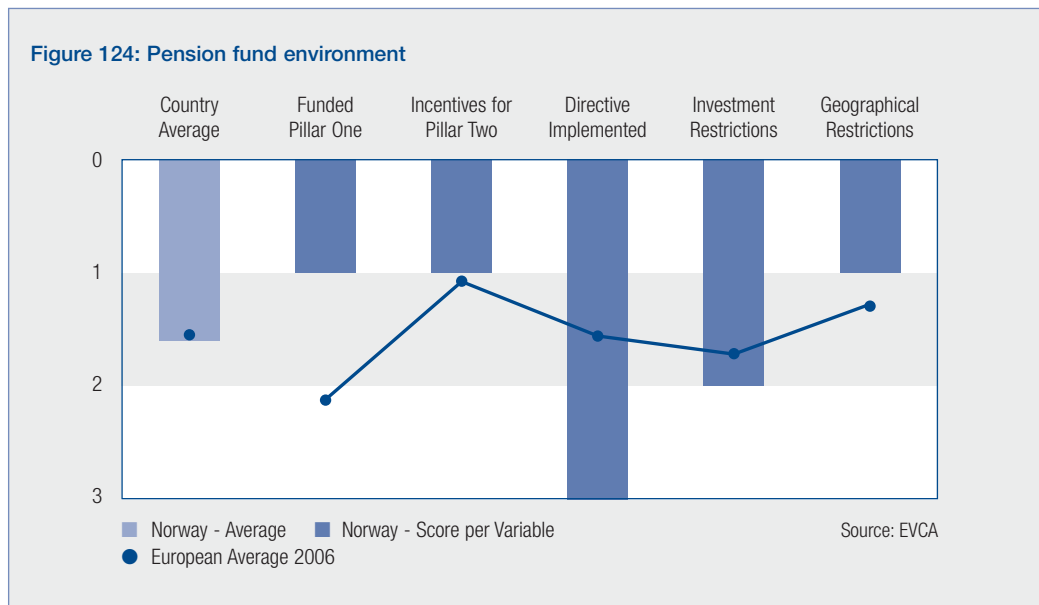
Figure 123: Current situation



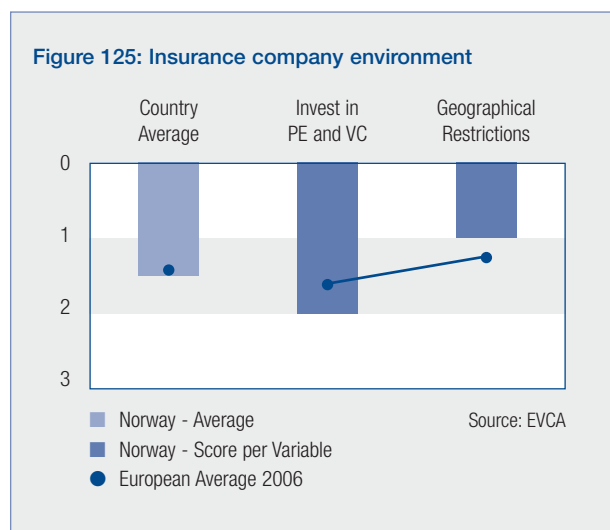
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The **pension fund** environment in Norway is relatively favourable. Not only does the country provide a funded pillar one pension system, but it also provides several incentives for complementary pillar two pension plans.

Norway has not yet implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, but it should be remembered that it is not a European Union Member State. Pension funds are nevertheless allowed to invest in private equity and venture capital, but are subject to quantitative restrictions. The new rules to be implemented are expected to include a provision stating that assets constituting non-listed transferable shares, company interests and certain defined receivables may not exceed 10% of the pension fund's capital allocated for the collective portfolio. Restrictions exist as well on investments outside Norway, but they do not apply for non-listed shares.



2.1.2. **Insurance companies** in Norway can invest in private equity (PE) and venture capital (VC), but are subject to certain quantitative restrictions that are below the limitations defined by EU Directive 2002/13/EC. More specifically, the assets constituting non-listed transferable shares, company interests, interests in mutual funds and certain defined receivables may not exceed 5% of the insurance company's capital.

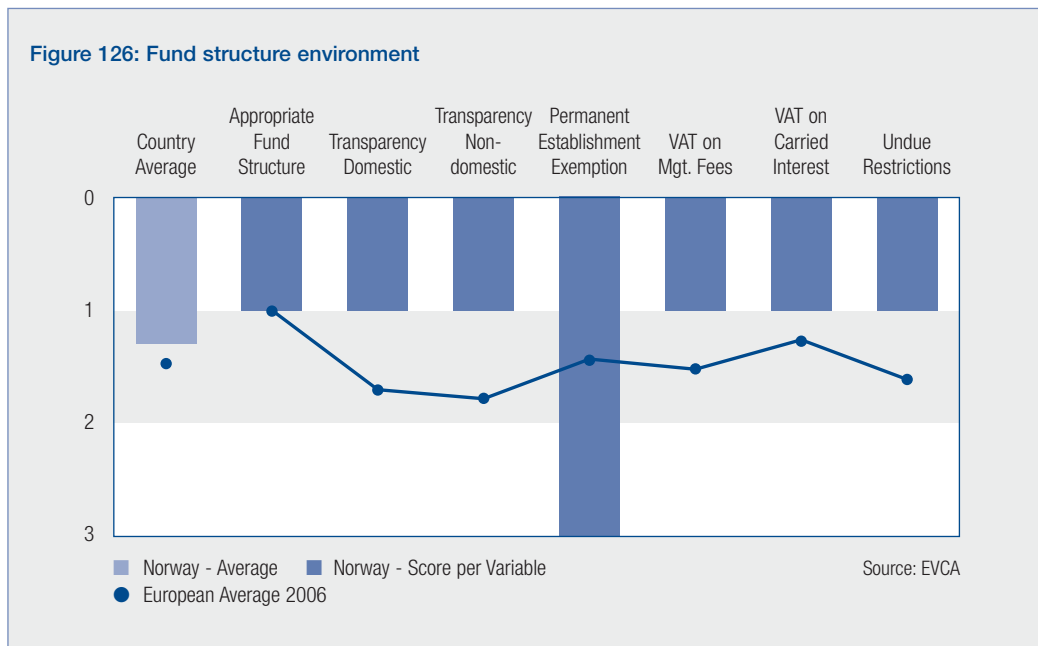


As for pension funds, there are restrictions for insurance companies to invest abroad, but they do not apply for non-listed shares.

2.1.3. Fund structures

Norway has two different fund structures that are suitable for investing in private equity and venture capital: a KS (equivalent of Limited Partnership) and an AS (equivalent of Limited Liability Company).

A *Kommandittselskap* or KS is tax transparent for domestic as well as non-domestic investors. However, international investors will normally be considered as having a permanent establishment through their participation in a KS. Both management fees and carried interest are not necessarily liable for VAT, and a KS is free from undue restrictions on investments.



2.1.4. Tax incentives for private equity and venture capital

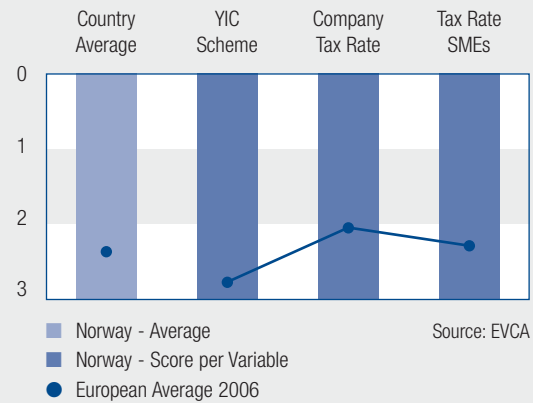
There are no incentives available in Norway to encourage investments in private equity and venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

Improvements can still be made to several aspects of Norway's set-up for company incentivization. The country does not have a specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC), nor does it provide a special company tax rate for small and medium-sized enterprises (SMEs). Moreover, the company tax rate of 28% is above the European average of 26.2%.

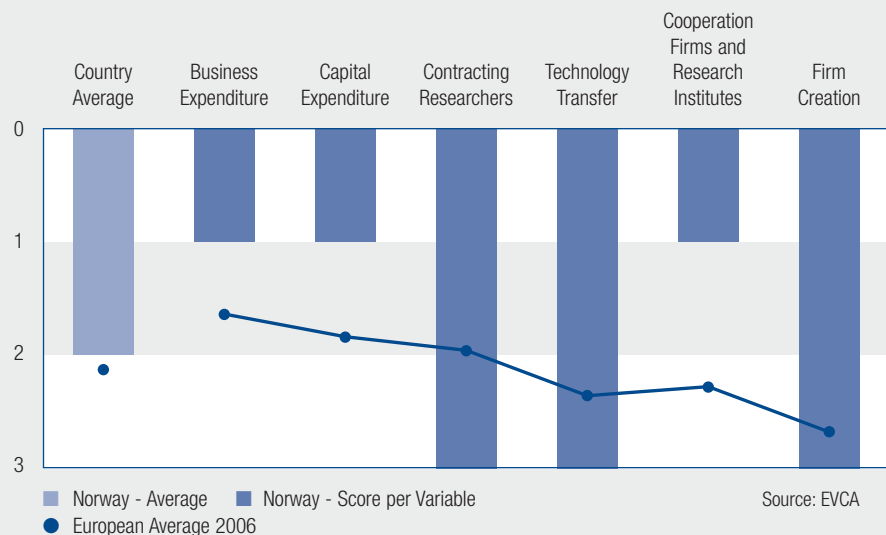
Figure 127: Company incentivization



2.2.2. Fiscal R&D incentives

Norway offers only few fiscal R&D incentives for business R&D expenditure and R&D capital expenditure (through the Research and Development Tax Credit or *Skattefunn*), and for cooperation between firms and research institutes/universities. The Research and Development Tax Credit is available to small and medium-sized companies at the value of 18% or 20% (depending on certain conditions) of relevant expenditure up to NOK 4 million (€493,305), and comes on top of deductibility for the same expenditure. If R&D is purchased from a university or other research organisation, the limit is NOK 8 million (€938,611). Excess tax credits are re-paid to qualifying companies. R&D capital expenditure may generally, and on specific conditions, either be logged as expenses, be depreciated annually or be added to the acquisition cost of the relevant capital asset.

Figure 128: Fiscal R&D incentives



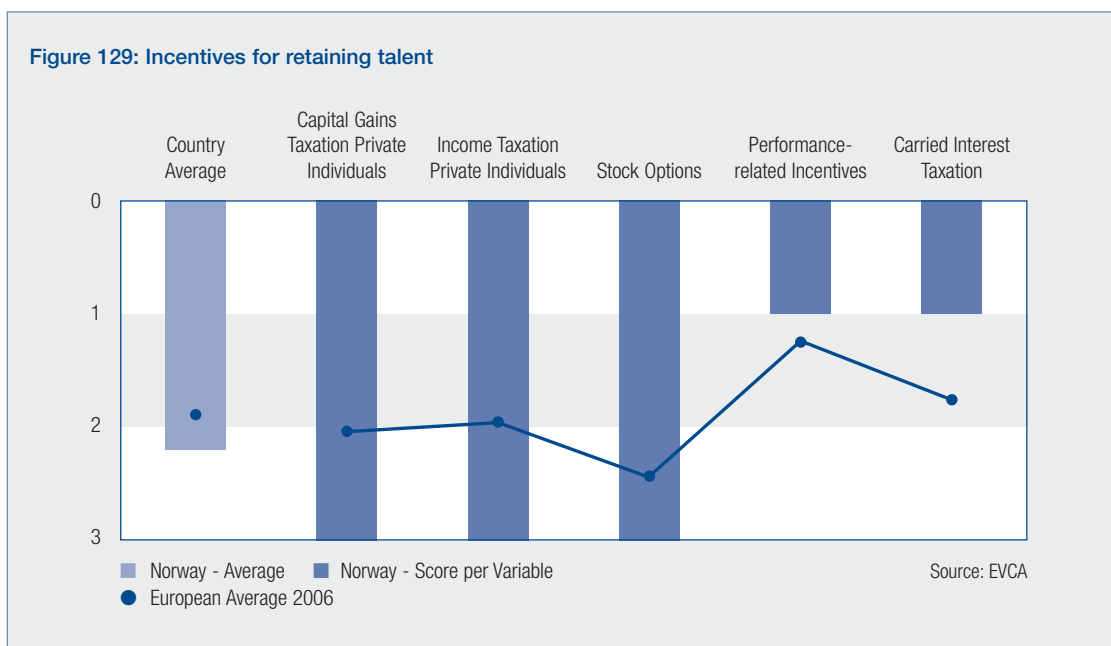
There are no such incentives for contracting researchers, technology transfer or the creation of innovative firms.

2.3. The environment for retaining talent in investee companies and management funds

With regard to the taxation of capital gains and income of private individuals, Norway still ranks quite unfavourably in comparison to other European countries. The capital gains tax rate for private individuals in Norway amounts to 28%¹⁷, which is above the European average of 15%. And, although the highest income tax rate has been lowered from 55.3% to 50.7%, it is still well above the European average of 42%.

Stock options for investee company managers and employees are taxed upon exercise.

A performance-related incentive can be incorporated for fund managers and carried interest schemes may be taxed as capital gains, depending on the structure and amount invested by the management company.



3. Future developments

As mentioned before, new pension fund investment rules are expected to include a provision stating that assets constituting non-listed transferable shares, company interests and certain defined receivables may not exceed 10% of the pension fund's capital allocated for the collective portfolio.

¹⁷ Capital gains derived from share investments and earned in a limited company are exempt from tax. Thus, most individuals now own shares through private holding companies.

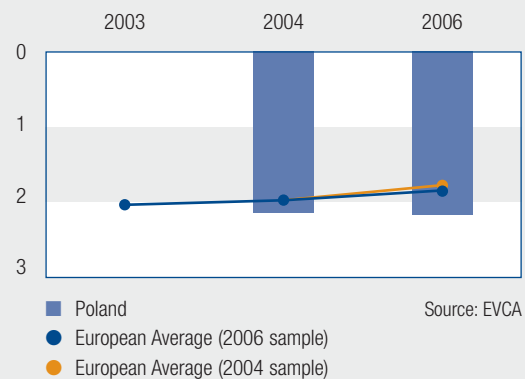
Poland (2.16)

1. Evolution

Poland was added to the Benchmark exercise in 2004. At that time the country average added up to 2.13, which put Poland in the lower part of the overall European ranking.

The tax and legal environment for private equity and venture capital has not developed much since then. In 2006 the composite score totals 2.16 keeping Poland at the bottom of the classification.

Figure 130: Evolution of Polish tax and legal environment

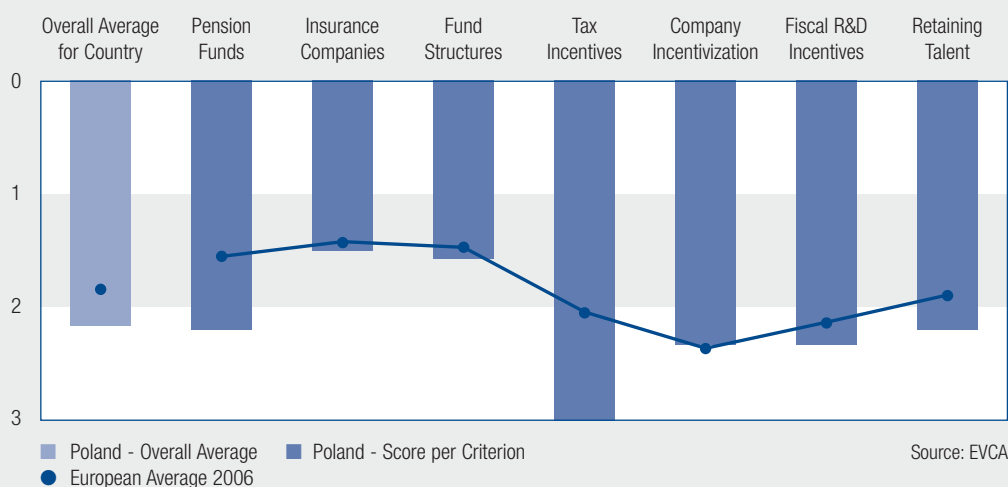


2. Current situation

Poland has an unfavourable environment for private equity and venture capital. Both pension funds and insurance companies have to abide by a list of allowed categories of investment and quantitative restrictions. Although Poland provides a suitable domestic fund structure for the asset class, the market has just started to test it and the vast majority of private equity and venture capital funds investing in Poland uses foreign fund structures.

There are no tax incentives for investing in private equity and venture capital, and only few to encourage investment in R&D activity. Furthermore, there is certainly room for improvement when it comes to company incentivization and the environment for retaining talent.

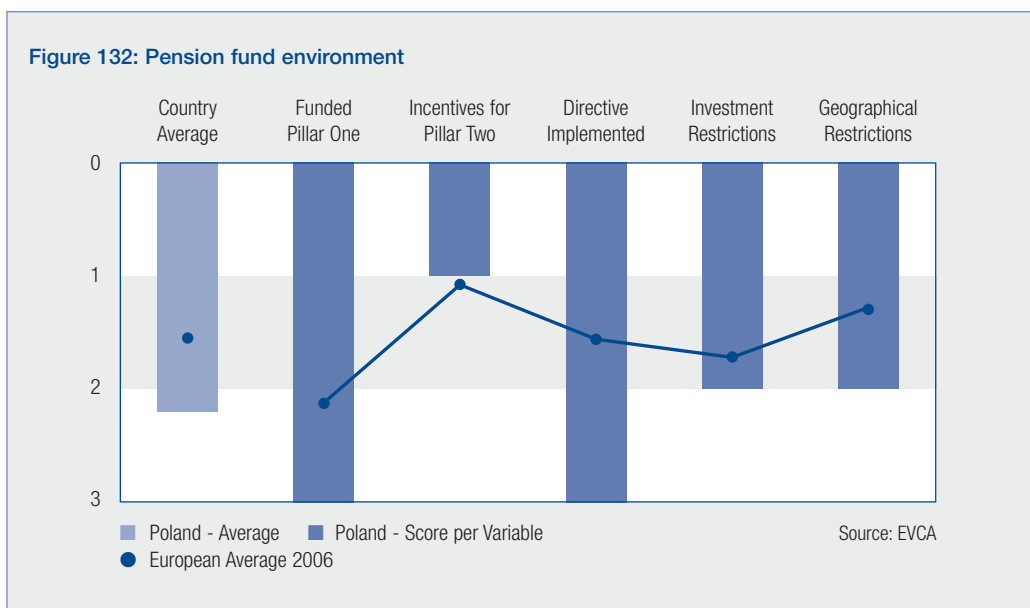
Figure 131: Current situation



2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The Polish **pension fund** environment is very unfavourable and still leaves room for improvement. There is no funded pillar one pension system and Poland has not fully implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision. As a consequence, pillar two pension funds (*Fundusz Emerytalny*) cannot apply a “prudent person rule” but have a list of allowed investments (excluding private equity) and quantitative restrictions defined in the pension funds law. As such, Polish pension funds cannot invest in the private equity asset class and only 5% of their assets may be invested abroad in OECD countries. However, investments in private equity or venture capital can be made either through a regular publicly listed joint-stock closed-end investment fund for non-public assets, or a closed-end investment fund for non-public assets. Investment in certificates of closed-end investment funds cannot exceed 10% of a pension fund’s assets.

On the positive side, Polish tax law provides a range – though very limited - of fiscal incentives for complementary pillar two pension plans.

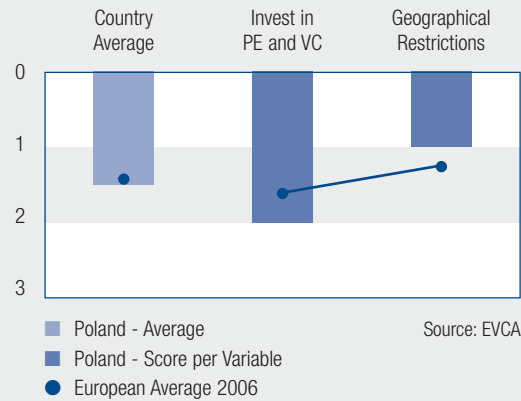


2.1.2. The Polish insurance law lists allowed categories of investment and sets out the percentages of the technical reserves that can be invested in each asset class. As such, although private equity (PE) is not included in the list, **insurance companies** can invest up to 10% in mortgage bonds, shares of joint stock companies and shares of Limited Liability Companies not traded on the regulated markets.

Similar to pension funds, private equity investment is theoretically allowed if it is made as an investment into certificates of a domestic closed-end investment fund for non-public assets. However, this is a new vehicle and has not been tested by private equity investors yet.

There are no geographical restrictions for investments in assets/funds registered in the European Union or the OECD.

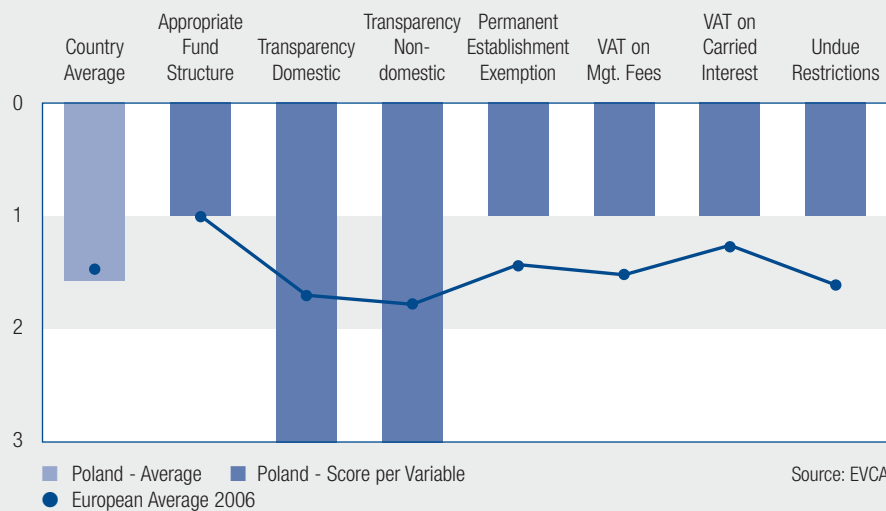
Figure 133: Insurance company environment



2.1.3. Fund structures

The most suitable domestic fund structure for private equity and venture capital is the Closed-End Investment Fund for Non-Public Assets (CEIF), which has not been widely tested by the market.

Figure 134: Fund structure environment



The fund itself is not tax transparent for domestic or non-domestic investors, but it is tax exempt. Investments by international investors in a CEIF do not necessarily create a permanent establishment in Poland. The structure also offers the ability of not paying VAT on the management fees as well as on carried interest, if it is treated as a distribution of profits.

Finally, a CEIF is free from undue investment restrictions.

2.1.4 Tax incentives for private equity and venture capital

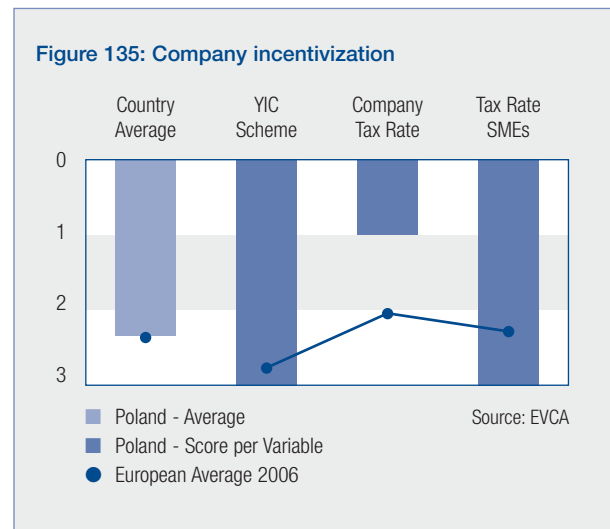
Poland does not offer any tax incentives to encourage investments in private equity and venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

Poland does not have a specific scheme for young innovative companies (YIC) and also lacks a special company tax rate for small and medium-sized enterprises (SMEs).

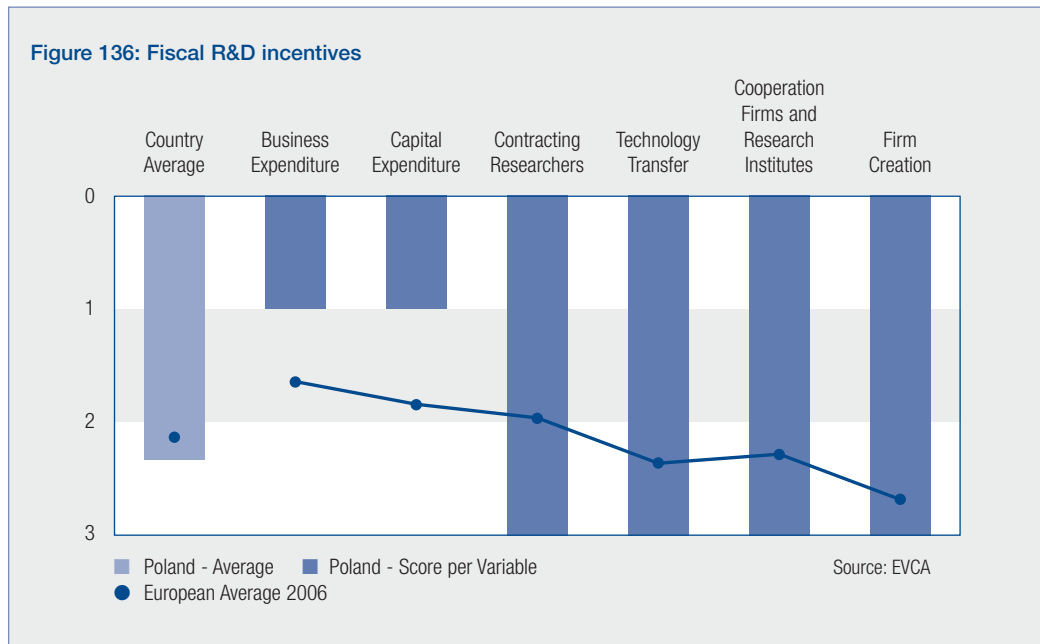
However, Polish companies enjoy one of the lowest company tax rates in Europe at 19%, thus staying well below the European average of 26.2%.



