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Obstacles to Nordic Private Equity Funds

Updated version 2007

Promoting a common Nordic venture capital market

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Nordic Legal Project

Obstacles to Nordic Venture Capital Funds

Updated version 2007

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1. Executive summary

This report is an updated version of the report “Obstacles to Nordic venture capital funds” which was published in November 2006. Since the original report was published discussions regarding these issues have been held in various formats in the Nordic countries, for example included in a hearing with the Minister for the Financial Markets in Sweden, Mr Mats Odell. However, with the clear exception of Finland no tangible proposals for the removal of barriers for transnational investments in funds have yet been presented. It should also be noted that there are, as before, few obstacles for transnational investments in Denmark.

Therefore the recommendations from the original report are still valid and most importantly it is now time to move from the phase of fact finding and benchmarking to the phase of tangible proposals for change in most Nordic countries.

The venture capital market is an important engine for economic growth and the creation of new industries, new companies, and employment in the Nordic countries. Furthermore, the venture capital market helps attract international capital to the region.

Today this fact has been acknowledged by all the Nordic countries and there are efforts on improving the regulations for the venture capital and private equity industry in the Nordic countries as well as on a European level.

Changes on a European level will take time and the Nordic countries have an obvious opportunity to create a competitive advantage by acting faster in improving regulations for the venture capital market. This would further strengthen the Nordic region as a leader within European venture capital.

An important part of the regulations for venture capital relates to legal and taxation issues for transnational investments into venture capital funds.

There is today a broad European understanding that we would have far more cross border investments in funds if the funds would encounter fewer obstacles to cross border capital raising. This is an important problem especially for smaller growing venture capital funds.
In the “Report of the Alternative Investment Expert Group, Developing European Private Equity”, published by the European Commission in July 2006 the expert group highlights regulations and taxation issues regarding fund structures as a key issue and also urges the EU member states to learn from each other to create optimal conditions on a national level. The work is continued in a new European Commission Expert Group “Removing tax obstacles for cross-border venture capital investments”.

In the Nordic countries there are different kinds of obstacles for venture capital funds to receive transnational investments. The purpose of this report is to describe the status in each country and thereby also function as a Nordic best practice study.

The report contains an overall common Nordic recommendation as well as updated status reports, and national recommendations regarding obstacles in each Nordic country.

Since the report is part of the Nordic Council of Ministers efforts to promote the common and well functioning Nordic venture capital market the term venture capital is used through out the report. Of course the legal aspects valid for venture capital are just as valid for the buyout segment or other parts of the asset class private equity. [1]

1) Private equity is often defined as investments in non-listed companies. Venture capital, as a segment of private equity, refers to investments in new and early stage companies and buyout refers to investments in more mature companies.

2. Recommendations

2.1 Overall Nordic recommendation

Since this report was last published in November 2006 the Finnish legislator and courts have taken some positive steps towards removing obstacles to operating venture capital funds on shore. The new Finnish governmental program promises even more. As to the other Nordic countries very few, if any, positive reforms have taken place. Consequently, the overall Nordic recommendation for removal of tax obstacles to venture capital investments remains fundamentally the same as before.

1. Venture capital funds organized as limited partnerships should be truly and fully transparent in taxation. This means that no income tax should be imposed in the country where the fund is established or where the management carries on the investment activities. The guiding principle should be that investors are taxed only in their resident countries i.e. taxation should take place at the level of investors, not at the level of the partnership. All the countries should look through the venture capital vehicle to the end investor to ensure that tax is applied only in the home state of the investor.
2. No VAT should be imposed on management services of the venture capital fund. Since venture capital funds do not carry out any activities subject to VAT the VAT charged on management services will not be recoverable and therefore it becomes an additional cost paid by the investors or the management team. Although it is possible to avoid VAT in some situations there is always some uncertainty and therefore it should be clearly stated out in the local VAT regulations that no VAT is imposed on management services for the venture capital funds.
3. In situations where local related advisors are used or decision making takes place locally it is possible that foreign venture capital funds can be considered to have permanent establishments in target countries. The risk of taxing foreign funds should be abolished by explicit regulations.

2.2 Recommended actions

The Project Group recommends the Nordic Council of Ministers to support that each Nordic Country:

1. continues the important work to remove obstacles to Nordic based venture capital funds to enhance the conditions of the common Nordic venture capital market
2. moves from the phase of fact finding and benchmarking into the phase of creating tangible proposals for removal of existing obstacles

The Project Group further recommends the Nordic Council of Ministers to assign the Project Group to:

1. continue to function as a Nordic reference group with legal expertise as well as with Nordic coordination and Nordic market overview.
2. continue to support the efforts to implement changes in each Nordic country.
3. again report back to the Nordic Council of Ministers about the status in each country in one year, to ensure due follow up.

3. Introduction

3.1 Project background

This report is an updated version of the report “Obstacles to Nordic Venture Capital Funds” which was published in November 2006.

The Nordic Council of Ministers has established the importance of venture capital and has commissioned several projects aimed at promoting a highly functional common Nordic venture capital market.

The venture capital market is an important engine for economic growth and the creation of new industries, new companies, and employment and the Nordic countries. Furthermore, the venture capital market helps attract international capital to the region.

Research shows that investing in new and young companies through venture capital funds is a proven and efficient model for promoting business life.

For example, a study made by the Swedish Venture Capital Association and Nutek, Swedish Agency for Economic and Regional Growth, shows that companies financially backed by private equity funds have increased employment by 7% per year from 1999 till 2004. The average rate for all companies in Sweden is close to zero[1].

In 2004 Nordic Investment Solutions, a Nordic advisory firm within private equity, performed a pre-study regarding the obstacles to a highly functional common Nordic private equity and venture capital market.

The study was carried out on behalf of the Nordic Innovation Centre, an institution under the Nordic Council of Ministers. One area that was identified as central in the pre-study was the obstacles for foreign investors aiming to invest in Nordic funds.

In 2005 a project group led by the Nordic Innovation Centre and consisting of professionals from the national ministries of trade and finance as well as from the market looked deeper into the issues regarding existing tax and legal obstacles for international investments in Nordic private equity structures. The conclusions of this project were presented in the report “Recommendations for the Nordic venture capital market” published in November 2005.

One of the recommendations made by the project group was to further explore these obstacles and put together a group of leading Nordic lawyers for this purpose.

3.2 The Nordic legal project

Given the background above a “Nordic Legal Project” was commissioned in the spring of 2006.

1) www.svca.se/home/page.asp?sid=337&mid=2&PageId=26738 [Utvecklingen för riskkapitalbolagens portföljbolag 1999-2004].2006.11.02

The mandate for the project is to investigate the main problems for international investors aiming at investing in Nordic venture capital funds. Further to suggest solutions for identified problems.

The Project group includes legal experts from the five Nordic countries as well as a Nordic private equity advisory firm.

Owner of project:
Bjørn Tiller, Nordic Innovation Centre

Coordinators of project:
Erik Johansson & Carl-Peter Mattsson, Nordic Investment Solutions

Members of the Nordic legal project project:

Nordic legal project	Company	Country
Jyrki Tähtinen & Janne Juusela	Borenius & Kemppinen	Finland
Peter Alhanko & Martin Nilsson	Mannheimer Swartling	Sweden
Finn J. Lernø, Nicolai Ørsted & Anders Endicott Pedersen	Plesner	