2.2.2. Fiscal R&D incentives

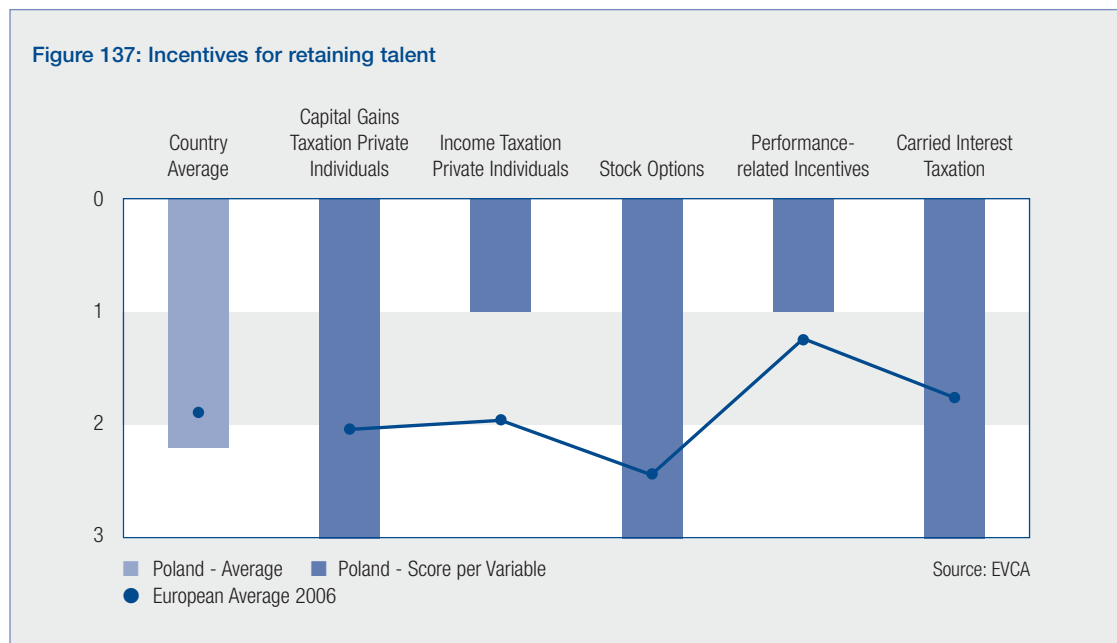
Poland is on the right track regarding fiscal R&D incentives, with several incentives still in the pipeline. Poland provides fiscal incentives for business R&D expenditure and R&D capital expenditure through, among others, the law on Research and Development Centres. The country also provides some indirect limited fiscal incentives for contracting researchers, but they concern the researchers themselves and not the company.

Poland currently does not have any fiscal incentives for technology transfer, cooperation between firms and research institutes/universities or the creation of innovative firms, but several incentives have been proposed and might come into force in the (near) future (please see 3. Future developments).



2.3. The environment for retaining talent in investee companies and management funds

Retaining talent in investee companies and management funds is still an area that needs improvement in Poland.



The capital gains tax rate for private individuals in Poland is 19%, which is above the European average of 15%. The income tax rate for private individuals can reach 40%, which is below the European average of 42%.

The tax implications for stock options of investee company managers and employees depend on the model of the given scheme. Both the exercise of an option and the sale of the underlying share are taxable events.

In addition, performance-related incentives can be incorporated for fund managers and in a purely domestic context, carried interest is treated as profit from business activity and taxed with CIT (Corporate Income Tax) at 19%.

3. Future developments

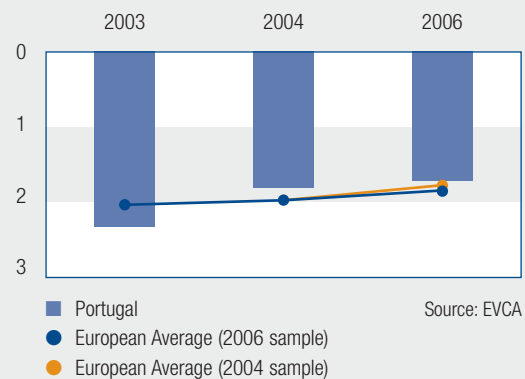
In 2005, a provision was introduced according to which most entrepreneurs would be able to put as expenses up to 50% (SME) or 30% (non-SME) of expenditure on the purchase of certain new technology from a research unit or an R&D centre. However, the provisions never came into force. It is currently being considered whether to make the purchase of new technologies possible at more outlets, and not just research units and R&D centres. Furthermore, it is planned that all companies will be entitled to deduct 50% of the cost of any intangible asset up front. It is expected that this amendment will come into force retroactively (from 1 January 2006).

There are no classic incentives for young innovative spin-offs. As part of the above-mentioned provision, each new business classified as an R&D centre would be able to deduct 20% of the prior month's revenue from taxable income. This was to be allocated to the business Innovation Fund. In addition, R&D activities would be exempt from local taxes for an R&D centre (this should qualify as *de minimis* aid). If the provision comes into force, it could be regarded as an incentive to spin out a company's R&D activity.

1. Evolution

Over the past four years Portugal has improved its tax and legal environment for private equity and venture capital, climbing from a position in the lower half of the overall ranking in 2003 to a score of 1.81 in 2004, which was better than the European average of 1.97. With a country average of **1.71** in 2006, Portugal has maintained its position among those countries with a better composite score than the European average (1.84). However, its relative positioning has gone slightly backwards as the rate of national improvements has not followed at the same speed as in other countries.

Figure 138: Evolution of Portuguese tax and legal environment

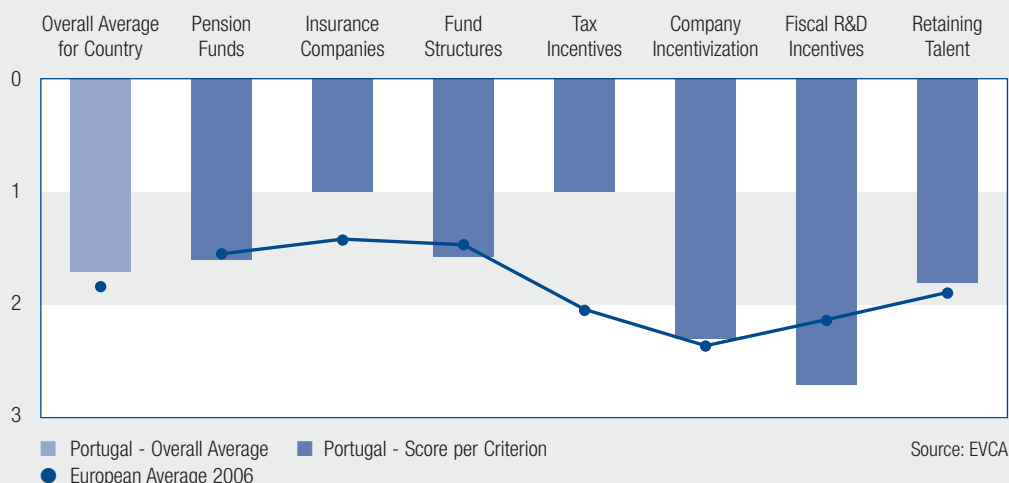


2. Current situation

Although the overall environment for limited partners and fund managers in Portugal is quite favourable, there is some room for improvement. While insurance companies can freely invest in private equity and venture capital, pension funds are still subject to quantitative restrictions. Moreover, even if the country provides a specific domestic fund structure for private equity and venture capital investments, this vehicle is not free from undue restrictions.

The environment for investee companies is less favourable, both with regard to company incentivization and fiscal incentives to encourage R&D investments. More improvements could also be made in the field of retaining talent, in particular with respect to the taxation of stock options and carried interest.

Figure 139: Current situation

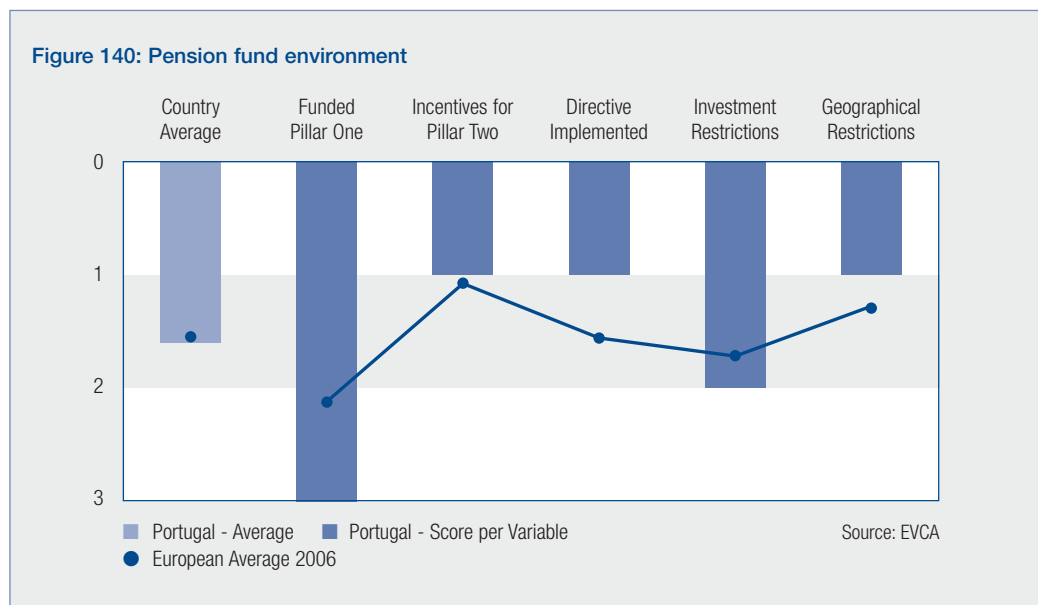


2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Portugal does not have a funded pillar one [pension system](#) but incentives for pillar two pension plans are available.

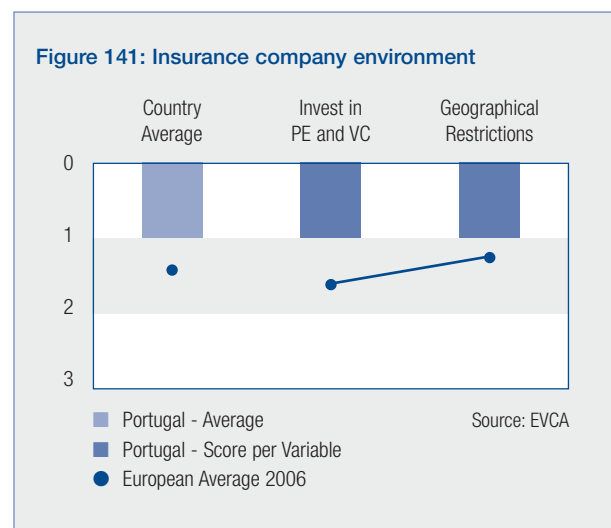
Although pension funds can invest in private equity and venture capital, they are subject to quantitative restrictions (no more than 15% of the fund's assets may be invested in unlisted securities and no more than 5% of the fund's assets may be invested in non-harmonised funds).

The country has fully implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, and there are no restrictions for pension funds to invest abroad within the European Union.



2.1.2. Portugal has a favourable environment for [insurance companies](#) investing in private equity (PE) and venture capital (VC). Insurance companies can invest in the asset class with no quantitative restrictions other than those defined in EU Directive 2002/13/EC.

Furthermore, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.

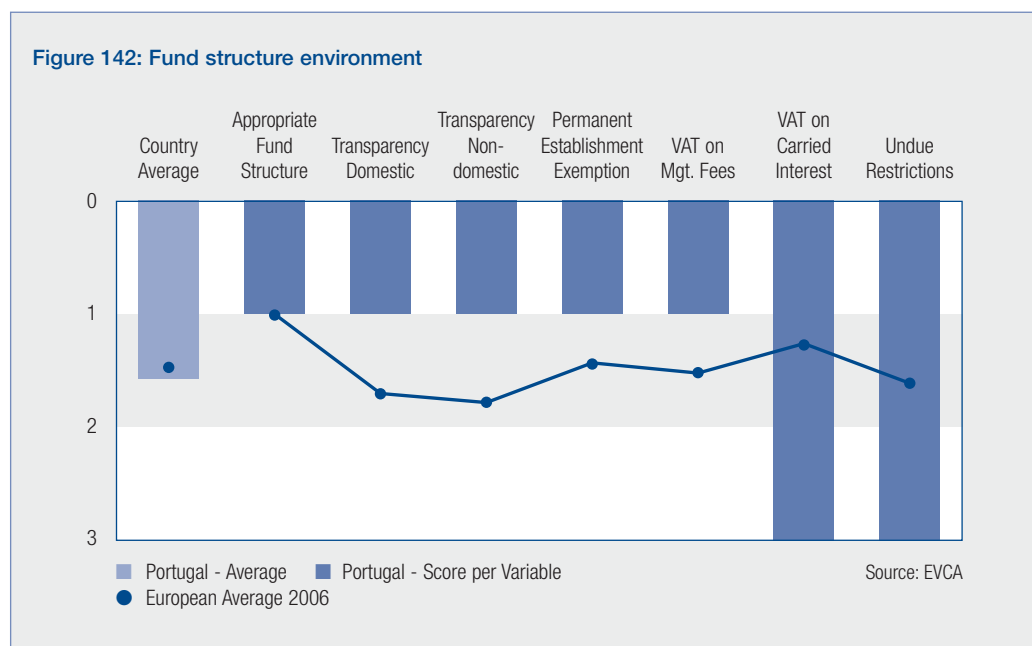


2.1.3. Fund structures

The Portuguese law provides a specific type of fund structure for private equity and venture capital: the *Fundo De Capital de Risco* (FCR).

The FCR is not tax transparent for domestic and non-domestic investors¹⁸, and provides non-domestic investors with the ability to be exempted from having a permanent establishment when investing through the fund. It also offers the ability of not paying VAT on the management fees. However, carried interest is liable for VAT (when not considered as management fees).

The FCR is not free from undue restrictions on investments. It may not invest more than 35% of its assets in a group of companies, or not more than 25% of its assets in a single company in the first and in the last two years of the fund's activity. In addition, its investments in a company may not exceed a period of ten years.



2.1.4. Tax incentives for private equity and venture capital

Portugal offers tax incentives for private equity and venture capital when investing through the FCR (50% of the income from the units will benefit from a tax credit). Moreover, venture capital companies (SCRs or *Sociedades de Capital de Risco*) may deduct 100% of the income received from shareholdings in other companies, under certain circumstances.

¹⁸ It should be noted that the funds are not tax transparent but all the income realised by the fund is exempted from taxation in Portugal. Therefore, not being considered as tax transparent is actually positive because, under the Portuguese regime, if the fund was considered tax transparent the non-resident investor would be deemed to have a permanent establishment. Furthermore, a tax transparent fund may have issues with the application of double tax treaties. Thus, under Portuguese law, it is more favourable not to be considered tax transparent.

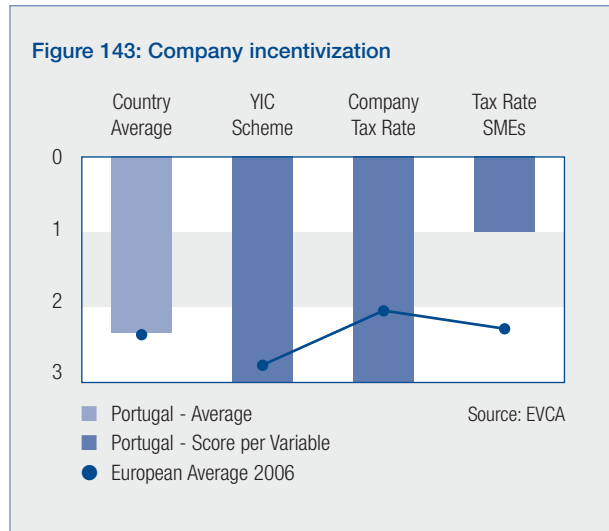
2.2. The environment for investee companies

2.2.1. Company incentivization

Although Portugal provides several schemes for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC), a scheme for young innovative companies including tax incentives does not exist in the country.

In addition, the company tax rate is 27.5%, which is above the European average of 26.2%. The company tax rate is composed of 25%, plus a municipal surcharge of up to 10% on that amount. Although

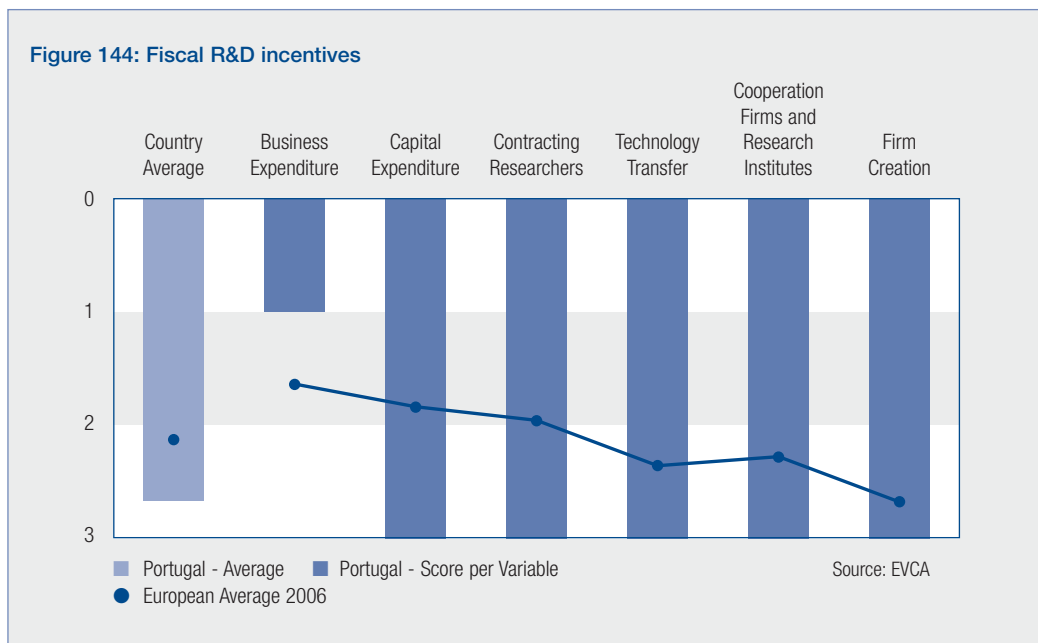
there is no specific company tax rate for small and medium-sized enterprises (SMEs), companies with an annual turnover not exceeding €149,639.37 can benefit from a lower company tax rate.



2.2.2. Fiscal R&D incentives

Portugal does not have a favourable environment for fiscal R&D incentives. The country does not provide any fiscal incentives for R&D capital expenditure, contracting researchers, technology transfer, cooperation between firms and research institutes/universities or the creation of innovative firms.

Portugal only provides fiscal incentives for business R&D expenditure (e.g. SIFIDE).



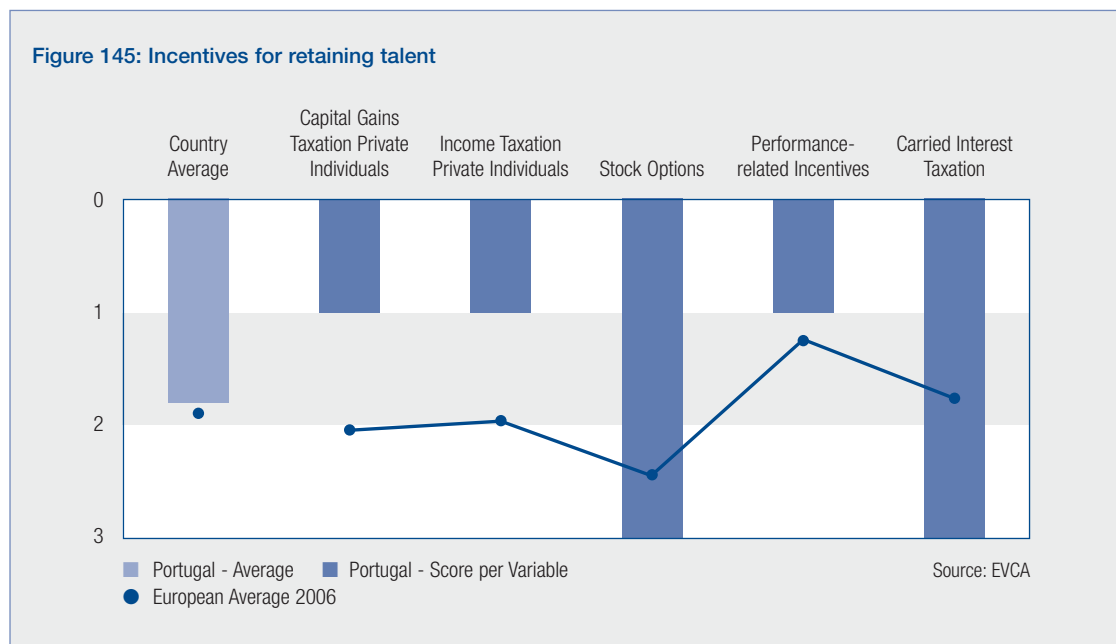
2.3. The environment for retaining talent in investee companies and management funds

Although the overall environment for retaining talent is positive, it could be improved with respect to the taxation of stock options and carried interest.

Since 1 January 2006, the maximum income tax rate for private individuals is 42% (previously it was 40%). This tax rate is slightly below the European average of 42.03%. Capital gains from the disposition of shares are exempted if held for more than twelve months. If held for less than twelve months, the tax rate is 10%.

Stock options for investee company managers and employees are taxed upon exercise.

A performance-related incentive for fund managers can be incorporated, but carried interest is taxed as income.



3. Future developments

In the proposed 2007 budget law, the income obtained by private equity and venture capital funds (organized under Portuguese law) will remain exempted from corporate income tax and the taxation of investors will be significantly reduced.

The new regime would exempt non-resident entities from taxation in Portugal regarding income paid by the fund (this regime is not applicable to low tax jurisdictions and to non-resident companies held by Portuguese residents).

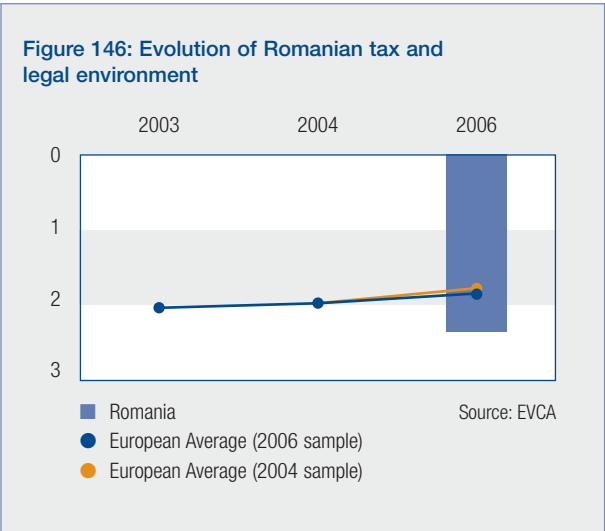
Furthermore, resident individuals would be subject to a 10% withholding flat rate instead of the current 15% rate. As per the resident companies, the withholding rate would be reduced from 15% to 10%.

The main State Guidelines for 2007 (Law 52/2006 - 1 September) foresee the continuation of the reorganisation of financial instruments, including the elimination of the stock options taxation.

1. Evolution

With the country due to join the European Union in January 2007, Romania has been added to this year's EVCA Benchmark report. A comparison of the country's current situation with respect to previous years is therefore not possible.

With a composite score of 2.35, Romania is at the bottom of the overall European classification but it should be noted that several legislative changes are in progress.

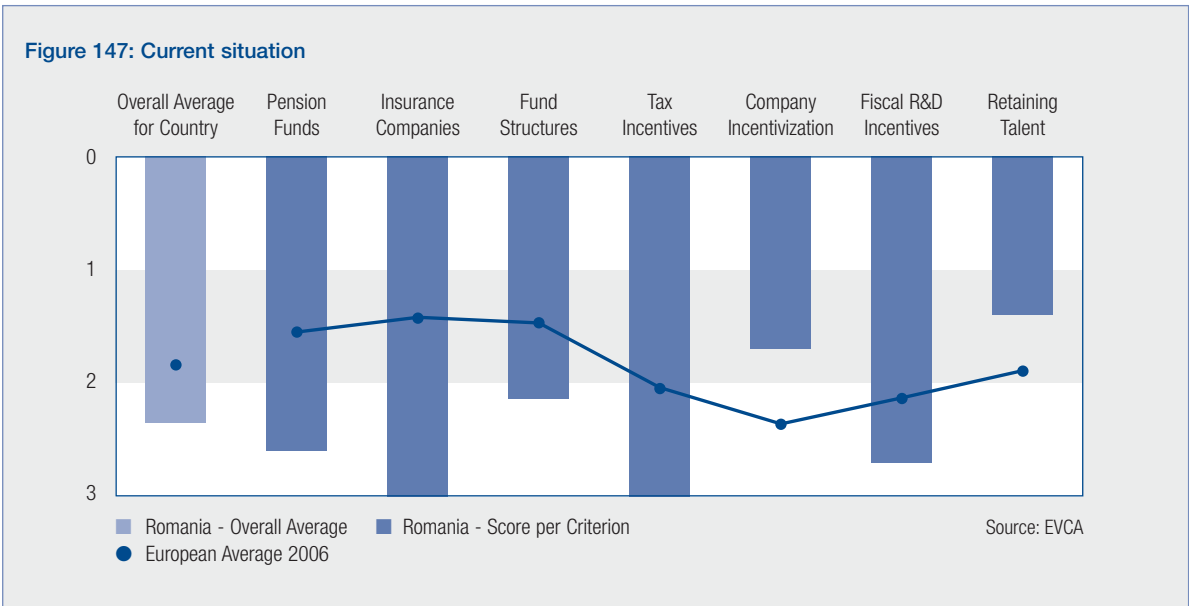


2. Current situation

The current Romanian tax and legal environment for private equity and venture capital is unfavourable. The situation for limited partners and fund managers can be improved in many areas, as neither pension funds nor insurance companies can invest in private equity and venture capital, and as there are no tax incentives for investing in the asset class. Although Romania provides an appropriate domestic fund structure for private equity and venture capital investments, the vehicle is not tax transparent and not free from undue restrictions.

Moreover, whereas Romania provides a good environment for company incentivization, a lot of progress could still be made in the field of fiscal R&D incentives.

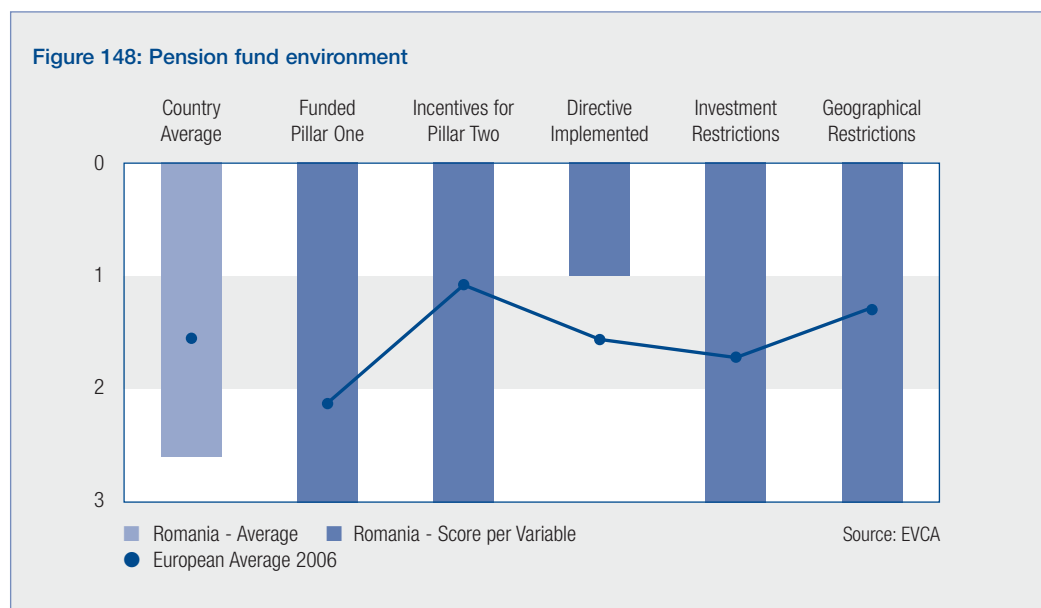
Finally, however positive the environment for retaining talent is, the taxation of carried interest could still be reviewed.



2.1. The tax and legal environment for limited partners and fund managers

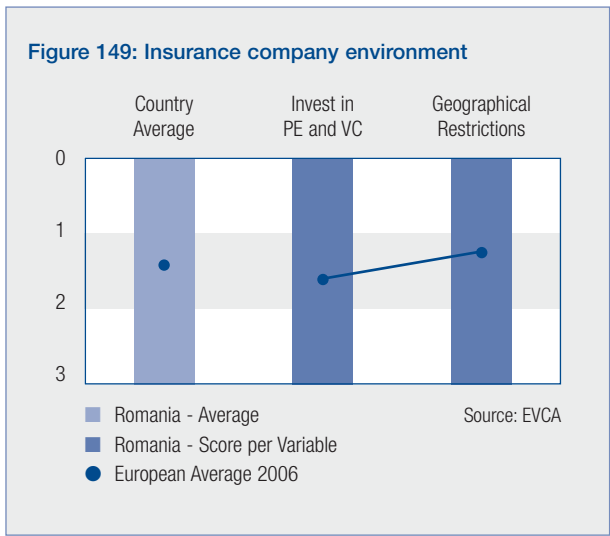
2.1.1. Romania has a relatively unfavourable environment for limited partners investing in private equity and venture capital. The country does not provide a funded pillar one pension system and there are currently no tax incentives available for complementary pillar two pension systems¹⁹. Although Romania has not yet joined the European Union, EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has already been implemented.

Under current law, **pension funds** are not allowed to invest in private equity or venture capital funds, but only in securities traded on regulated capital markets. However, additional investment norms will be developed over the coming months, which might provide specific information on private equity and venture capital. Similarly, under current law, private pension funds are not allowed to invest abroad, with the exception of investments in securities issued by governments, investments in non-government organisations if traded on a regulated capital market, or investments under certain criteria in UCITS (Undertakings for the Collective Investment of Transferable Securities).



¹⁹ The law on private pension funds was implemented in May 2006, but there are so far no pension funds set up in accordance with that law.

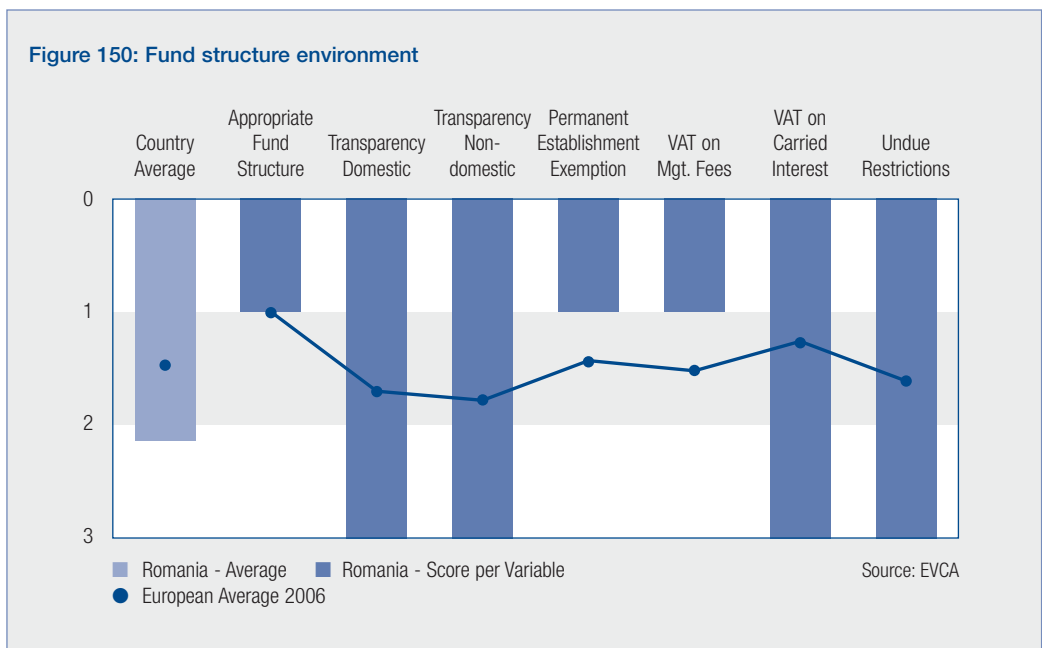
2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC), but only through funds quoted on a regulated market. At present, it would also seem that Romanian insurance companies are only allowed to place their investments on the Romanian market and not within Europe. However, this should change once Romania becomes part of the European Union.



2.1.3. **Fund structures**

Although most private equity and venture capital activity in Romania is done via non-domestic vehicles, it can be argued that the open-investment fund structure is suitable and can be used by local funds to invest in private equity and venture capital. This structure is, however, neither tax transparent for domestic investors nor for non-domestic investors.

The open-investment fund is not considered as having a permanent establishment when the fund is not transparent and management from investors is separate from those of investments. Under the open-investment fund, management fees are not liable for VAT, whereas carried interest is likely to be liable for VAT. Moreover, there are undue restrictions impeding private equity and venture capital investments through the Romanian open-investment fund structure.



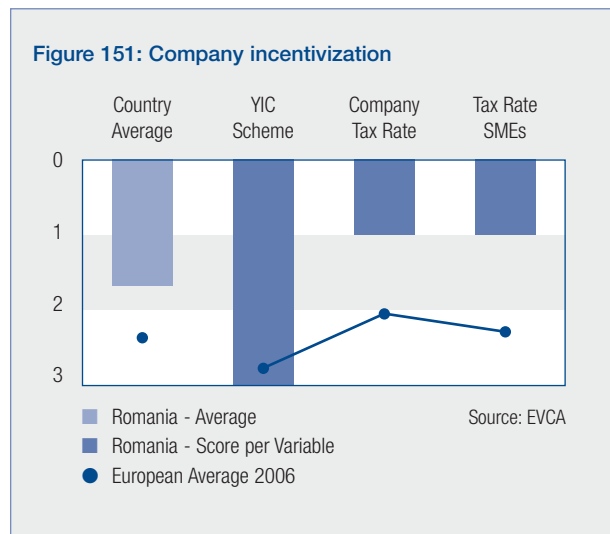
2.1.4. Tax incentives for private equity and venture capital

Romania does not provide any form of tax relief or incentives for investors or private individuals investing in private equity or venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

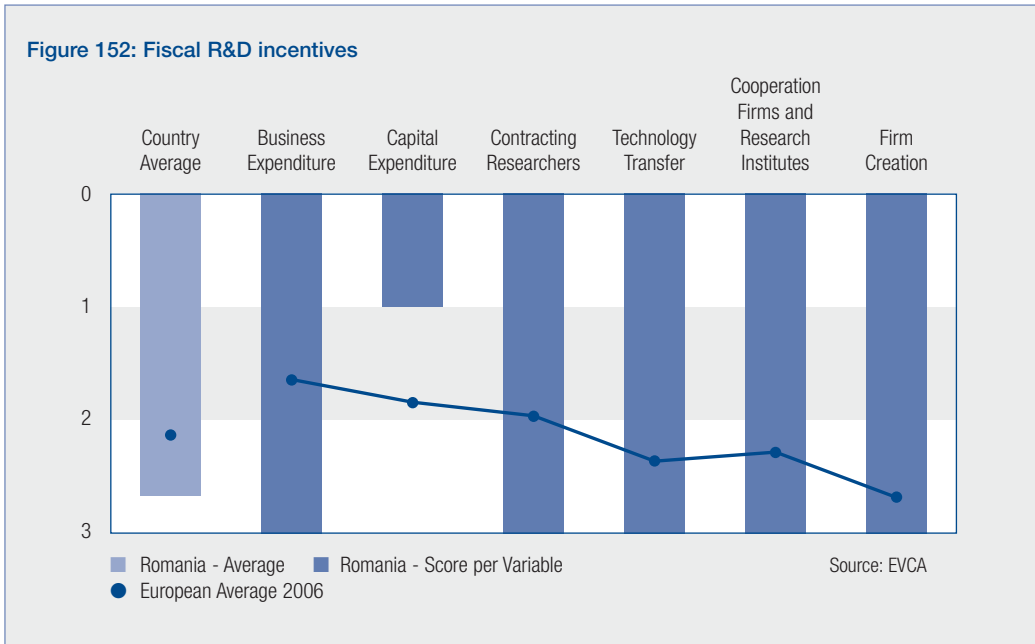
Romania does not offer a specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC), but the company tax rate of 16% is below the European average (26.2%). Moreover, Romania provides a special company tax rate for “micro-enterprises”, which have the possibility to opt for a 3% flat rate applied to the financial turnover. Among other conditions, the company can only have between one and nine employees and a turnover not exceeding certain limits, and the company cannot be state-owned or owned by institutions.



2.2.2. Fiscal R&D incentives

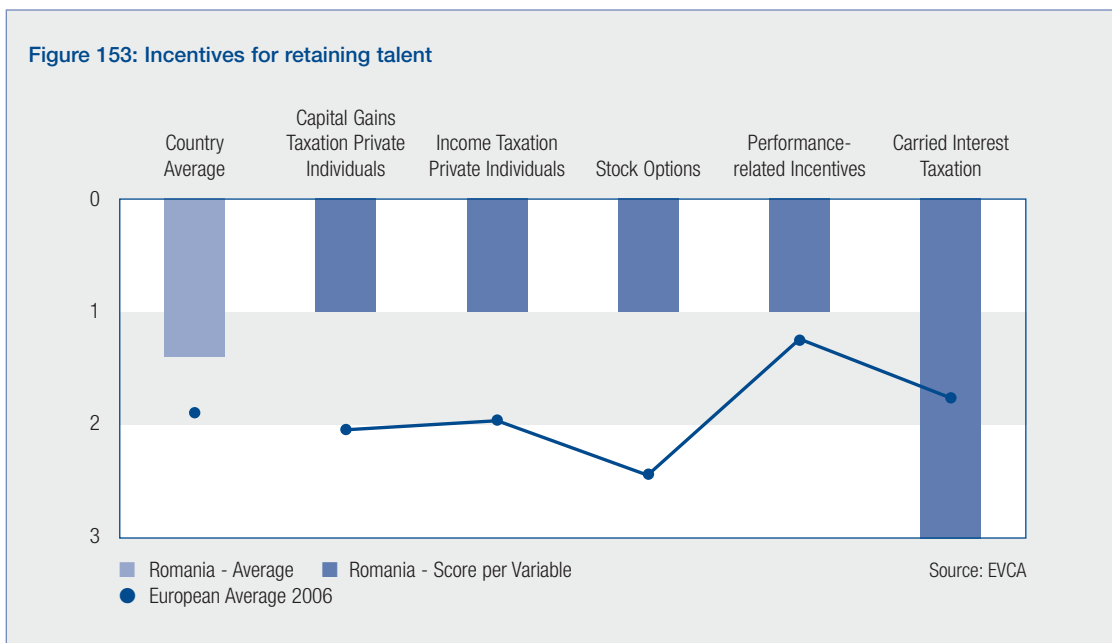
The environment for fiscal R&D incentives is very unfavourable in Romania. The country provides only an incentive for R&D capital expenditure, as an accelerated depreciation rate can be used for R&D-related investments.

No incentives are provided for business R&D expenditure, contracting researchers, technology transfer, cooperation between firms and research institutes/universities or the creation of innovative firms.



2.3. The environment for retaining talent in investee companies and management funds

Capital gains in Romania are taxed at 1% for shares held longer than one year. This will, however, change as of 1 January 2007, when capital gains for private individuals will be taxed at 16%. The income tax rate for private individuals in Romania is equally favourable with a flat rate of 16%, which is well below the European average of 42%.



Under current legislation, stock options for investee company managers and employees are most likely taxed upon the sale of the underlying shares, independent of whether the underlying shares are listed or they refer to private equity and venture capital.

Although it is possible to structure a performance-related incentive within the fund structure, carried interest is likely to be taxed as income.

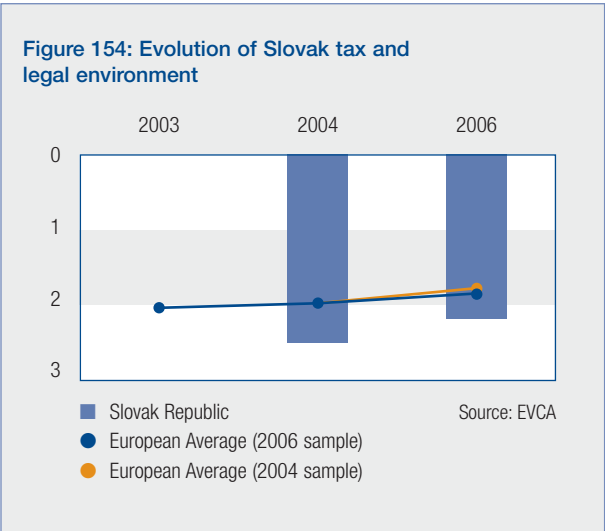
3. Future developments

With respect to the company tax rate for small and medium-sized enterprises (SMEs), it should be noted that, as of 2007 a tax rate of 16% will apply to the company's net income. While the tax rate will be higher, it will apply to a smaller amount (net income as opposed to financial turnover under the current fiscal system). This means that the company will only have to pay more taxes if its net income amounts to at least 20% of its financial turnover.

Moreover, as mentioned above, as of 2007 capital gains will be taxed at 16% for all shares, regardless of the holding period. In this way, the current difference in taxation between long-term and short-term capital gains will be eliminated.

1. Evolution

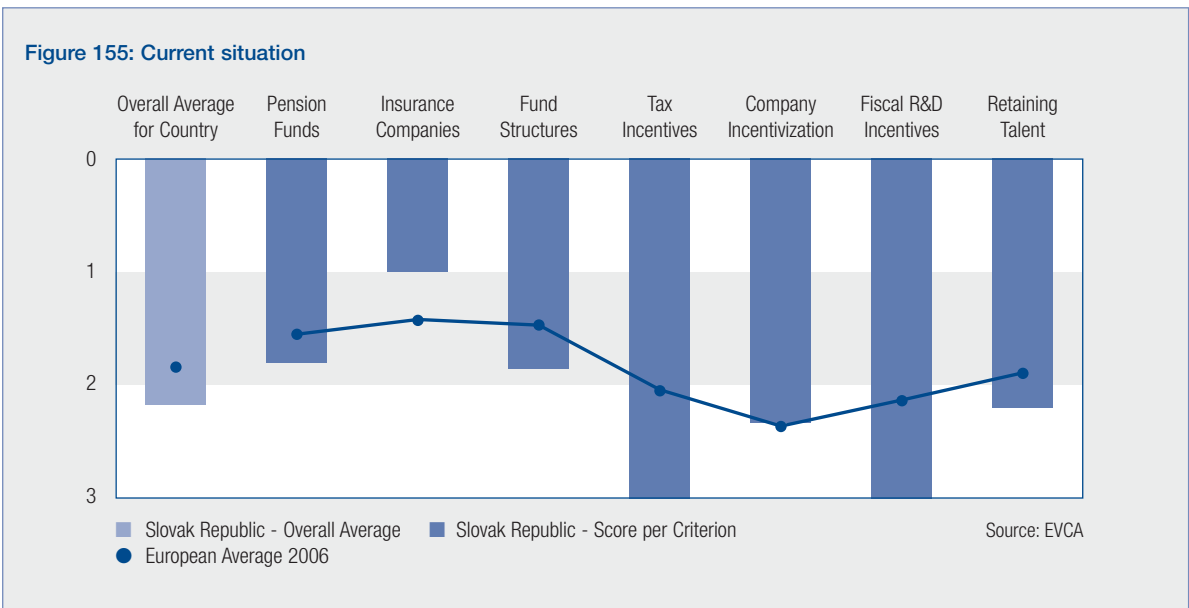
The Slovak Republic was included in the EVCA Benchmark for the first time in 2004. At that time, the country ranked at the bottom of the overall classification with a composite score of 2.49 (versus a European average of 1.97). The country still ranks below the European average with a composite score of 2.17, but it has improved its relative position and is slowly climbing closer to the European average of 1.84.



2. Current situation

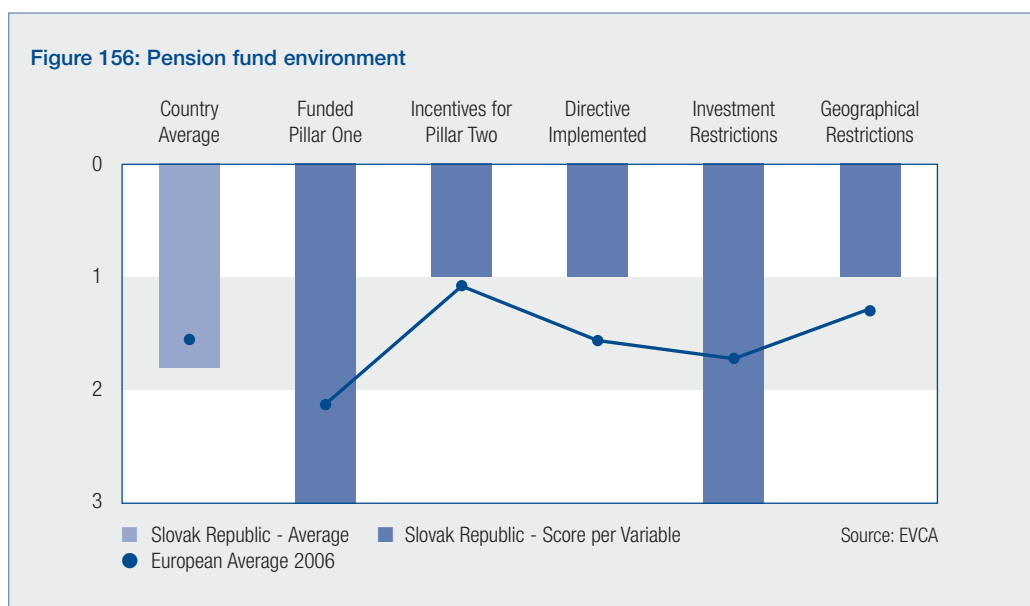
The overall tax and legal environment for private equity and venture capital remains very unfavourable, not only for limited partners and fund managers but also for investee companies and for retaining talent. While insurance companies can invest in private equity and venture capital without any restrictions, allocation by pension funds is very limited or impossible. Furthermore, although the country provides an appropriate domestic fund structure for private equity and venture capital, this vehicle could still be improved as it is not tax transparent for domestic and non-domestic investors.

With regard to the environment for investee companies, the country does not provide any fiscal R&D incentives. The situation for retaining talent could also be improved, more specifically by reviewing the tax treatment of capital gains for individuals, stock options and carried interest.



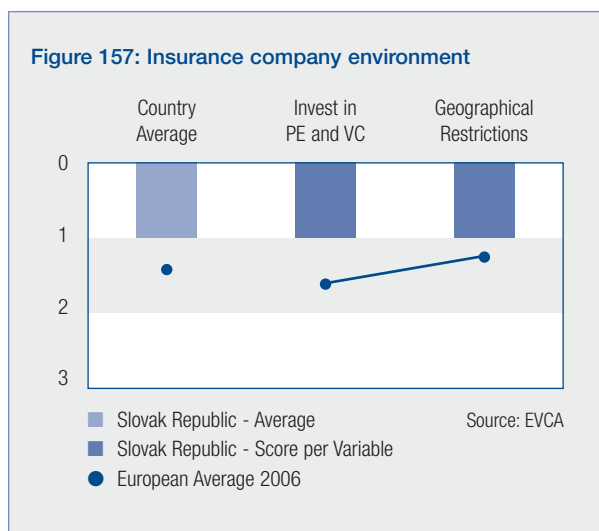
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Overall the **pension fund** environment in the Slovak Republic is unfavourable, partly due to the lack of a funded pillar one pension system, even if the country provides different incentives for complementary pillar two funded systems. Although EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has been fully implemented and although there are no geographical restrictions for pension funds to invest abroad within the European Union, the allocation by pension funds to private equity and venture capital remains very limited or impossible because of undue qualitative restrictions.



2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC) with no quantitative restrictions other than those defined in EU Directive 2002/13/EC.

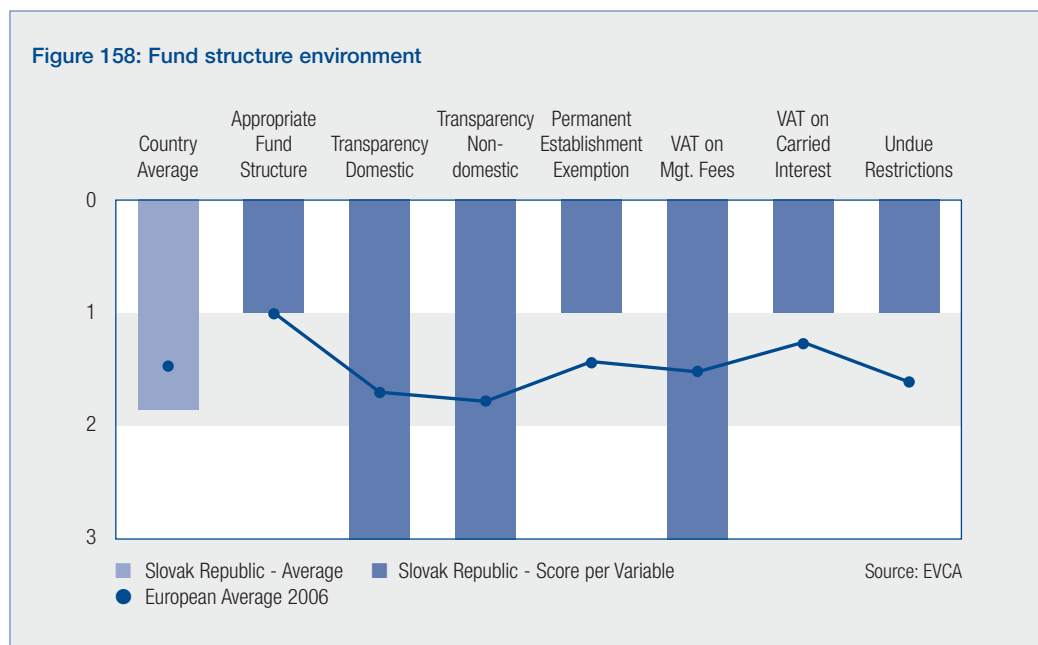
Furthermore, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

The Slovak Republic has no specific legislation covering the private equity and venture capital industry. Most Slovak private equity companies have adopted the structure of a Limited Liability Company (*spoločnosť s rúčením obmedzeným*)²⁰.

The Limited Liability Company is not tax transparent for domestic and non-domestic investors, and does not offer the ability of not paying VAT on management fees²¹. However, non-domestic investors can avoid permanent establishment in the Slovak Republic when investing through the fund. The Limited Liability Company is free from undue restrictions on investments and carried interest is not liable for VAT.



2.1.4. Tax incentives for private equity and venture capital

The Slovak Republic does not provide any tax incentives for investing in private equity and venture capital.

²⁰ Moreover, general Slovak commercial partnerships or limited partnerships are also available.

²¹ It should be noted that it is possible to "reduce" the VAT cost by localising certain services outside the European Union (e.g. administrative services) and by assuring that certain services can benefit from specific VAT exemption (e.g. transactions regarding shares).

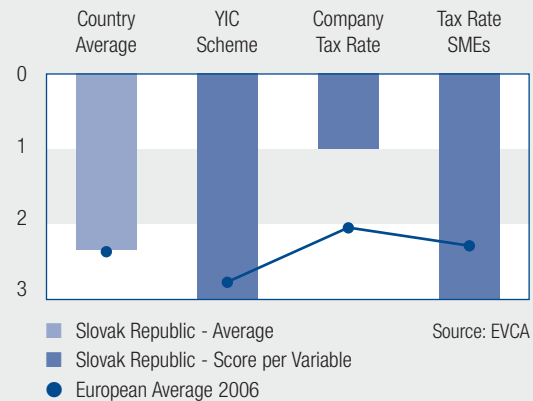
2.2. The environment for investee companies

2.2.1. Company incentivization

The Slovak Republic does not provide a specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC), nor does it provide a specific company tax rate for small and medium-sized enterprises (SMEs).

However, it should be noted that companies can benefit from one of the lowest European company tax rates at 19%, which is the same as in 2005 and well below the European average of 26.2%.

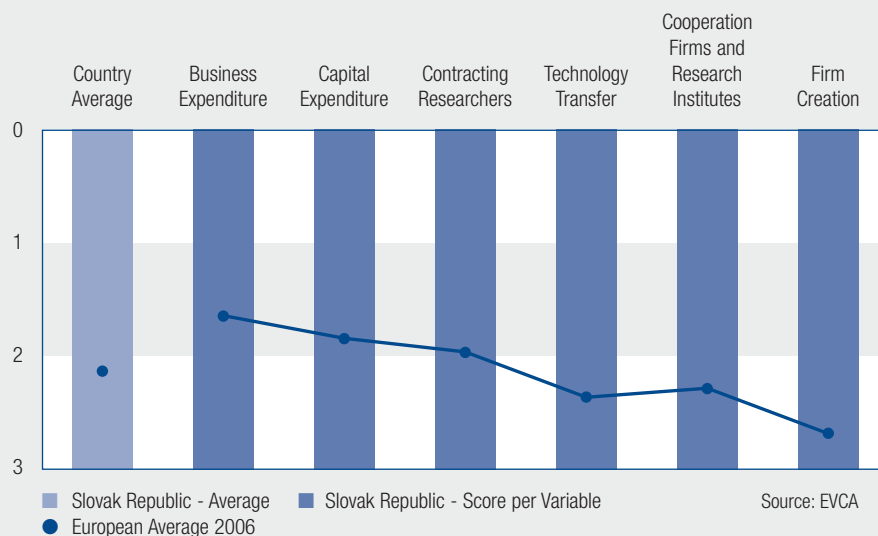
Figure 159: Company incentivization



2.2.2. Fiscal R&D incentives

The Slovak Republic does not provide any fiscal incentives for business R&D expenditure, R&D capital expenditure, contracting researchers, the transfer of technology, cooperation between firms and research institutes/universities or the creation of innovative firms.

Figure 160: Fiscal R&D incentives



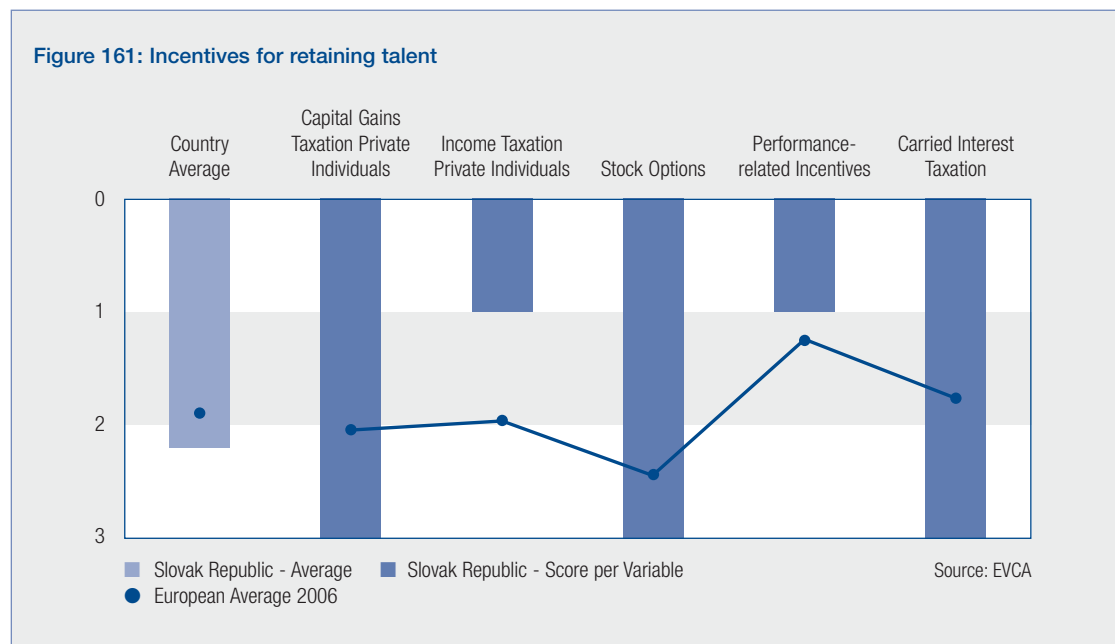
2.3. The environment for retaining talent in investee companies and management funds

The overall environment for retaining talent in investee companies and management funds could still be improved, in particular when it comes to the taxation of capital gains for individuals, stock options and carried interest.

Since 2004, a uniform tax rate of 19% has been applicable to the income of private individuals. This rate is below the European average of 42%. The capital gains tax rate is equivalent to the income tax rate of 19%, which is above the European average of 15%.

Stock options for investee company managers and employees are taxed when vested.

A performance-related tax incentive for fund managers can be incorporated provided that certain conditions are fulfilled. Carried interest is taxed as professional income at 19%.

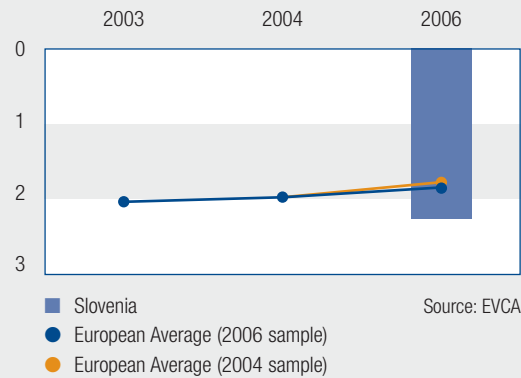


1. Evolution

Slovenia is one of the countries added to the EVCA Benchmark study in 2006. Therefore, a comparison of the country's current situation with respect to previous years is not possible.

With a composite score of **2.26**, Slovenia occupies the last position but one in the overall classification but as with most of the Central and Southern Eastern European countries, the pace of catching up may be pretty rapid, following the example of fellow countries.

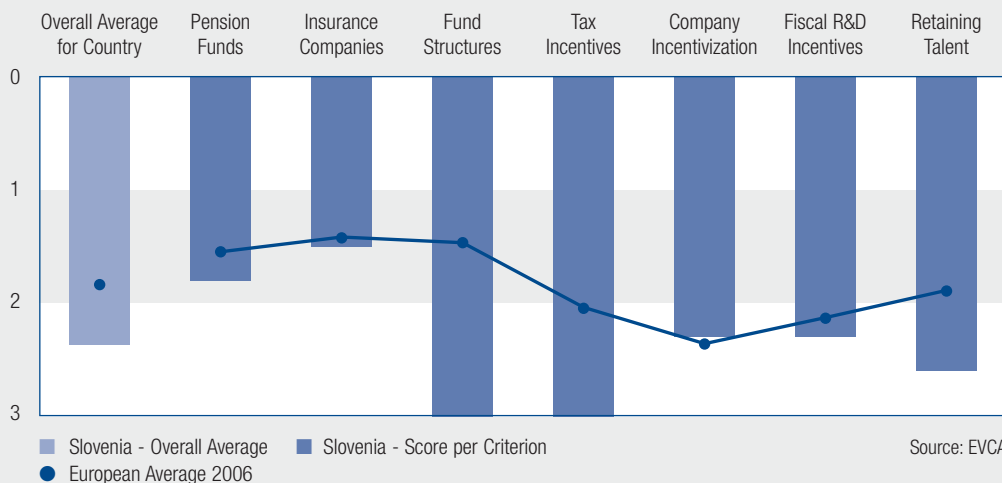
Figure 162: Evolution of Slovenian tax and legal environment



2. Current situation

Slovenian legislation does not yet allow pension funds to invest in private equity and venture capital, and investments by insurance companies are subject to quantitative restrictions. Furthermore, the country does not provide an appropriate domestic fund structure or any tax incentives for investing in private equity and venture capital. A lot of progress could also be made in improving the environment for investee companies (with respect to both company incentivization and fiscal incentives for R&D) and for retaining talent.

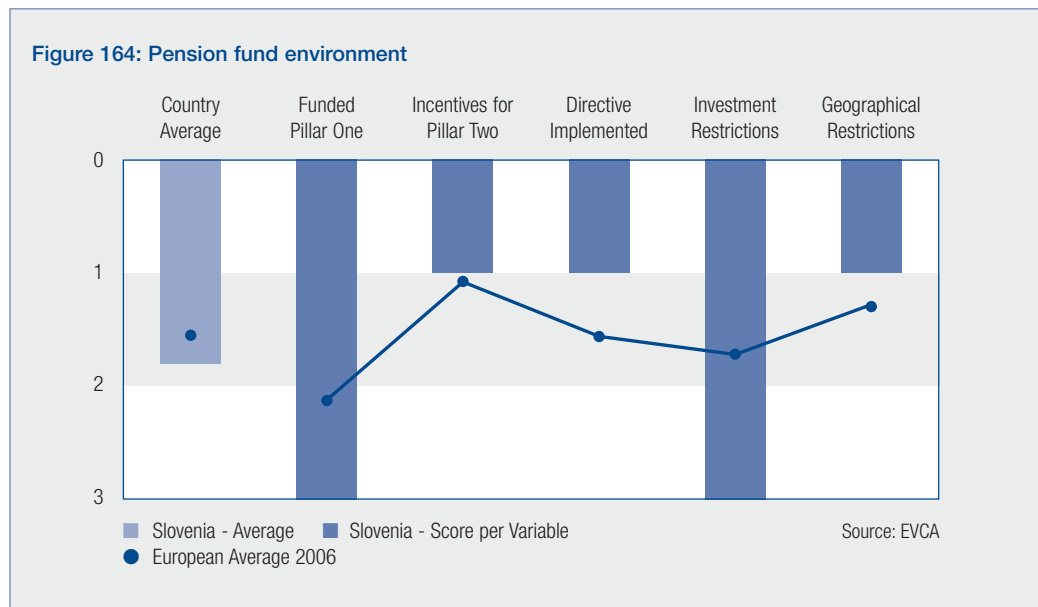
Figure 163: Current situation



2.1. The tax and legal environment for limited partners and fund managers

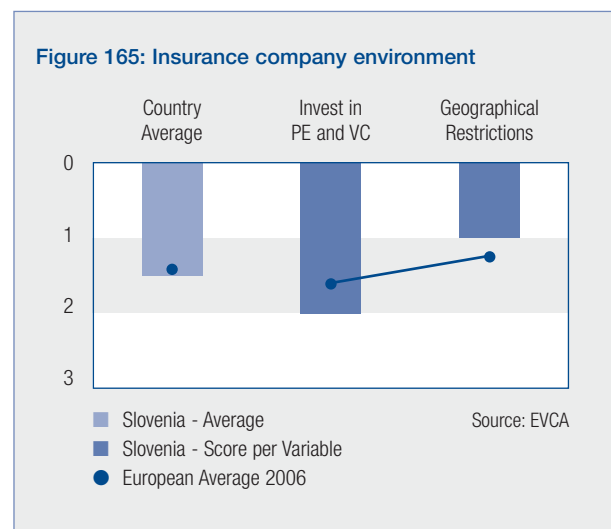
2.1.1. Slovenia does not provide a favourable environment for **pension funds**. There is no funded pillar one pension system and Slovenian legislation prevents the allocation by pension funds to private equity and venture capital.

On a more positive note, incentives for pillar two pension plans are available and Slovenia has implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision. Furthermore, there are no geographical restrictions for pension funds to invest in other European countries.



2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC) but are subject to quantitative restrictions (a maximum of 1% of their total assets covering technical provisions).

There are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

Slovenia does not have a specific or suitable vehicle for private equity and venture capital. Therefore, Slovenia has been excluded from analysis in this section.

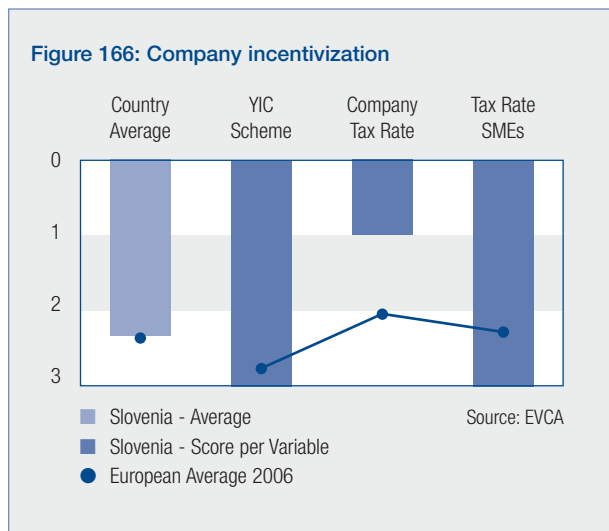
2.1.4. Tax incentives for private equity and venture capital

Slovenia does not provide any tax incentives for investing in private equity and venture capital.

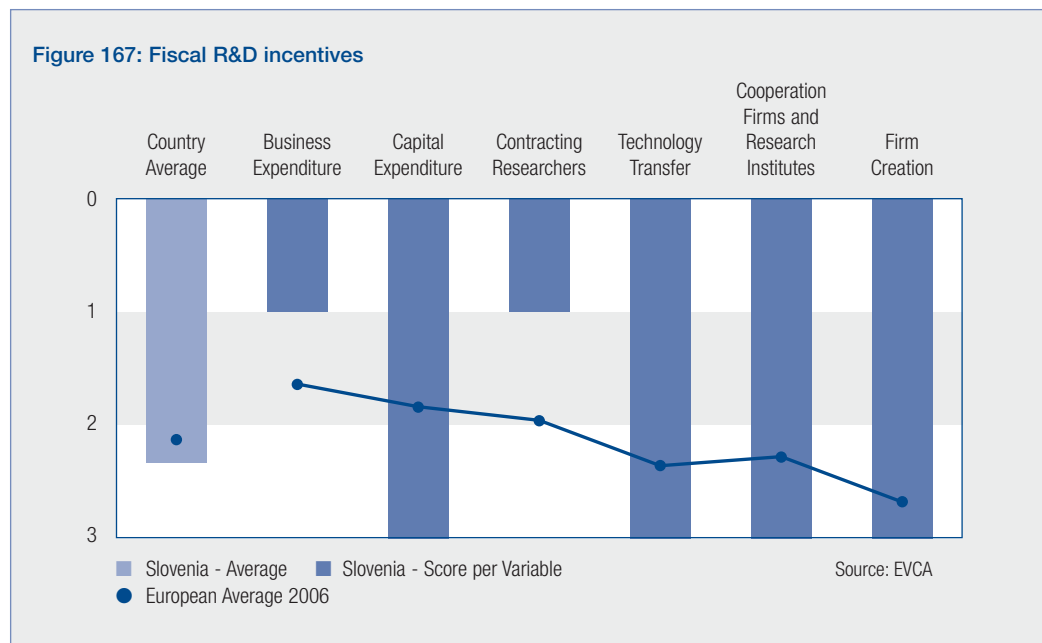
2.2. The environment for investee companies

2.2.1. Company incentivization

Despite a company tax rate of 25%, slightly below the European average of 26.2%, the overall area of company incentivization is not favourable. Not only does the country not provide a specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC), but it also lacks a specific company tax rate for small and medium-sized enterprises (SMEs).



2.2.2. Fiscal R&D incentives



Slovenia provides fiscal incentives for business R&D expenditure (such as a 20% deduction on the tax base) and for contracting researchers (a 30% reduction of the specialist's salary tax base for the first twelve months of employment).

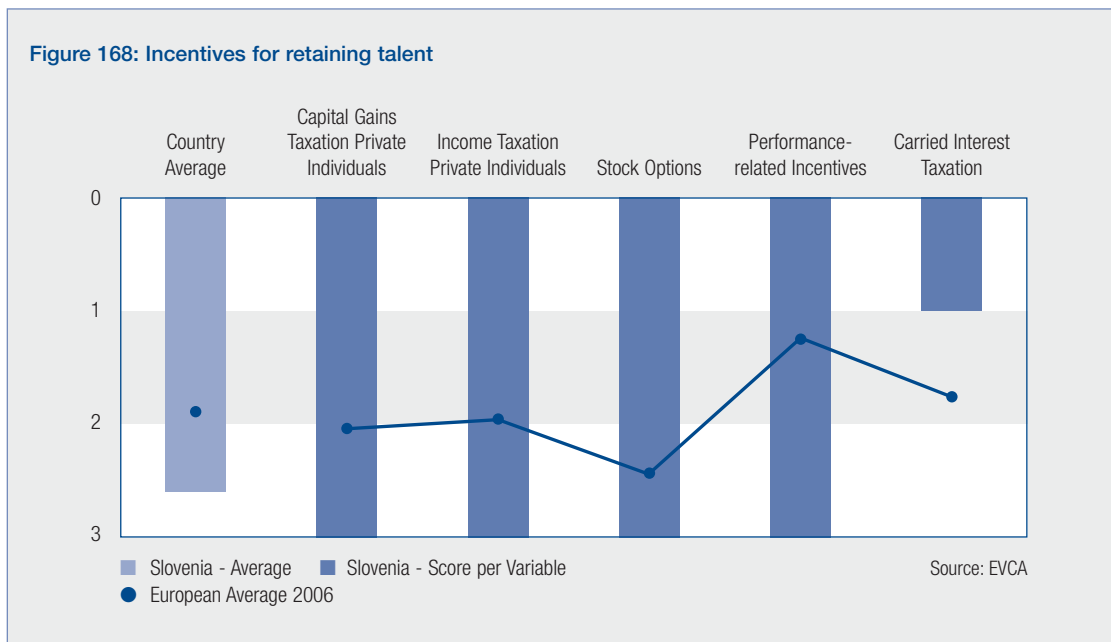
However, Slovenia does not provide a fiscal incentive for R&D capital expenditure, the transfer of technology, cooperation between firms and research institutes/universities or the creation of innovative firms.

2.3. The environment for retaining talent in investee companies and management funds

Neither the capital gains tax rate nor the income tax rate for private individuals contributes to a favourable environment for retaining talent in investee companies and management funds. The highest income tax rate for individuals is 50% (above SIT 10,330,000 or €43,143), which is above the European average of 42%. Capital gains for individuals when selling shares are taxed at the rate of 20%, which is above the European average of 15%.

Stock options for investee company managers and employees are taxed upon exercise.

Current legislation does not provide performance-related incentives for fund managers. Should such an incentive be in place, it should be taxed as capital gains.



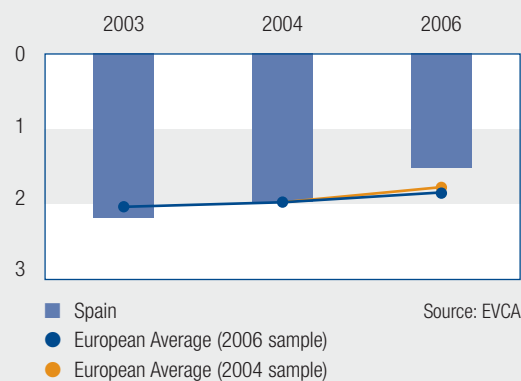
Spain (1.52)

1. Evolution

Since 2003, Spain has made many improvements to its tax and legal environment for private equity and venture capital. The country has climbed from an average position in the last third of the classification in 2003, to fifth position in 2006 with a composite score of **1.52**.

This ranking is in line with the position of the Spanish market within the European private equity and venture capital industry: Spain is the fifth most important country in terms of investments.

Figure 169: Evolution of Spanish tax and legal environment

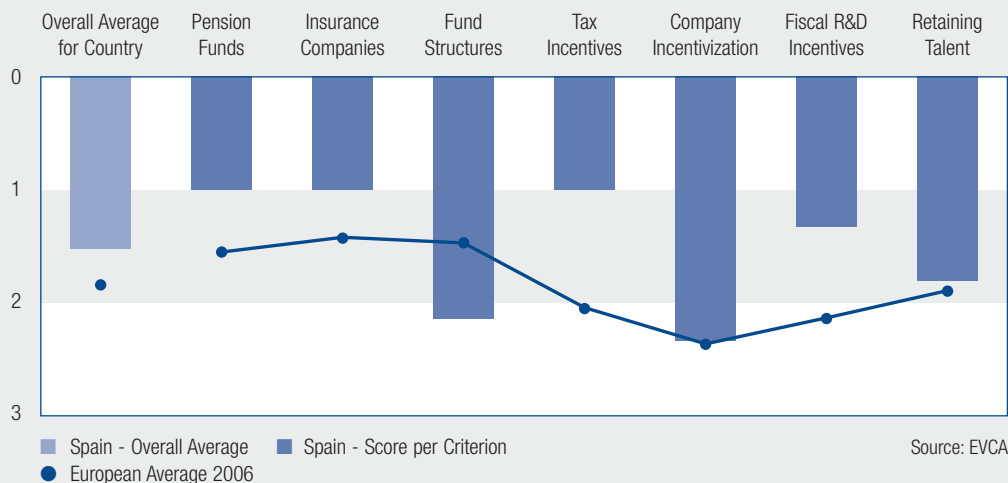


2. Current situation

Since 2005 important improvements have been made through a new law for private equity and venture capital. The country now provides suitable domestic fund structures. Unfortunately, those fund structures are not tax transparent and subject to some undue investment restrictions. Such a situation can only impair the long-term perspective of the Spanish market, even if some tax incentives are available for investing in private equity and venture capital. Pension funds and insurance companies can both participate in the private equity and venture capital market.

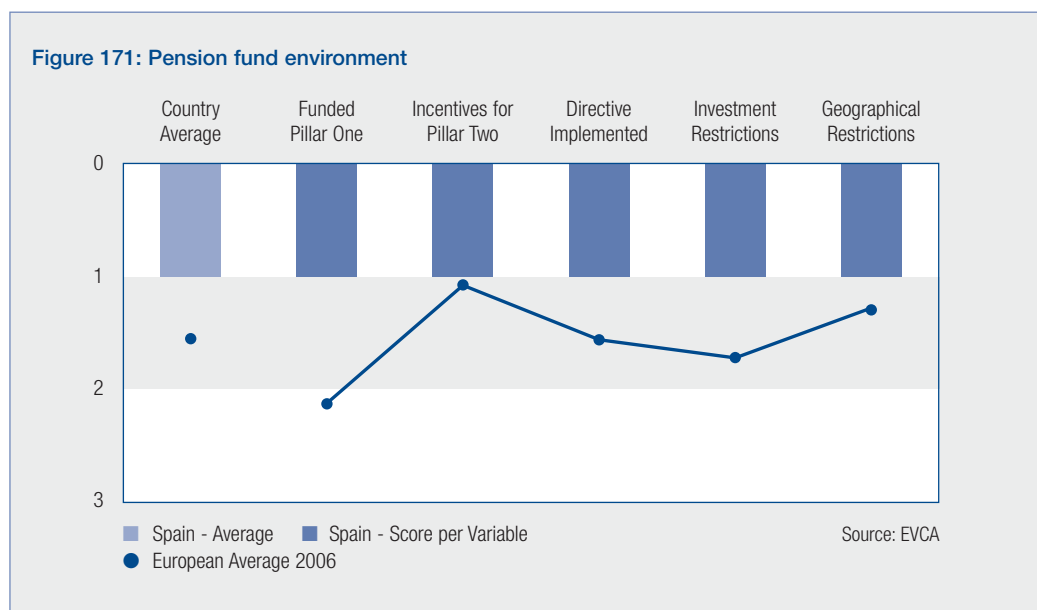
Regarding investee companies, the system is not operating at its best. Spain offers several fiscal incentives for R&D but is still lagging behind in the area of company incentivization. Progress could also be made with respect to the tax treatment of income for private individuals and stock options.

Figure 170: Current situation



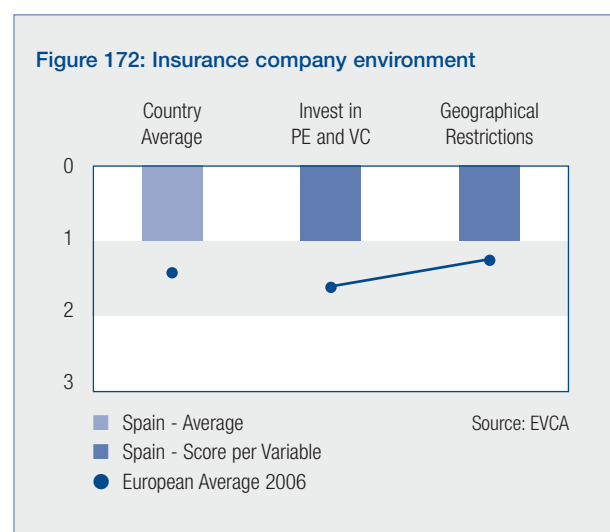
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The **pension fund** environment in Spain is very favourable. The country not only provides a funded pillar one pension system, but also several incentives for complementary funded systems (pillar two). Furthermore, there are no quantitative limitations for pension funds to invest in the asset class other than those mentioned in EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, which was implemented in January 2005. There are no geographical restrictions for pension funds to invest abroad within the European Union.



2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC) with no other quantitative restrictions apart from those defined by EU Directive 2002/13/EC.

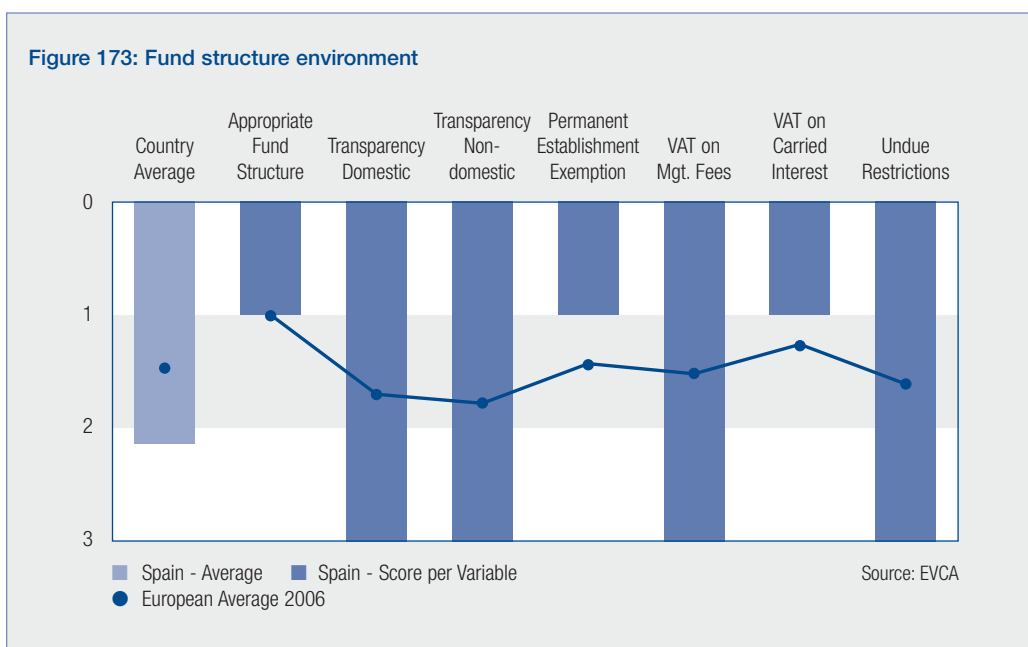
Furthermore, there are no geographical restrictions for insurance companies to invest in private equity and venture capital in other European countries.



2.1.3. Fund structures

There are two domestic fund structures for private equity and venture capital in Spain: the *Sociedad de Capital de Riesgo* (SCR) and the *Fondo de Capital de Riesgo* (FCR).

Tax issues are very important as neither the SCR nor the FCR are tax transparent for domestic and non-domestic investors, and they do not offer the ability of not paying VAT on management fees. However, carried interest is not liable for VAT and non-domestic investors can avoid permanent establishment when investing through the fund. Both structures are not free from undue restrictions on investments.



2.1.4. Tax incentives for private equity and venture capital

Spain offers tax incentives for investing in private equity and venture capital through the SCR (*Sociedad de Capital de Riesgo*) and the FCR (*Fondo de Capital de Riesgo*).

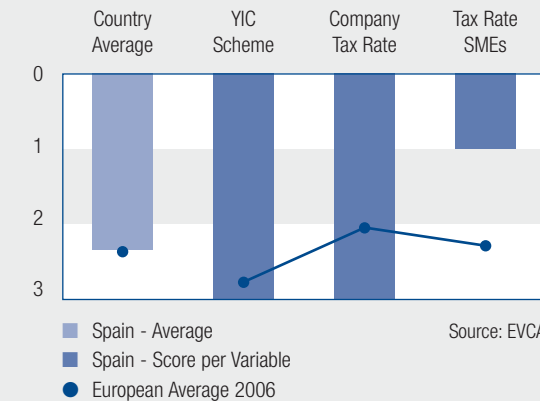
2.2. The environment for investee companies

2.2.1. Company incentivization

Spain does not provide a specific scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC). Furthermore, the company tax rate in Spain is 35% (the same as in 2005), which is above the European average of 26.2%.

On the positive side, a specific company tax rate of 30% applies to the first taxable income of €120,204.41 per annum for small and medium-sized enterprises (SMEs) fulfilling certain requirements.

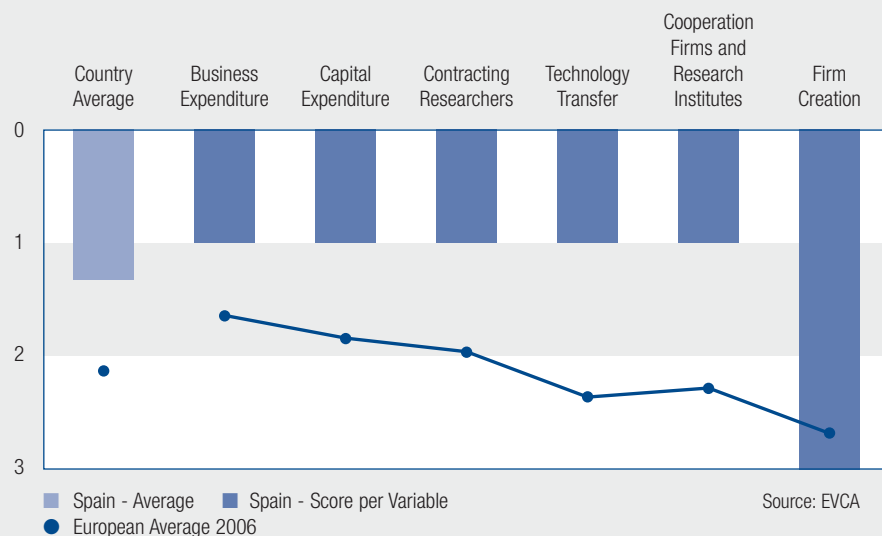
Figure 174: Company incentivization



2.2.2. Fiscal R&D incentives

Spain provides several fiscal R&D incentives, including for business R&D expenditure (R&D: 30% of the cost of R&D activities incurred during the tax year, less 65% of the subsidies received for R&D purposes; IT: 10% of the amount of the IT costs for the tax year, less 65% of the subsidies received for R&D purposes).

Figure 175: Fiscal R&D incentives



There are also incentives for R&D capital expenditure (e.g. free depreciation of tangible and intangible assets, excluding buildings and land affected to R&D activities), contracting researchers (e.g. 20% additional tax credit for the cost related to qualified research workers engaged exclusively in R&D activities) and the transfer of technology (e.g. 10% tax credit for the purchase of advance technology such as patents, licenses and know-how, less 65% of the subsidies received).

Moreover there are incentives for cooperation between firms and research institutes/universities (e.g. R&D: 20% tax credit for the costs incurred related to R&D projects entered into with qualified Universities, Public Organizations for Investigation, and Centres of Innovation and Technology; 15% tax credit if the projects are related to IT (less 65% of the subsidies received).

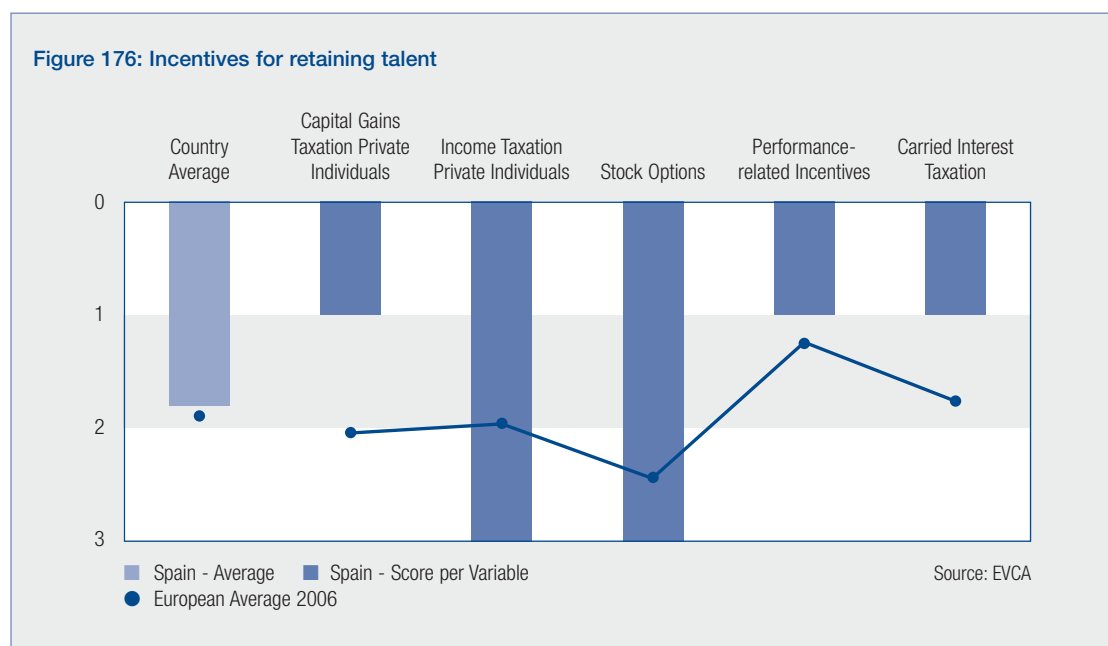
However, Spain does not provide any fiscal incentives for the creation of innovative firms.

2.3. The environment for retaining talent in investee companies and management funds

The tax treatment of income for private individuals can be improved as the maximum income tax rate is 45%, which is above the European average of 42%. Gains derived from the disposition of shares (held for more than a year) are taxed at 15%, which is slightly below the European average of 15.02%.

Stock options for investee company managers and employees are taxed upon exercise.

Performance-related incentives for fund managers can be incorporated provided that certain conditions are met, and carried interest is taxed as capital gains.



3. Future developments

According to the Bill of Law on reforming the Spanish tax system approved by the Spanish government in March 2006, as of 1 January 2007, the general company tax rate will be reduced by one percentage point (1%) each year between 2007 and 2011. As a result, by 2011 the Spanish general company tax rate will have been reduced from 35% to 30%.

The company tax rate for small and medium-sized enterprises will also be reduced by one percentage point (1%) each year between 2007 and 2011. As a result, by 2011 the company tax rate for small and medium-sized enterprises will have been reduced from 30% to 25%.

As of 1 January 2007, the maximum income tax rate for private individuals will be reduced from 45% to 43%, and capital gains will be taxed at a fixed rate of 18%, regardless of the period of time in which they were generated. Thus, the current difference between long-term and short-term capital gains will be eliminated.

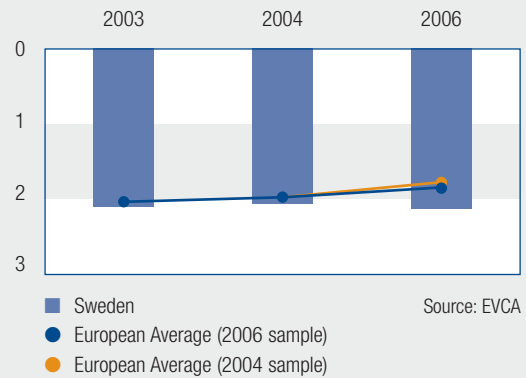
According to the above-mentioned Bill of Law, the aforementioned R&D and IT tax credits will gradually be reduced as from 1 January 2007. From 2007 to 2011 the tax credit will be reduced by means of applying a reduction coefficient (0.97 for tax credits arising from tax years starting on 1 January 2007, 0.94 for 2008, 0.91 for 2009, 0.88 for 2010 and 0.85 for 2011). Furthermore, the R&D and IT tax credits will be totally eliminated for the tax periods starting on 1 January 2012.

1. Evolution

The tax and legal environment for private equity and venture capital in Sweden has not evolved in the right direction over the past few years. As a result, Sweden is still positioned in the lower half of the overall ranking, together with other Nordic countries.

Unfortunately, the gap between the European average of 1.84 and the Swedish position at 2.12 has widened since the previous EVCA Benchmark study in 2004.

Figure 177: Evolution of Swedish tax and legal environment

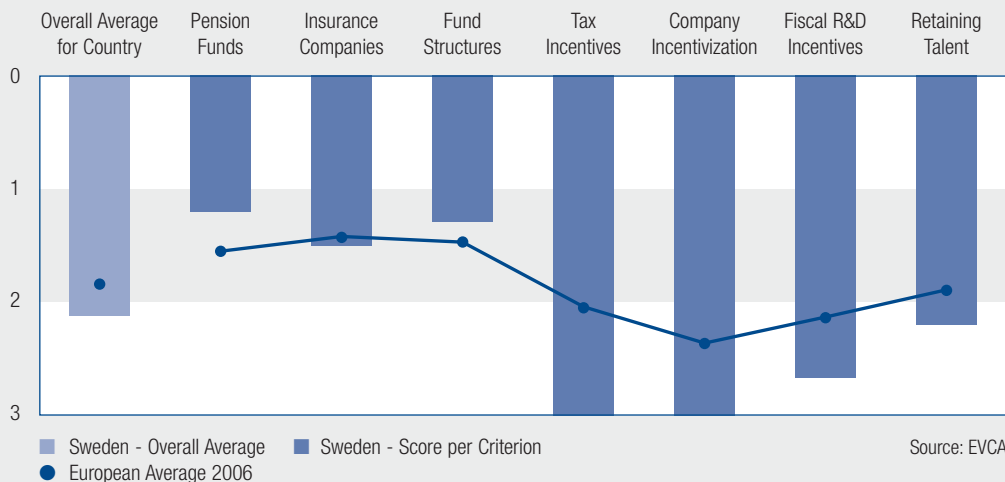


2. Current situation

There is still room for improving the current tax and legal environment in Sweden. Both pension funds and insurance companies can invest in private equity and venture capital, but their investments are subject to quantitative restrictions. Although there is a suitable fund structure for private equity and venture capital, Sweden is one of the very few European countries where the participation of international investors in such a fund creates a permanent establishment. Finally, it should be noted that there are no tax incentives for investing in the asset class.

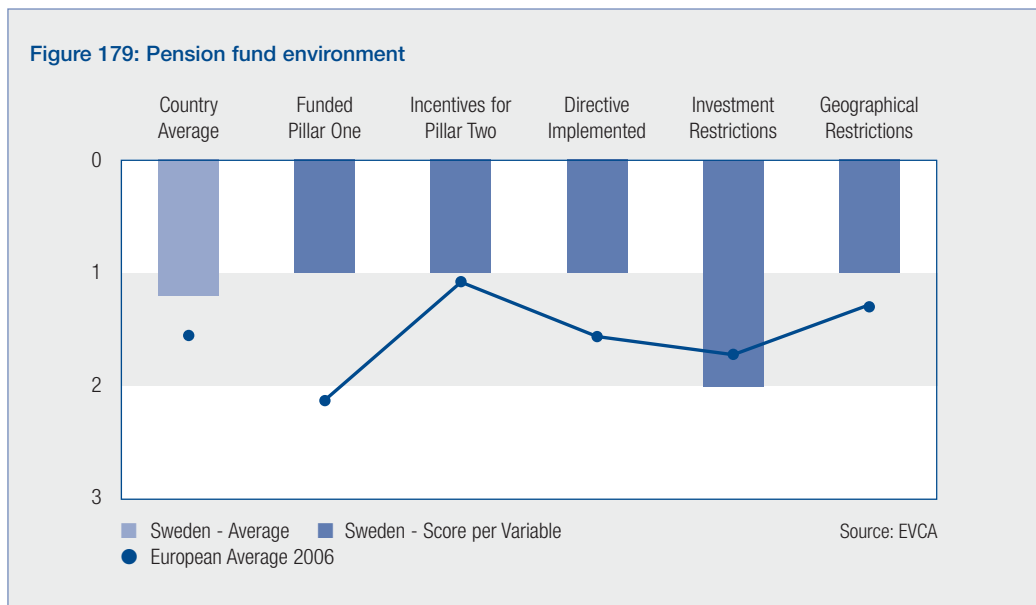
The environment for investee companies could also be improved, with respect to both company incentivization and fiscal incentives for encouraging R&D activity. Taxation remains a key issue in the field of retaining talent.

Figure 178: Current situation

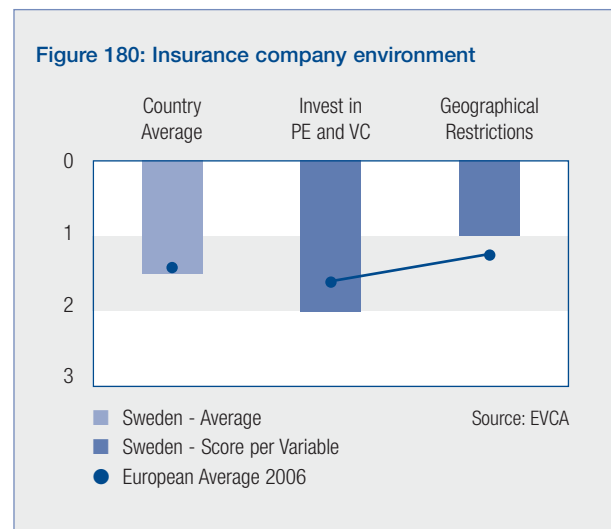


2.1. The tax and legal environment for limited partners and fund managers

2.1.1. Overall, the Swedish **pension fund** environment is favourable. The country provides a funded pillar one pension system and tax incentives for complementary pillar two pension plans. Although Sweden has fully implemented EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, pension funds may only invest up to 10% of their assets held for technical provision into traditional private equity and venture capital funds. However, no geographical restrictions are imposed as assets for technical provisions must generally be located in the EEA (European Economic Area).



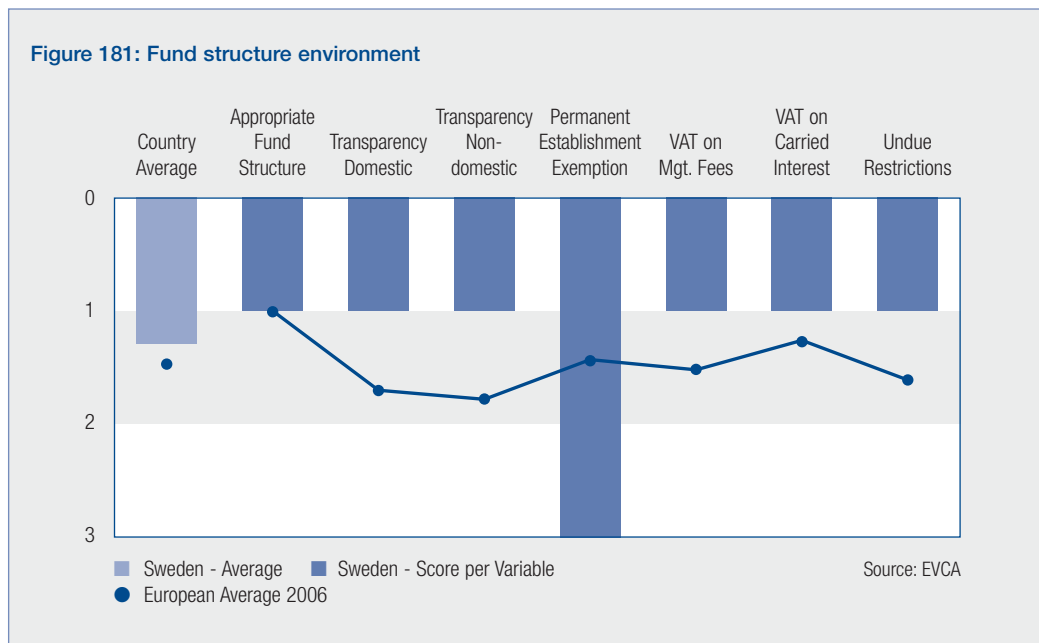
2.1.2. **Insurance companies** can invest in private equity (PE) and venture capital (VC), but are subject to quantitative restrictions. No geographical restrictions impede investment in other European countries.



2.1.3. Fund structures

The Swedish Limited Partnership (or *Kommanditbolag*) is the most widely used domestic fund structure for private equity and venture capital. The vehicle is transparent for both domestic and non-domestic investors, but non-domestic investors would most likely be subject to tax as they are regarded as having a permanent establishment in Sweden. The income would be re-characterised as business income.

Management fees as well as carried interest are not necessarily liable for VAT, and the vehicle is free from undue restrictions on investments.



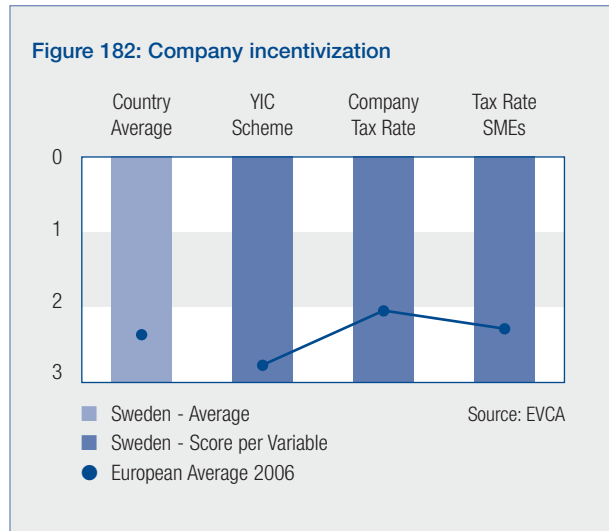
2.1.4. Tax incentives for private equity and venture capital

There are no tax incentives in Sweden to encourage investments in private equity and venture capital.

2.2. The environment for investee companies

2.2.1. Company incentivization

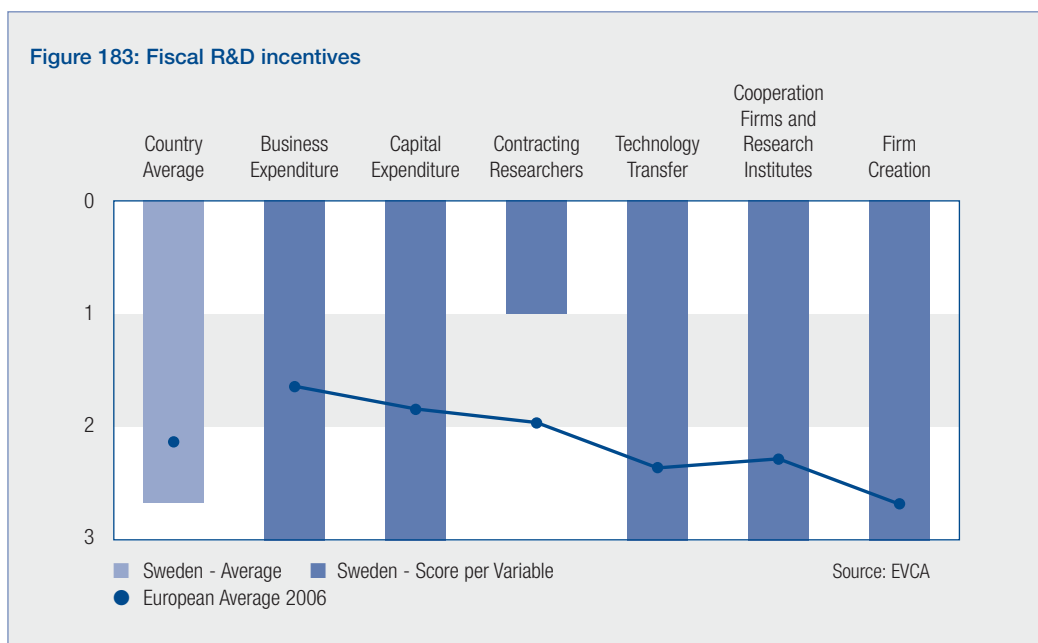
Investee companies and small and medium-sized enterprises (SMEs) are generally not well treated. Sweden does not provide a specific scheme for young innovative companies (YIC), nor a special company tax rate for small and medium-sized enterprises. The national company tax rate can be as high as 28%, which is above the European average of 26.2%.



2.2.2. Fiscal R&D incentives

Of the six fiscal R&D incentives assessed in this paper, Sweden provides only one for contracting researchers. Under the special rules for taxation of specialists, scientists or other key foreign personnel, social security contributions are only charged on 75% of the fees or wages when hiring foreign specialists for three years. Furthermore, for such specialists only 75% of their salary is taxable.

Sweden does not offer any fiscal incentives for business R&D expenditure, R&D capital expenditure, technology transfer, cooperation between firms and research institutes/universities or the creation of innovative firms.

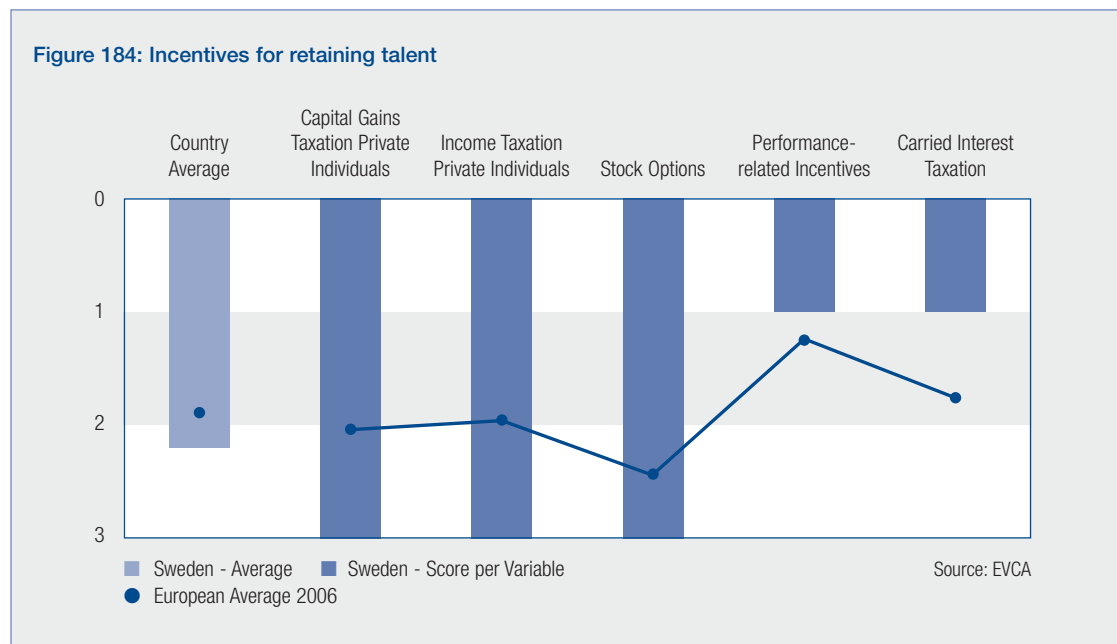


2.3. The environment for retaining talent in investee companies and management funds

As in other Nordic countries, both the capital gains and income tax rates for private individuals are above the European averages. Capital gains in Sweden are taxed at 30%, compared to a European average of 15%. The income tax rate of approximately 59% is one of the highest in Europe, thus largely exceeding the European average of 42%.

The taxation of stock options for investee company managers and employees can be separated: for received options that are deemed “securities”, the option is taxed when it is granted. Where any restrictions relating to employment cease to apply, the option is taxed when it is vested. For received “special employee” options (not deemed securities), the option is taxed upon exercise.

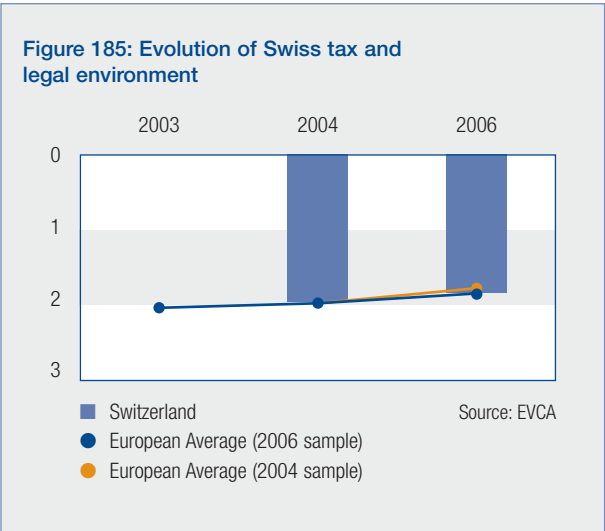
A performance-related incentive for fund managers can be incorporated when structuring the investment fund. Carried interest schemes are taxed as capital gains, provided that the management makes a substantial investment.



1. Evolution

Since its integration into the EVCA Benchmark in 2004, Switzerland has maintained its position in the upper part of the overall classification, slightly better than the European average.

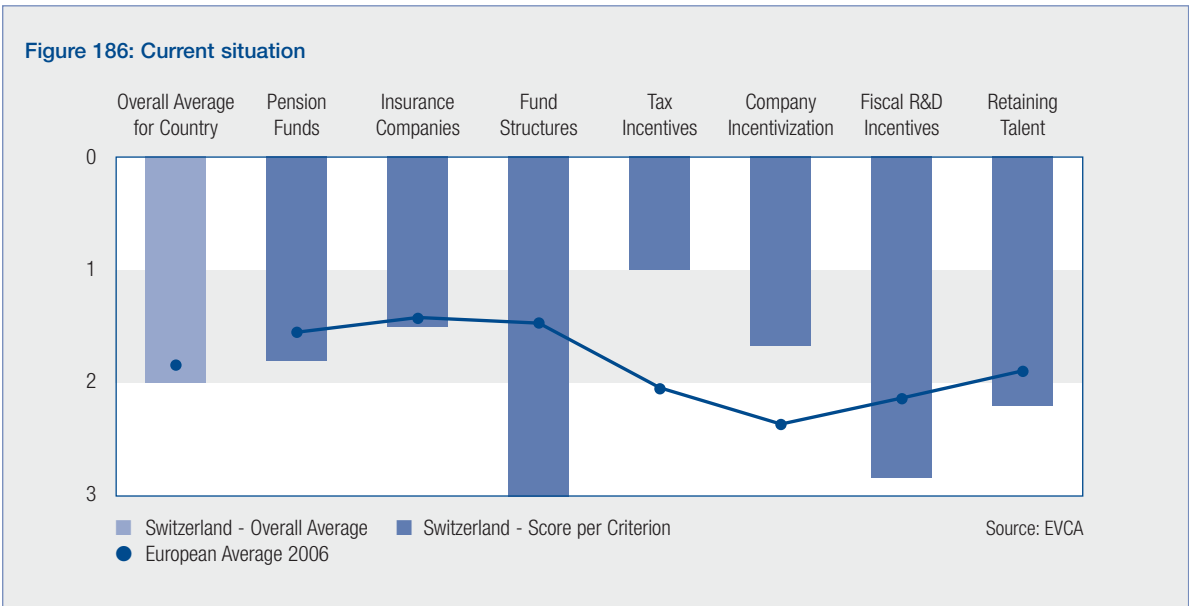
The Swiss 2006 composite score totals 1.83, compared to a European average of 1.84. Switzerland is another country, which is not doing better than the European average, and runs the risk of losing ground to more dynamic countries.



2. Current situation

Although Swiss pension fund and insurance company legislation is in line with the respective EU Directives, pension funds are in general not allowed to invest in foreign private equity and venture capital, and insurance companies need approval from the Federal Office of Private Insurance prior to any investment in private equity. Switzerland and Slovenia are the only European countries assessed in this paper that do not provide a domestic fund structure suitable for private equity and venture capital. However, tax incentives are available for investing in the asset class.

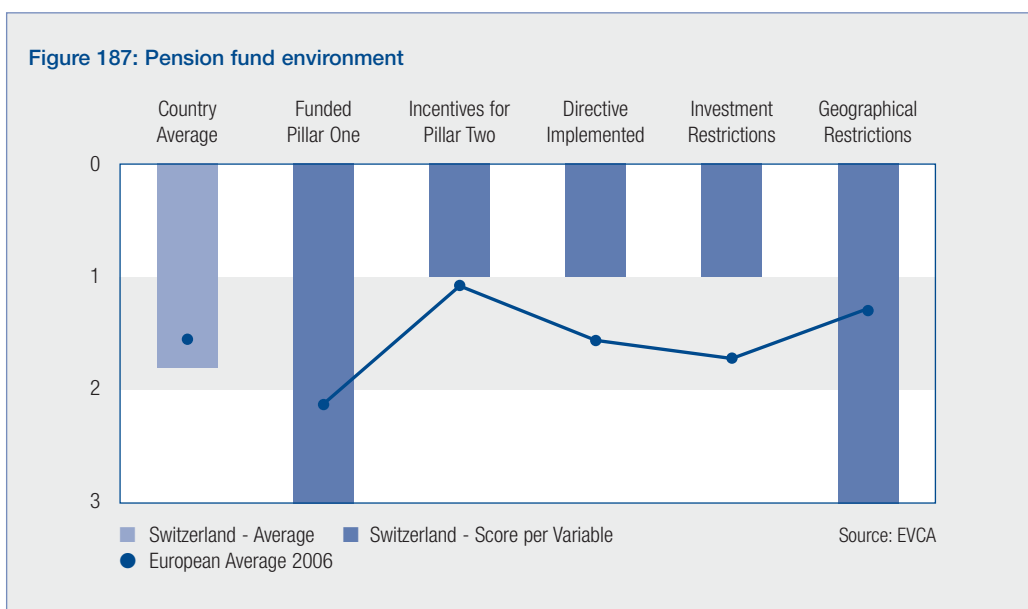
It should be noted that Switzerland is one of the few European countries that provides a specific scheme for young innovative companies. But this does not prevent there being a lack of true fiscal incentives for R&D. Progress could also be made in the environment for retaining talent.



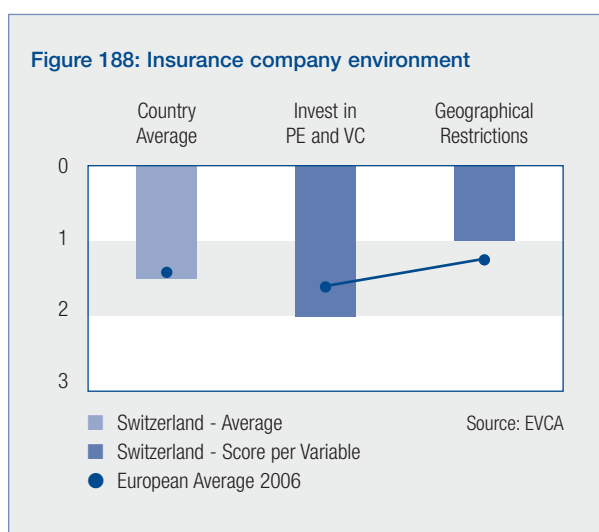
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The **pension fund** environment in Switzerland could still be improved. The pillar one pension system is a pay-as-you-go system, but the country provides incentives for pillar two pension plans.

Although Switzerland is not a European Union Member State, equivalent rules to EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision have been implemented. As such, pension funds can invest a maximum of 30% in Swiss private equity. However, investments in foreign private equity are not allowed as the foreign companies have to be quoted on a stock exchange. Deviations from these general restrictions are allowed under specific conditions.



2.1.2. **Insurance companies** can invest in alternative investments, such as private equity (PE) and venture capital²² (VC), subject to quantitative restrictions that are in line with EU Directive 2002/13/EC.



²² It should be noted that insurance companies are only allowed to invest in private equity and venture capital through funds, funds of funds, indexes and/or baskets. Typically, direct private equity investments are not allowed.

However, prior to any investment in private equity or any other alternative investment, an insurance company must submit its internal regulations, concept and control procedures related to alternative investments to the Federal Office of Private Insurance (FOPI) for validation.

In terms of geographical restrictions, there are no specific limitations or prohibited jurisdictions.

2.1.3. Fund structures

As Swiss private equity houses or Swiss venture capital companies normally use foreign partnerships, including for the vehicle collecting the carried interest (often offshore domiciled partnerships), the fund structures section has been excluded from analysis in this Benchmark study.

2.1.4. Tax incentives for private equity and venture capital

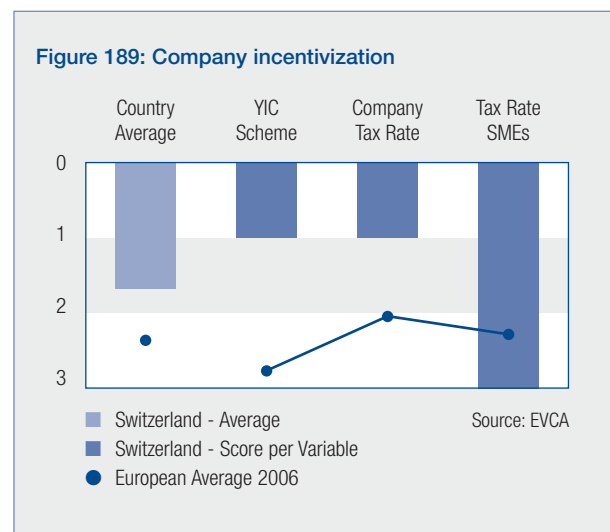
The Federal Law on Venture Capital Companies foresees certain tax incentives for private equity and venture capital investments. However, this law has very limited impact in practice.

2.2. The environment for investee companies

2.2.1. Company incentivization

Switzerland has quite a favourable environment for company incentivization. It is one of the few European countries that provides a specific scheme for young innovative companies (YIC). Moreover, the combined federal and cantonal/communal company tax rates in Switzerland can range from 16% (Canton of Zug) to around 25%, which is below the European average of 26.2%.

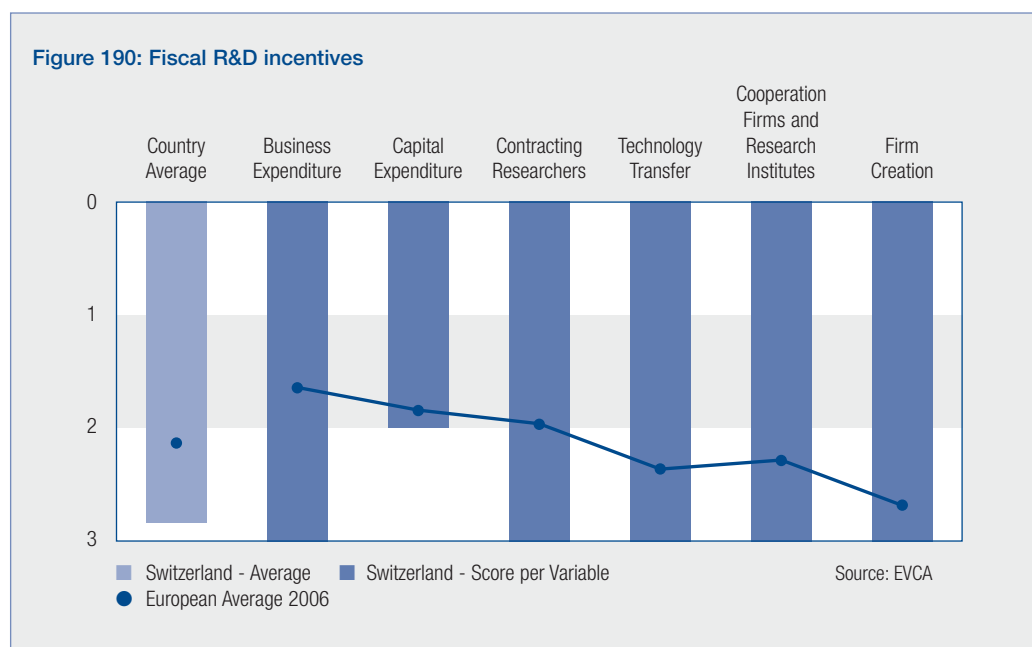
On the negative side, there is no special company tax rate for small and medium-sized enterprises (SMEs) in Switzerland.



2.2.2. Fiscal R&D incentives

Switzerland does not provide many fiscal R&D incentives. At the federal level, a Swiss company is allowed to tax-effectively provide a yearly provision of up to 10% of its taxable net income, but for an overall amount not in excess of CHF 1,000,000 (€629,517) for future third party R&D mandates. Apart from that, based on a case-by-case analysis, specific treatments such as accelerated depreciation may be available upon request/ruling granted by the relevant tax authorities.

There are no fiscal incentives for contracting researchers, technology transfer, cooperation between firms and research institutes/universities or the creation of innovative firms.

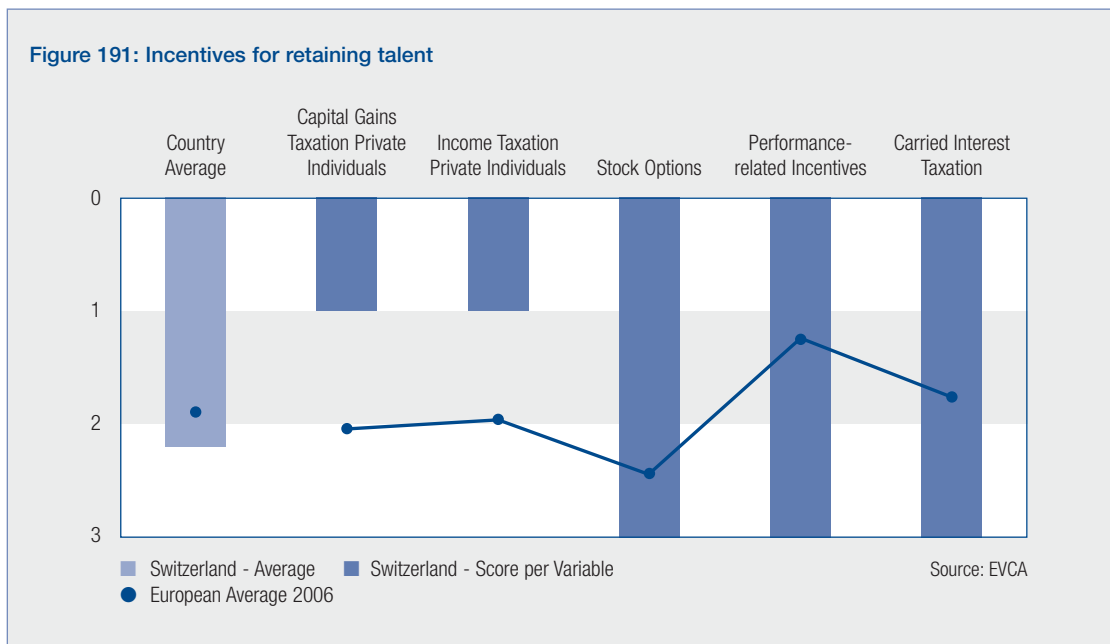


2.3. The environment for retaining talent in investee companies and management funds

Individual income tax rates depend strongly on the canton, ranging from around 24% (Canton of Zug) to around 42%, which is slightly below the European average of 42.03%. Capital gains made by individuals are generally income tax exempt.

The taxation of stock options for investee company managers and employees is dependent on whether it concerns a tradable option or an employee's option. The former is taxable upon grant, the latter is in most Cantons (excluding the French part of Switzerland) taxable upon exercise (or sometimes when it is vested). Furthermore, any gain realised upon the sale of underlying shares is generally tax free.

As there is no local Swiss structure perfectly suited for private equity funds in the current legislation, it is not possible to incorporate performance-related incentives for fund managers and carried interest schemes are generally taxed as professional income.



3. Future developments

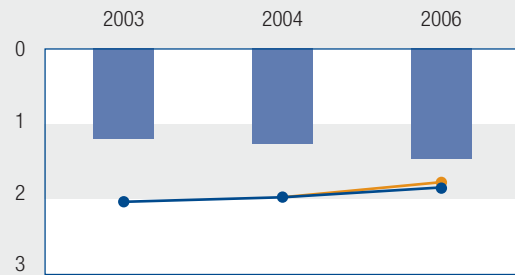
With regard to the taxation of stock options for investee company managers and employees, a new law proposes that only part of the exercise gain is subject to income tax, if certain conditions are met. There is nevertheless currently great uncertainty about whether such a law will enter into force, and if so, when.

United Kingdom (1.46)

1. Evolution

For the third time in a row, the United Kingdom is ranked as providing a very favourable tax and legal environment for private equity and venture capital, thus maintaining its position in the top three of the overall European classification. Its composite score was 1.46 in 2006, against a European average of 1.84.

Figure 192: Evolution of British tax and legal environment



2. Current situation

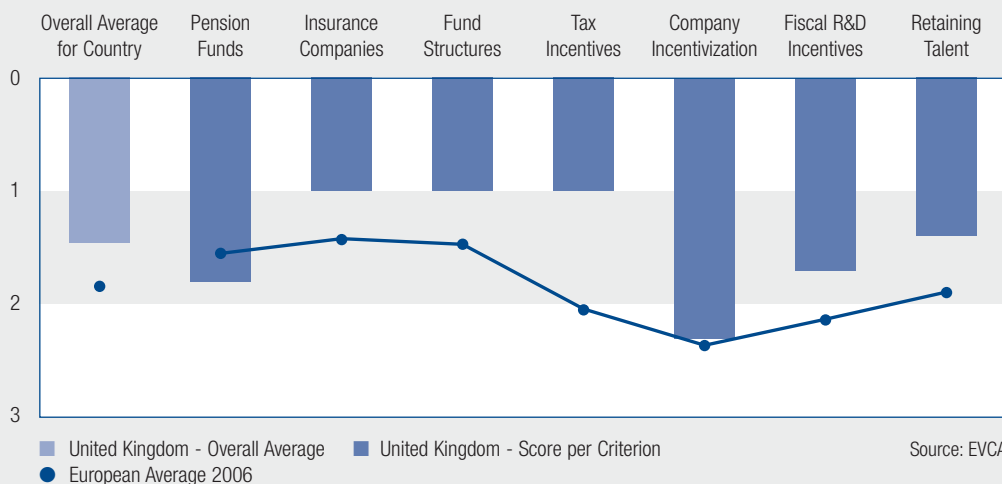
The United Kingdom has one of the most favourable tax and legal environments for limited partners and fund managers. Pension funds as well as insurance

companies can participate in the private equity and venture capital market, and the country provides a very suitable domestic fund structure for private equity and venture capital and tax incentives for investing in the asset class.

However, investee companies could be better treated, with respect to both company incentivization and fiscal R&D incentives.

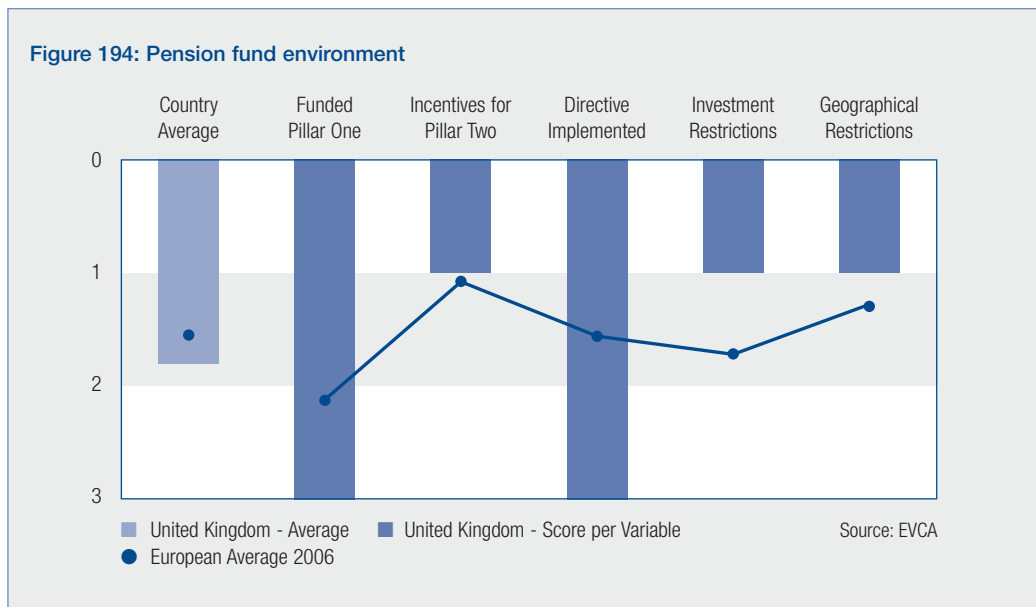
Finally, although the United Kingdom has a positive environment for retaining talent in investee companies and management funds, an area for improvement could be the tax treatment of stock options.

Figure 193: Current situation



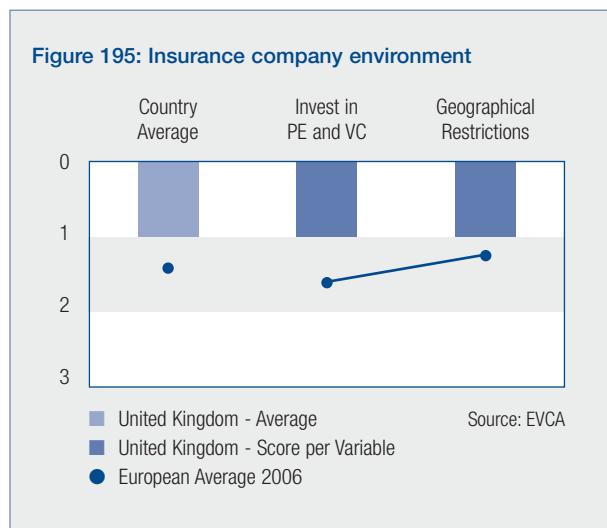
2.1. The tax and legal environment for limited partners and fund managers

2.1.1. The pension fund environment in the United Kingdom is favourable for private equity and venture capital. Although there is no funded pillar one pension system, it is possible to have funded provision in certain circumstances. Tax and other incentives for complementary pillar two pension systems are available in the United Kingdom and EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision has been partly implemented. There are no quantitative investment rules impeding investment in private equity and venture capital, apart from the “prudent person rule”. However, questions have arisen about whether the implementation of the above-mentioned EU Directive may limit the allocation to alternative assets by UK pension funds. There are no geographical restrictions on investments outside the United Kingdom within Europe.



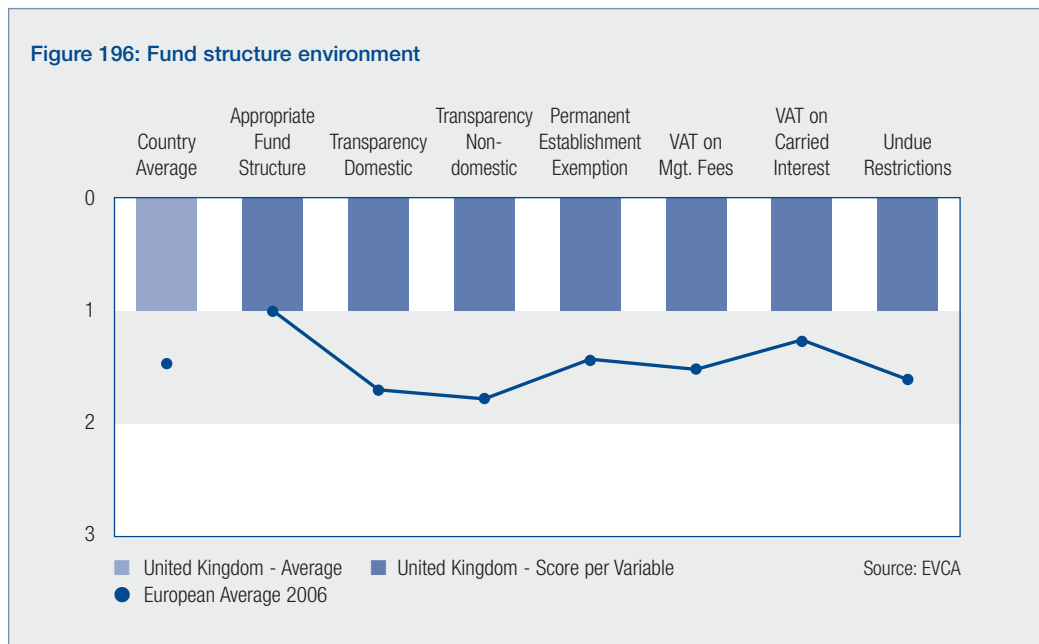
2.1.2. Insurance companies in the United Kingdom can invest in private equity (PE) and venture capital (VC), with no quantitative restrictions other than those defined in EU Directive 2002/13/EC. In practical terms, most have exposure limits.

There are no geographical restrictions for insurance companies to invest in private equity and venture capital outside the United Kingdom within Europe.



2.1.3. Fund structures

The UK Limited Partnership is a suitable, although not dedicated, fund structure for private equity and venture capital investing. The structure is tax transparent for domestic as well as non-domestic investors. Non-domestic investors are normally not treated as having a permanent establishment in the country when investing through the fund. Management fees and carried interest are not liable for VAT, and there are no undue restrictions applicable to the Limited Partnership.



2.1.4. Tax incentives for private equity and venture capital

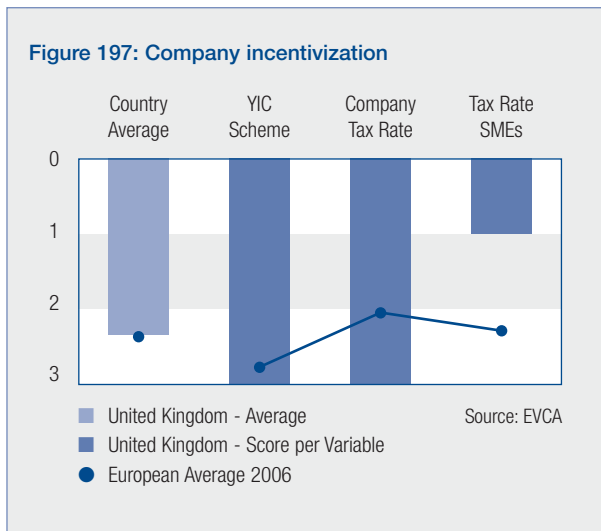
Private individuals investing up to £200,000 (€295,785) in a Venture Capital Trust (VCT) are entitled to income tax relief at the higher tax rate of 40%. There is no income tax liability on income distributed by the VCT, nor any capital gains tax on gains arising from the sale of VCT shares.

In addition, there are tax advantages for individuals investing via Enterprise Investment Schemes (EIS) in small unquoted companies.

2.2. The environment for investee companies

2.2.1. Company incentivization

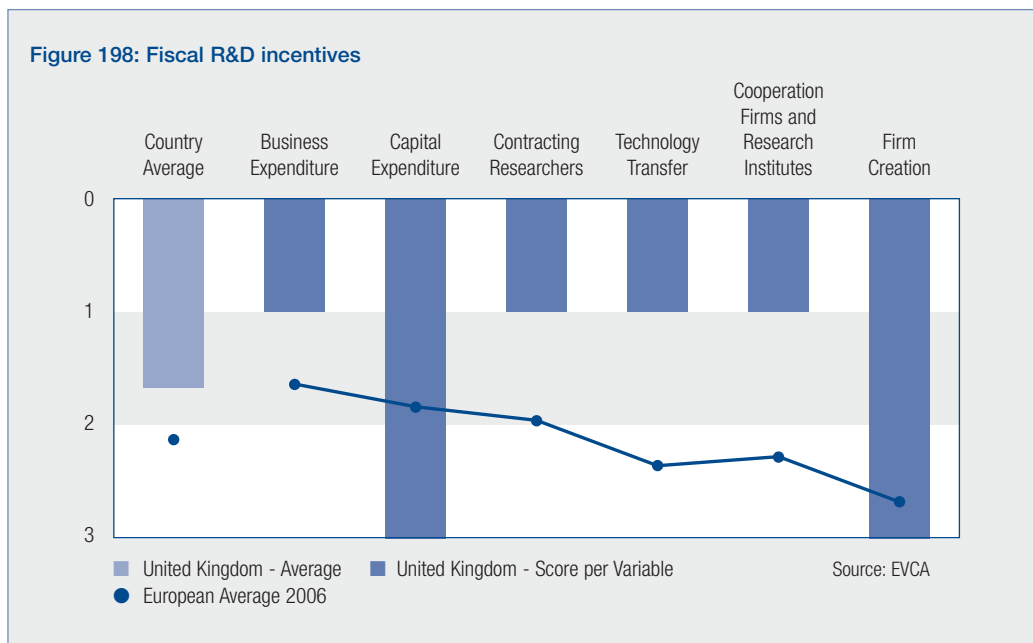
The United Kingdom does not provide a specific fiscal scheme for supporting the creation and growth of innovative high-potential start-ups (young innovative company – YIC). The company tax rate is 30%, which is above the European average of 26.2%. There is a special 19% rate for small and medium-sized enterprises (SMEs), applying to taxable profits of up to £300,000 (€443,677).



2.2.2. Fiscal R&D incentives

The United Kingdom provides several fiscal incentives for business R&D expenditure, which are available to SMEs and, on a less generous scale, to larger companies. It allows SMEs a 150% and larger companies a 125% deduction for qualifying R&D expenditure. Although capital allowances are available to write off expenditures on business assets, no deduction for R&D capital expenditure is provided.

Expenditure on externally provided work or on sub-contracted R&D can qualify for deduction, for both SMEs and larger companies, provided the relevant conditions are met. A separate set of rules allows companies to write off expenditure on intellectual property (including know-how and technology) over the useful life of that intellectual property and to deduct from taxable profits the amounts written off each year. In parallel, the United Kingdom provides incentives for contracting researchers.



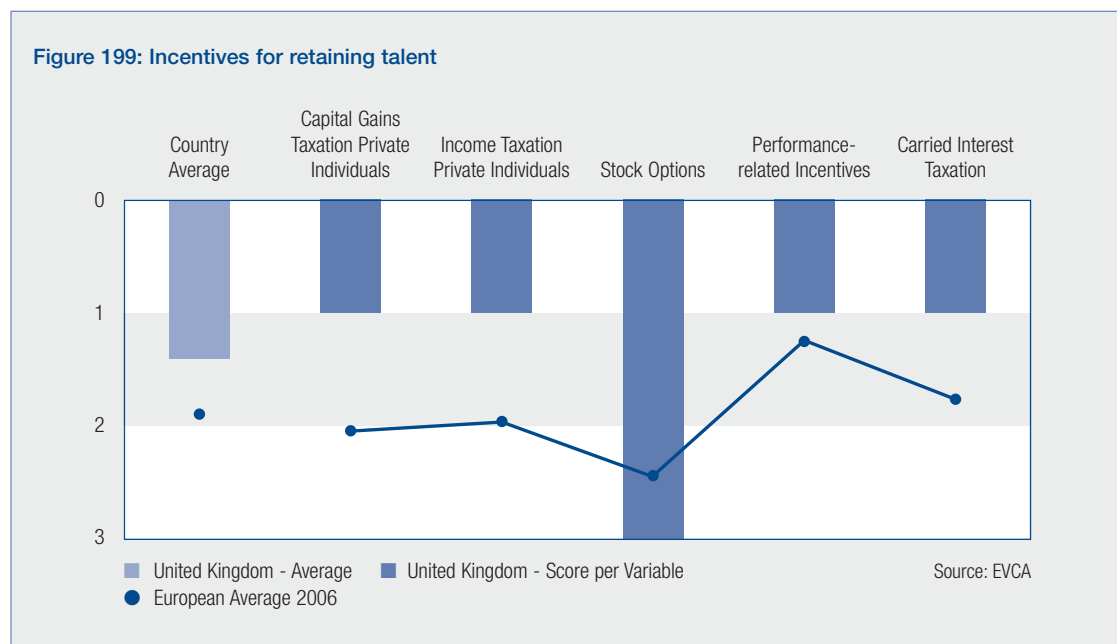
Moreover, larger companies are allowed a deduction for funding given to research institutes or universities specifically to carry out R&D.

There are no fiscal incentives for the creation of innovative firms.

2.3. The environment for retaining talent in investee companies and management funds

With the exception of stock options, the UK taxation set-up is well designed to retain talent in investee companies and fund management companies.

The United Kingdom provides taper relief for capital gains on business assets held for more than a year. If an asset is held for more than two years, only 25% of the capital gains is taxable, resulting in a 10% tax rate for higher rate (40%) taxpayers. Generally, all employee shareholdings qualify as business assets, whether in quoted or unquoted trading companies. Employee shareholdings in non-trading companies may also qualify, provided the shareholding does not amount to 10% or more and that the company is controlled by five or fewer shareholders. The maximum income tax rate for private individuals is 40%, which is below the European average (42%).



Stock options for investee company managers and employees that are approved or that are EMIs (Enterprise Management Incentive ²³), are taxed on the disposal of the underlying shares. Unapproved stock options are taxed upon exercise. Although unapproved schemes are treated less favourably for tax purposes, they offer greater flexibility and are therefore much more popular in the United Kingdom.

It is possible to structure a performance-related incentive (i.e. carried interest or preference shares) within the Limited Partnership and carried interest is generally taxed as capital gains.

3. Future developments

The Finance Act 2006 included a major change to the Venture Capital Trust (VCT) regime. The level of relief will be reduced from 40% to 30%. At the same time, the maximum size of companies in which a VCT can invest will be significantly reduced.

²³ Options qualifying as EMIS relate to shares in an independent trading company, which has gross assets of no more than £30,000,000 (€44,367,707), and are granted to employees of that trading company.

For the research behind this report, a standardised procedure was followed based on detailed definitions of individual variables. These are described in the following pages.

The objective was to continue the discussion on the fragmented policy environments currently in place in European countries, as well as to highlight those areas where improvements to the tax and legal situation could positively affect the development of private equity and venture capital, and entrepreneurship.

But while the results do provide a strong and useful tool for analysis of the tax and legal frameworks in Europe, it is important that they are interpreted with care.

This document does not claim to be an exhaustive comparison. There are certainly more factors contributing to a favourable private equity and venture capital environment than have been selected for the analysis in the paper. An effort was made to select those aspects that are most relevant for a well-functioning private equity and venture capital industry. At the same time, a number of restrictive assumptions had to be made when analysing the individual variables as, for the purposes of comparison, a similar situation needed to be created across the different legislative settings.

Neither the effectiveness of an initiative nor the ease of using it were reflected in the final analysis of this paper as it would have been difficult to come to a neutral evaluation.

To allow comparisons to be made between different national environments, information on seven criteria was collected based on 29 variables and across 25 European countries. The cut-off date of the information collected was **1 July 2006**. For each country, a score was allocated per variable: '1' is the best score, accorded to a favourable environment, and '2' and '3' indicate less favourable conditions with room for improvement. Subsequently, an average was calculated per criterion, based on the scores of the underlying variables. Finally, a composite score per country was calculated by taking the overall average from all the criteria. The country's composite score enables an assessment of the current conditions across all countries analysed. It is important to emphasise that equal weight was accorded to each of the seven criteria when calculating the country's composite score, meaning that no weighting was applied regarding the relative impact of the individual criteria on the overall environment.

The information in this paper is set out in individual country reports. Each country report starts with the evolution of the country since 2003, when EVCA launched this Benchmark exercise. For the year 2006, two European averages have been provided. Firstly, the European average based on all 25 countries assessed in 2006 (referred to as "European Average (2006 sample)") and secondly, a European average based on the 21 countries analysed in 2004 (referred to as "European Average (2004 sample)"). The country's evolution is followed by a section on the current situation in that country presenting information on the overall status of the seven criteria assessing the tax and legal environment for private equity and venture capital. A brief summary is given of the favourable and less favourable areas. The second part of this section is subdivided into three subsections (see chapter on "Defining the Tax and Legal Environment for the Private Equity and Venture Capital Industry"), each including a detailed overview of the related individual variables. Below you will find the complete methodology for each subsection and variable.

Some country reports also have a section on future developments.

1. The tax and legal environment for limited partners and fund managers

1.1. Pension funds

The pension fund environment was analysed according to five different variables:

1. Does your country provide a **funded pillar one (public) pension system**?
 - A positive score of '1' was accorded to those countries in which a funded or partly funded pillar one pension system exists.
 - A negative score of '3' was accorded to those countries with a pillar one pay-as-you-go system.

2. Does your country provide tax or other **incentives for complementary pillar two (occupational) pension systems**?
 - A positive score of '1' was accorded to those countries that provide tax or other incentives encouraging pillar two pension systems.
 - A negative score of '3' was accorded to those countries in which no such incentives are available.

3. Has **EU Directive 2003/41/EC** of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision²⁴ been **implemented** in your country?
 - A positive score of '1' was accorded to those European Union Member States that have implemented the above-mentioned EU Directive and to those non-European Union Member States that have implemented similar rules.
 - A negative score of '3' was accorded to those countries in which the above-mentioned EU Directive has not been implemented or has only partially been implemented.

It should be noted that the scoring of the above was based on the latest official information provided by the European Commission on the Transposition of the Financial Services Action Plan Directives.

4. Does your national legislation define any **additional quantitative restrictions** for pension funds to invest in private equity and venture capital other than those defined by the above-mentioned EU Directive?
 - A positive score of '1' was accorded to those countries in which national legislation does not stipulate any additional quantitative restrictions for pension funds to invest in private equity and venture capital, apart from those defined by the EU Directive ("prudent man rule").
 - A score of '2' was accorded to those countries in which national legislation stipulates quantitative investment restrictions in addition to those defined by the EU Directive ("prudent man rule"). A score of '2' was also given to those countries where pension funds need prior approval from a public authority before they can invest in private equity and venture capital.
 - A negative score of '3' was accorded to those countries in which national legislation forbids pension funds to invest in private equity and venture capital.

²⁴ For more information on EU Directive 2003/41/EC, please see the link below:
http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32003L0041&model=guicheti

5. Are there any **geographical restrictions** for pension funds to invest outside your country **in other European countries**?
 - A positive score of '1' was accorded when pension funds can freely invest in private equity and venture capital beyond their home country in other European countries.
 - A negative score of '3' was accorded to those countries forbidding pension funds' investments beyond their home country in other European countries.

1.2. Insurance companies

The insurance company environment was analysed on the basis of the following two variables:

1. Can insurance companies in your country **invest** in private equity and venture capital **without** any **quantitative restrictions**, apart from those defined by EU Directive 2002/13/EC²⁵ of the European Parliament and the European Council?
 - A positive score of '1' was accorded to those countries in which insurance companies are allowed to invest part of their technical reserves in private equity and venture capital, and where the limitations are in line with or above the 10% set by the EU Directive.
 - A score of '2' was accorded to those countries in which insurance companies can invest in private equity and venture capital, but where additional national regulations impede the investment allocation below the limitations set out by the EU Directive. A score of '2' was also given to those countries where insurance companies need prior approval from a public authority before they can invest in private equity and venture capital.
 - A negative score of '3' was accorded to those countries in which insurance companies are not allowed to invest part of their technical reserves in private equity and venture capital.
2. Are there any **geographical restrictions** for insurance companies to invest in private equity and venture capital outside their home country **in other European countries**?
 - A positive score of '1' was accorded to those countries in which there are no obstacles to cross-border investments within European limits.
 - A negative score of '3' was accorded to those countries in which the investment of insurance companies in private equity and venture capital outside their home country is strongly restricted or forbidden.

1.3. Fund structures

The fund structure environment was analysed according to seven different variables.

For all countries in which a dedicated or appropriate domestic fund structure or investment vehicle is available, the answers to questions 2 to 7 apply to that structure or vehicle. Where there are several such structures, the most frequent one was selected for analysis.

²⁵ For more information on EU Directive 2002/13/EC, please see the link below:
http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l_077/l_07720020320en00170022.pdf

It should be noted that the fund structure analysis refers to a domestic fund and does not cover the possibility of using foreign fund structures to invest in private equity and venture capital in the country. It could be argued that these foreign structures are sub-optimal solutions due to the transaction costs they imply. Therefore, some European countries (such as Slovenia and Switzerland) have been excluded from the fund structures section, as no appropriate or dedicated domestic structure for private equity and venture capital is available in these countries. As a result, the composite scores of both countries were calculated based on six of the seven criteria only.

1. Is there a **dedicated or appropriate domestic fund structure or investment vehicle** available in the country that can be used to invest in private equity and venture capital?
 - A positive score of '1' was accorded to those countries that provide either a dedicated private equity and venture capital fund structure or vehicle, or an appropriate structure or vehicle to invest in private equity and venture capital.
 - A negative score of '3' was accorded to those countries in which no such fund structure or vehicle is available.

2. Is this fund structure **tax transparent for domestic investors**?
 - A positive score of '1' was accorded where the fund structure or vehicle is tax transparent for domestic investors.
 - A negative score of '3' was accorded where the fund structure or vehicle is not tax transparent for domestic investors.

3. Is this fund structure **tax transparent for non-domestic investors**?
 - A positive score of '1' was accorded where the fund structure or vehicle is tax transparent for non-domestic investors.
 - A negative score of '3' was accorded where the fund structure or vehicle is not tax transparent for non-domestic investors.

4. Does this fund structure provide non-domestic investors with the ability to be **exempted from** having a **permanent establishment**²⁶ in the country when investing in this fund?
 - A positive score of '1' was accorded to those countries where – by law – investing through the fund structure or vehicle does not create a permanent establishment for non-domestic investors.
 - A score of 2 was accorded to those countries where – by ruling – investing through the fund structure or vehicle does not create a permanent establishment for non-domestic investors.
 - A negative score of '3' was accorded to those countries where investing through the fund structure or vehicle creates a permanent establishment for non-domestic investors.

5. Does the fund structure or vehicle offer the ability to be **exempted from VAT** (Valued Added Tax) **on the management fees**?
 - A positive score of '1' was accorded when management fees are not liable for VAT.
 - A negative score of '3' was accorded in case management fees are liable for VAT.

²⁶ See Glossary

6. Does the fund structure or vehicle offer the ability to be **exempted from VAT on the carried interest**?
 - A positive score of '1' was accorded when carried interest is not liable for VAT.
 - A negative score of '3' was accorded in case carried interest is liable for VAT.
7. Is the fund structure **free from undue investment restrictions**?
 - A positive score of '1' was accorded when no restrictions impede or severely affect the decision by the fund managers using the fund structure or vehicle as described²⁷.
 - A negative score of '3' was accorded where regulations or rules govern the fund managers' investment decision in a negative way.

1.4. Tax incentives for private equity and venture capital

The private equity and venture capital tax incentives were analysed according to the following criterion:

1. Does your country provide any form of **tax incentives to encourage investment in private equity and venture capital**?
 - A positive score of '1' was accorded to all countries providing fiscal incentives to encourage private equity and venture capital investments.
 - A negative score of '3' was accorded where no such incentives are available.

Incentives targeting private individuals, limited partners or corporations were taken into account as all of them will have a positive effect on the private equity and venture capital industry.

2. The environment for investee companies

2.1. Company incentivization

The setting for companies was analysed on the basis of three different variables:

1. Does your country provide a specific fiscal **scheme for** supporting the creation and growth of **young innovative companies (YIC)**²⁸?
 - A positive score of '1' was accorded to those countries providing a Young Innovative Company scheme.
 - A negative score of '3' was accorded where a country does not provide such a scheme.

It should be noted that only those fiscal schemes that are targeted to small and medium-sized enterprises and to R&D intensive enterprises were taken into account. Non-fiscal support, or schemes targeted towards non-innovative companies were excluded from the analysis.

²⁷ Examples of such restrictions include being required to invest a large percentage in the home country or in a particular industry, or being forbidden to have any shareholdings in quoted companies.

²⁸ For additional information on the French Scheme that was used as a best practice example, please see the Glossary.

2. The **company tax rates** given in this paper refer to the nominal tax rate for each country. Although effective tax rates better reflect the real tax burden of a company, they require extensive amounts of data. Moreover, it should be noted that further to the European Commission's report 'Company Taxation in the Internal Market' (2001), page 5; *"the different national nominal tax rates on profits (statutory tax rates, surcharges and local taxes) can explain many of the differences in effective corporate tax rates between countries"*.

Please note that the nominal company tax rates include any local and municipal taxes, and/or other charges on income that might exist in the respective countries. These are further specified in the individual country reports.

To enable a proper comparison and scoring, an average European company tax rate was calculated based upon the highest company tax rates of each of the 25 countries presented. Each individual country was then evaluated against this European average (26.23%).

What is the nominal company tax rate in your country?

- A positive score of '1' was accorded to those countries with a company tax rate below the European average.
- A score of '2' was accorded to those countries where the company tax rate equals the European average.
- A negative score of '3' was accorded to those countries with a company tax rate above the European average.

3. Does your country provide a special **company tax rate for small and medium-sized enterprises (SMEs)**?

- A positive score of '1' was accorded to those countries with a special company tax rate for SMEs or a progressive taxation system, with lower tax rates applying for companies with income or profits beneath a certain threshold.
- A negative score of '3' was accorded to those countries without a specific company tax rate for SMEs or a progressive system.

For the evaluation of the company tax rates for SMEs, the OECD approach in the paper 'Industry Issues - Taxation, SMEs and Entrepreneurship' (2002) was followed. For countries providing several tax rates for SMEs, the lowest tax rate or bracket was chosen as a benchmark.

2.2. Fiscal R&D incentives

The environment for fiscal R&D incentives was analysed according to six different incentives. The selection of those six incentives was based on the study 'Corporation tax and innovation: Issues at state and review of European Union experiences in the nineties' (2002) published by the European Commission Directorate General for Enterprise. For the purpose of this Benchmark paper, information was collected on the provision of the following R&D incentives in each of the countries covered:

1. Fiscal incentives for **business R&D expenditure** (e.g. tax credits or allowances²⁹)
2. Fiscal incentives for **R&D capital expenditure** (e.g. free or accelerated depreciation)
3. Fiscal incentives for **contracting researchers** (tax incentives that encourage the hiring of specialist personnel e.g. support via personnel income tax or corporation taxes)
4. Fiscal incentives for **technology transfer** (e.g. either a tax incentive to support the purchase of technology or a tax incentive for the developer of new technology to transfer their know-how³⁰)
5. Fiscal incentives for **cooperation between firms and research institutes/universities** (e.g. tax incentives for collaborative projects)
6. Fiscal incentives for the **creation of innovative firms** (e.g. tax incentives for company spin-off/out).

It should be noted that the same R&D incentive might count several times when it covers several of the areas looked at. For example, a fiscal incentive for business R&D expenditure that also implies a fiscal incentive for contracting researchers would be accredited twice.

In this study,

- A positive score of '1' was accorded to each of the six fiscal R&D incentives that the country provides.
- A score of '2' was accorded to those fiscal incentives that are only available upon request/ruling granted by the relevant tax authorities.
- A negative score of '3' was accorded to each of those incentives that the country does not provide.

A composite score for this criterion was calculated per country, by taking the overall average from all the variables.

3. The environment for retaining talent in investee companies and management funds

3.1. Retaining talent in investee companies

The environment for retaining talent in investee companies was analysed according to three different variables:

1. To evaluate the **capital gains taxation for private individuals**, an average European tax rate was first calculated based on the 25 countries and then compared to the different national tax rates. The average European capital gains tax rate is **15.02%**.

²⁹ Tax credit refers to fiscal incentives, which allow firms to deduct a percentage of their R&D expenditure from their tax bills/liabilities. Tax allowances allow firms investing in R&D to deduct more from their taxable income than they actually spend on R&D.

³⁰ An example is the tax exemption from royalties obtained from the use of patents.

- A positive score of '1' was accorded to those countries with a capital gains tax rate below the European average.
- A score of '2' was accorded to those countries where the capital gains tax rate equals the European average.
- A negative score of '3' was accorded to those countries with a capital gains tax rate above the European average.

The capital gains tax rates presented for each country are based on the following assumptions:

- Tax rates include local and municipal taxes or other charges if applicable.
- The holding period of the shares is sufficiently long and the investment is not of a speculative nature (short-term investment).
- The shares held represent less than a 'substantial interest' as defined in the particular country.
- In case of a tax range, the higher tax rate is chosen for comparison.

The assessment disregards tax allowances/credits, which might additionally favour the acquisition of shares.

2. To evaluate the **income tax rate for private individuals**, an average European tax rate was first calculated based on the 25 countries and then compared to the different national income tax rates. The average European income tax rate for private individuals is 42.03%.
 - A positive score of '1' was accorded to those countries with an income tax rate below the European average.
 - A score of '2' was accorded to those countries where the income tax rate for private individuals equals the European average.
 - A negative score of '3' was accorded to those countries with an income tax rate above the European average.
3. The **taxation of stock options** is the third variable analysed and refers to the point in time at which stock options are taxed. It can be undertaken 'upon grant', 'at vesting', 'upon exercise' or 'upon sale'. The first three solutions lead to a situation where stock options are generally taxed at the time when the money from a possible gain is not yet received. Ideally, if any taxation is adopted, there should be no taxation of unrealised gains. Thus, the fourth and most recommended situation is taxation 'at exit' or 'upon sale'. Accordingly:
 - A positive score of '1' was accorded to those countries in which stock options are taxed upon sale.
 - A negative score of '3' was accorded to those countries in which stock options are taxed when they are granted, vested or exercised.

It should be noted that for countries with several stock option schemes, the most likely case was assumed choosing the least restricted stock option scheme or the scheme whereby preferential capital gains taxation can be achieved.

3.2. Retaining talent in fund management companies

The environment for retaining talent in fund management companies was analysed according to two different variables:

1. Is it possible to incorporate a **performance-related incentive** (i.e. carried interest or preference shares) **for the fund managers**?
 - A positive score of '1' was accorded when a performance-related incentive for fund managers can be incorporated.
 - A negative score of '3' was accorded when no such incentive can be incorporated.

2. How are **carried interest schemes taxed**?
 - A positive score of '1' was accorded where carried interest is taxed as capital gains.
 - A score of '2' was accorded where carried interest is taxed as dividends, or in the case of any other form of taxation.
 - A negative score of '3' was accorded where carried interest is taxed as income.

Buyout

A buyout is a transaction in which a business, business unit or company is acquired from the current shareholders (the vendor). Variations of this include:

- A management buyout (MBO), i.e. a buyout in which the target's management team acquires an existing product line or business from the vendor with the support of private equity funds;
- A management buyin (MBI), i.e. a buyout in which external managers take over the company and financing is provided to enable a manager or group of managers from outside the target company to buy into the company with the support of private equity funds.

Carried interest

A bonus entitlement accruing to an investment fund's management company or individual members of the fund management team. Carried interest (typically up to 20% of the profits of the fund) becomes payable once the investors have achieved repayment of their original investment in the fund plus a defined **hurdle rate**.

EU Pension Fund Directive

Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003L0041:EN:HTML>

EU Insurance Company Directive

Directive 2002/13/EC of the European Parliament and of the Council of 5 March 2002 amending Council Directive 73/239/EEC as regards the solvency margin requirements for non-life insurance undertakings

http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l_077/l_07720020320en00170022.pdf

Funded pension system

A pension system under which the contributions are saved and invested in different assets over time to pay for the benefits in the future.

Hurdle rate

A rate of return that must be achieved before a manager becomes entitled to **carried interest** payments from a fund; usually set as an IRR (Internal Rate of Return) but related to the risk free rate of return an investor could obtain in the same country as the fund is investing in.

Investors or limited partners (LPs)

Investors or limited partners are the suppliers of capital for private equity and venture capital funds. Most limited partners are pension funds, banks, insurance companies and funds of funds.

Management fees

Compensation received by a private equity fund management company. This annual management charge is equal to a certain percentage of the investors' commitments to the fund.

Pay-as-you-go (PAYG) system

A pillar one pension system under which the social security contributions by workers are used directly to pay out the benefits to retirees.

Permanent establishment

A permanent establishment is, according to the OECD definition, a fixed place of business through which the business of an enterprise is wholly or partly carried on. Within this paper, permanent establishment refers to the possibility that a limited partner, either owning or having a stake in a private equity or venture capital fund, is considered as a resident of that country and hence liable for the national taxation.

Pillar one pension

Pillar one refers to the public pension provisions, which are provided by the government.

Pillar two pension

Pillar two refers to the occupational pension provisions, which are provided by the employer.

Portfolio company

The company or entity into which a private equity or venture capital fund invests directly.

Private equity

Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues. A succession in family-owned companies, or the buyout and buyin of a business by experienced managers may be achieved using private equity funding.

Private equity fund

A private equity investment fund is a vehicle for enabling pooled investment by a number of investors in equity and equity-related securities of companies. These are generally private companies whose shares are not quoted on a stock exchange. The fund can take the form either of a company or of an unincorporated arrangement such as a Limited Partnership.

Prudent person rule

A behaviourally-oriented standard of investment, rather than one based on quantitative criteria. The prudent person rule allows pension funds to include private equity and venture capital funds in their asset allocation according to their own needs, while respecting the risk profile of their clients.

Small and medium-sized enterprises (SMEs)

The European Commission Recommendation of 6 May 2003 provides the definition of micro, small and medium-sized enterprises: http://europa.eu/eur-lex/pri/en/oj/dat/2003/l_124/l_12420030520en00360041.pdf

Start-up

Companies that are in the process of being set up or may have been in business for a short time, but have not sold their product commercially.

Stock option

An individual's right to purchase shares at a fixed price. Stock options are a widely used form of employee incentive and compensation. The employee is given an option to purchase shares at a certain price (at or below the market price at the time the option is granted) for a specified period of years. Stock options are an essential tool for attracting talent to young companies.

Tax transparency

A fund structure or vehicle is tax transparent when the fund itself is not subject to taxation and the investment in an underlying company is treated as if it would be a direct investment for the initial investor (the limited partner), who is taxed only when the investment structure distributes its gains and revenues.

Technical reserves

Technical reserves refer to the capital that insurance companies set aside to cover possible claims.

Venture capital

Professional equity co-invested with the entrepreneur to fund an early stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of a higher than average return on the investment. Venture capital is a subset of private equity.

Young Innovative Company scheme (YIC)

The French Young Innovative Company (Jeune Entreprise Innovante – JEI) status has been used as best practice example in this Benchmark study. The objective of this initiative is to help young innovative firms overcome the difficult first years of existence by providing them tax credits in favour of R&D investment:

http://trendchart.cordis.lu/tc_datasheet.cfm?id=8653

- **KPMG**

- **The European Commission**

“Corporation tax and innovation: Issues at stake and review of European Union experiences in the nineties”, Innovation Paper No. 19 (2002), European Commission Directorate General for Enterprise
ftp://ftp.cordis.europa.eu/pub/innovation-policy/studies/studies_corporation_tax_innovation_en.pdf

“Company Taxation in the Internal Market”, Commission Staff Working Paper, October 2001:
http://ec.europa.eu/taxation_customs/resources/documents/company_tax_study_en.pdf

Directive 2002/13/EC of the European Parliament and of the council of 5 March 2002 on the Solvency margin for non-life insurance undertakings:
http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l_077/l_07720020320en00170022.pdf

Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision:
http://eur-lex.europa.eu/LexUriServ/site/en/oj/2003/l_235/l_23520030923en00100021.pdf

Transposition of Financial Services Action Plan Directives:
http://ec.europa.eu/internal_market/finances/actionplan/transposition/index_en.htm

- **European Private Equity and Venture Capital Association (EVCA)**

“Private Equity and Venture Capital Incentives in Europe”, April 2003

“Benchmarking European Tax and Legal Environments: Indicators of Tax & Legal Environments Favouring the Development of Private Equity and Venture Capital and Entrepreneurship in Europe”, May 2004

“Private Equity Fund Structures in Europe”, January 2006

- **Organisation for Economic Cooperation and Development (OECD)**

“Industry Issues – Taxation, SMEs and Entrepreneurship”, OECD Directorate for Science, Technology and Industry, Working Paper No. 2002/9, August 2002

“Articles of the model convention with respect to taxes on income and on capital”, OECD, January 2003
<http://www.oecd.org/dataoecd/52/34/1914467.pdf>

“Tax Incentives for Research and Development: Trends and Issues”, OECD, 2003
<http://www.oecd.org/dataoecd/12/27/2498389.pdf>

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 Atoz Tax Advisers – Luxembourg
 Advokatfirmaet Schjødt AS – Norway
 Cabinet de Avocat Irina Anghel – Romania

- **Other sources**

Latvian Guarantee agency - Latvia

GED Group - Romania

<http://www.pmv-kmo.be>

<http://www.deloitte.com>

(International Tax and Business Guides:

http://www.deloitte.com/dtt/section_node/0,1042,sid%253D11410,00.html)

<http://www.irishstatutebook.ie>

For further information about the content of this paper, please contact the EVCA Public Affairs department at public.affairs@evca.com

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For further information about the activities of the European Private Equity and Venture Capital Association and other EVCA publications, please visit: <http://www.evca.com>

Table 2: Current situation per country

	Austria	Belgium	Czech Republic	Denmark
Total Composite Score	1.74	1.51	2.21	1.75
A. THE TAX AND LEGAL ENVIRONMENT FOR LIMITED PARTNERS AND FUND MANAGERS				
1. Pension Funds				
A funded pillar one (governmental) pension system	3	3	3	1
Availability of incentives for complementary pillar two (occupational) pension systems	1	1	1	1
Implementation of EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision	1	3	3	1
Does your national legislation define any quantitative restrictions for pension funds to invest in the asset class other than those defined by the EU Directive?	2	2	3	1
Geographical restrictions for pension funds to invest abroad in other European countries	1	1	1	1
Country Average	1.60	2.00	2.20	1.00
2. Insurance Companies				
Can insurance companies invest in private equity and venture capital with no quantitative restrictions other than those defined by EU Directive 2002/13/EC?	2	1	3	1
Geographical restrictions for insurance companies to invest in the asset class in other European countries	1	1	3	1
Country Average	1.50	1.00	3.00	1.00
3. Fund Structures				
A dedicated or suitable domestic fund structure or investment vehicle for private equity and venture capital	1	1	1	1
The questions below refer to the following fund structure:				
	<i>Mittelstands- finanzierungs- gesellschaft (MFAG)</i>	Private PRICAF	General Partnership (v.o.s.)	Limited Partnership
Tax transparency for domestic investors	3	3	1	1
Tax transparency for non-domestic investors	3	3	1	1
Ability to avoid permanent establishment for non-domestic investors	1	1	3	2
Ability to be exempted from VAT on management fees	1	1	3	3
Ability to be exempted from VAT on carried interest	1	1	1	1
Freedom from undue restrictions on investments	3	1	1	1
Country Average	1.86	1.57	1.57	1.43
4. Tax Incentives for Private Equity and Venture Capital				
Any form of tax incentives to encourage investment in private equity and venture capital	1	1	3	3

Estonia	Finland	France	Germany	Greece	Hungary	Ireland	Italy	Latvia
2.08	1.91	1.36	2.15	1.55	1.83	1.27	1.72	2.12
1	1	1	3	1	3	1	1	1
1	1	1	1	1	1	1	1	1
1	1	3	1	1	1	1	3	1
2	1	1	1	2	1	1	2	1
1	1	1	1	1	3	1	1	1
1.20	1.00	1.40	1.40	1.20	1.80	1.00	1.60	1.00
2	1	1	1	1	2	1	2	3
1	1	1	1	1	1	1	1	3
1.50	1.00	1.00	1.00	1.00	1.50	1.00	1.50	3.00
1	1	1	1	1	1	1	1	1
Limited Liability Company	Limited Partnership Company (Kj)	FCPR (Fonds Commun de Placement à Risques)	Limited Partnership (GMBH & Co KG)	AKES	Private Equity Fund	Limited Partnership	Fondo Chiuso (Closed-end Fund)	Latvian Limited Partnership (Komanditsabiedriba)
3	1	1	1	1	1	1	3	1
3	1	3	1	1	1	1	3	1
1	1	1	1	1	1	2	1	1
3	1	1	3	1	1	1	1	1
1	1	1	3	1	1	1	1	1
3	1	1	1	3	3	1	1	1
2.14	1.00	1.29	1.57	1.29	1.29	1.14	1.57	1.00
3	3	1	3	1	3	1	1	3

Table 2: Current situation per country (continued)

	Austria	Belgium	Czech Republic	Denmark
Total Composite Score	1.74	1.51	2.21	1.75
B. THE ENVIRONMENT FOR INVESTEE COMPANIES				
5. Company Incentivization				
Provision of a specific fiscal scheme for young innovative companies (YIC)	3	1	3	3
Company tax rate	1	3	1	3
Special company tax rate for SMEs	3	1	3	3
Country Average	2.33	1.67	2.33	3.00
6. Fiscal R&D Incentives				
Fiscal incentives for business R&D expenditure	1	1	1	1
Fiscal incentives for R&D capital expenditure	3	1	1	1
Fiscal incentives for contracting researchers	1	1	3	1
Fiscal incentives for technology transfer	1	1	3	1
Fiscal incentives for cooperation between firms and research institutes/universities	1	3	1	1
Fiscal incentives for the creation of innovative firms	3	1	3	1
Country Average	1.67	1.33	2.00	1.00
C. THE ENVIRONMENT FOR RETAINING TALENT IN INVESTEE COMPANIES AND MANAGEMENT FUNDS				
7. Retaining Talent in Investee Companies				
Capital gains tax rate for private individuals	3	1	1	3
Income tax rate for private individuals	3	3	1	3
Taxation of stock options	3	3	3	1
8. Retaining Talent in Fund Management Companies				
Ability to incorporate a performance-related incentive for the fund managers	1	1	1	1
Taxation of carried interest	1	2	1	1
Country Average	2.20	2.00	1.40	1.80

Estonia	Finland	France	Germany	Greece	Hungary	Ireland	Italy	Latvia
2.08	1.91	1.36	2.15	1.55	1.83	1.27	1.72	2.12
3	3	1	3	3	3	3	3	3
1	1	3	3	3	1	1	3	1
3	3	1	3	3	1	3	3	3
2.33	2.33	1.67	3.00	3.00	1.67	2.33	3.00	2.33
3	3	1	1	1	1	1	1	3
3	3	1	3	1	1	1	1	1
3	1	1	3	3	1	1	1	3
3	3	3	3	3	1	1	3	1
3	3	1	3	3	1	1	3	3
3	3	1	3	3	3	1	3	3
3.00	2.67	1.33	2.67	2.33	1.33	1.00	2.00	2.33
3	3	3	3	1	3	3	1	1
1	3	3	3	1	1	1	3	1
1	3	1	3	1	3	1	1	3
1	1	1	1	1	1	1	1	3
1	2	1	2	1	3	1	1	3
1.40	2.40	1.80	2.40	1.00	2.20	1.40	1.40	2.20

Table 2: Current situation per country (continued)

	Luxembourg	Netherlands	Norway	Poland
Total Composite Score	1.62	1.60	2.08	2.16
A. THE TAX AND LEGAL ENVIRONMENT FOR LIMITED PARTNERS AND FUND MANAGERS				
1. Pension Funds				
A funded pillar one (governmental) pension system	3	3	1	3
Availability of incentives for complementary pillar two (occupational) pension systems	1	1	1	1
Implementation of EU Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision	1	1	3	3
Does your national legislation define any quantitative restrictions for pension funds to invest in the asset class other than those defined by the EU Directive?	2	1	2	2
Geographical restrictions for pension funds to invest abroad in other European countries	1	1	1	2
Country Average	1.60	1.40	1.60	2.20
2. Insurance Companies				
Can insurance companies invest in private equity and venture capital with no quantitative restrictions other than those defined by EU Directive 2002/13/EC?	1	1	2	2
Geographical restrictions for insurance companies to invest in the asset class in other European countries	1	1	1	1
Country Average	1.00	1.00	1.50	1.50
3. Fund Structures				
A dedicated or suitable domestic fund structure or investment vehicle for private equity and venture capital	1	1	1	1
The questions below refer to the following fund structure:				
	SICAR	CV (<i>Commanditaire Vennootschap</i>)	KS (Limited Partnership)	Closed-end Investment Fund for Non-public Assets (CEIF)
Tax transparency for domestic investors	1	1	1	3
Tax transparency for non-domestic investors	1	1	1	3
Ability to avoid permanent establishment for non-domestic investors	1	3	3	1
Ability to be exempted from VAT on management fees	1	1	1	1
Ability to be exempted from VAT on carried interest	1	1	1	1
Freedom from undue restrictions on investments	1	1	1	1
Country Average	1.00	1.29	1.29	1.57
4. Tax Incentives for Private Equity and Venture Capital				
Any form of tax incentives to encourage investment in private equity and venture capital	1	1	3	3

Portugal	Romania	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	United Kingdom
1.71	2.35	2.17	2.26	1.52	2.12	1.83	1.46
3	3	3	3	1	1	3	3
1	3	1	1	1	1	1	1
1	1	1	1	1	1	1	3
2	3	3	3	1	2	1	1
1	3	1	1	1	1	3	1
1.60	2.60	1.80	1.80	1.00	1.20	1.80	1.80
1	3	1	2	1	2	2	1
1	3	1	1	1	1	1	1
1.00	3.00	1.00	1.50	1.00	1.50	1.50	1.00
1	1	1	N/A	1	1	N/A	1
FCR (<i>Fundo De Capital de Risco</i>)	Romanian Open Investment Fund	Limited Liability Company	N/A	<i>Sociedad de Capital de Riesgo (SCR) and Fondo de Capital de Riesgo (FCR)</i>	Swedish Limited Partnership	N/A	UK Limited Partnership
1	3	3	N/A	3	1	N/A	1
1	3	3	N/A	3	1	N/A	1
1	1	1	N/A	1	3	N/A	1
1	1	3	N/A	3	1	N/A	1
3	3	1	N/A	1	1	N/A	1
3	3	1	N/A	3	1	N/A	1
1.57	2.14	1.86	N/A	2.14	1.29	N/A	1.00
1	3	3	3	1	3	1	1

Table 2: Current situation per country (continued)

	Luxembourg	Netherlands	Norway	Poland
Total Composite Score	1.62	1.60	2.08	2.16
B. THE ENVIRONMENT FOR INVESTEE COMPANIES				
5. Company Incentivization				
Provision of a specific fiscal scheme for young innovative companies (YIC)	3	3	3	3
Company tax rate	3	3	3	1
Special company tax rate for SMEs	1	1	3	3
Country Average	2.33	2.33	3.00	2.33
6. Fiscal R&D Incentives				
Fiscal incentives for business R&D expenditure	3	1	1	1
Fiscal incentives for R&D capital expenditure	3	1	1	1
Fiscal incentives for contracting researchers	3	1	3	3
Fiscal incentives for technology transfer	3	3	3	3
Fiscal incentives for cooperation between firms and research institutes/universities	3	3	1	3
Fiscal incentives for the creation of innovative firms	3	3	3	3
Country Average	3.00	2.00	2.00	2.33
C. THE ENVIRONMENT FOR RETAINING TALENT IN INVESTEE COMPANIES AND MANAGEMENT FUNDS				
7. Retaining Talent in Investee Companies				
Capital gains tax rate for private individuals	1	1	3	3
Income tax rate for private individuals	1	3	3	1
Taxation of stock options	3	3	3	3
8. Retaining Talent in Fund Management Companies				
Ability to incorporate a performance-related incentive for the fund managers	1	1	1	1
Taxation of carried interest	1	3	1	3
Country Average	1.40	2.20	2.20	2.20

Portugal	Romania	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	United Kingdom
1.71	2.35	2.17	2.26	1.52	2.12	1.83	1.46
3	3	3	3	3	3	1	3
3	1	1	1	3	3	1	3
1	1	3	3	1	3	3	1
2.33	1.67	2.33	2.33	2.33	3.00	1.67	2.33
1	3	3	1	1	3	3	1
3	1	3	3	1	3	2	3
3	3	3	1	1	1	3	1
3	3	3	3	1	3	3	1
3	3	3	3	1	3	3	1
3	3	3	3	3	3	3	3
2.67	2.67	3.00	2.33	1.33	2.67	2.83	1.67
1	1	3	3	1	3	1	1
1	1	1	3	3	3	1	1
3	1	3	3	3	3	3	3
1	1	1	3	1	1	3	1
3	3	3	1	1	1	3	1
1.80	1.40	2.20	2.60	1.80	2.20	2.20	1.40

Table 3: Current situation per criterion

	Total Composite Score	THE TAX AND LEGAL ENVIRONMENT FOR LIMITED PARTNERS AND FUND MANAGERS					THE ENVIRONMENT FOR INVESTEE COMPANIES			THE ENVIRONMENT FOR RETAINING TALENT IN INVESTEE COMPANIES AND MANAGEMENT FUNDS	
		Pension Funds	Insurance Companies	Domestic Fund Structures	Tax Incentives for PE and VC	Total Average	Company Incentivization	Fiscal R&D Incentives	Total Average	Retaining Talent	Total Average
Austria	1.74	1.60	1.50	1.86	1.00	1.49	2.33	1.67	2.00	2.20	2.20
Belgium	1.51	2.00	1.00	1.57	1.00	1.39	1.67	1.33	1.50	2.00	2.00
Czech Republic	2.21	2.20	3.00	1.57	3.00	2.44	2.33	2.00	2.17	1.40	1.40
Denmark	1.75	1.00	1.00	1.43	3.00	1.61	3.00	1.00	2.00	1.80	1.80
Estonia	2.08	1.20	1.50	2.14	3.00	1.96	2.33	3.00	2.67	1.40	1.40
Europe	1.84	1.55	1.42	1.47	2.04	1.62	2.36	2.13	2.24	1.89	1.89
Finland	1.91	1.00	1.00	1.00	3.00	1.50	2.33	2.67	2.50	2.40	2.40
France	1.36	1.40	1.00	1.29	1.00	1.17	1.67	1.33	1.50	1.80	1.80
Germany	2.15	1.40	1.00	1.57	3.00	1.74	3.00	2.67	2.83	2.40	2.40
Greece	1.55	1.20	1.00	1.29	1.00	1.12	3.00	2.33	2.67	1.00	1.00
Hungary	1.83	1.80	1.50	1.29	3.00	1.90	1.67	1.33	1.50	2.20	2.20
Ireland	1.27	1.00	1.00	1.14	1.00	1.04	2.33	1.00	1.67	1.40	1.40
Italy	1.72	1.60	1.50	1.57	1.00	1.42	3.00	2.00	2.50	1.40	1.40
Latvia	2.12	1.00	3.00	1.00	3.00	2.00	2.33	2.33	2.33	2.20	2.20
Luxembourg	1.62	1.60	1.00	1.00	1.00	1.15	2.33	3.00	2.67	1.40	1.40
Netherlands	1.60	1.40	1.00	1.29	1.00	1.17	2.33	2.00	2.17	2.20	2.20
Norway	2.08	1.60	1.50	1.29	3.00	1.85	3.00	2.00	2.50	2.20	2.20
Poland	2.16	2.20	1.50	1.57	3.00	2.07	2.33	2.33	2.33	2.20	2.20
Portugal	1.71	1.60	1.00	1.57	1.00	1.29	2.33	2.67	2.50	1.80	1.80
Romania	2.35	2.60	3.00	2.14	3.00	2.69	1.67	2.67	2.17	1.40	1.40
Slovak Republic	2.17	1.80	1.00	1.86	3.00	1.91	2.33	3.00	2.67	2.20	2.20
Slovenia	2.26	1.80	1.50	n/a	3.00	2.10	2.33	2.33	2.33	2.60	2.60
Spain	1.52	1.00	1.00	2.14	1.00	1.29	2.33	1.33	1.83	1.80	1.80
Sweden	2.12	1.20	1.50	1.29	3.00	1.75	3.00	2.67	2.83	2.20	2.20
Switzerland	1.83	1.80	1.50	n/a	1.00	1.43	1.67	2.83	2.25	2.20	2.20
United Kingdom	1.46	1.80	1.00	1.00	1.00	1.20	2.33	1.67	2.00	1.40	1.40

Source: EVCA





[visit: www.evca.com]



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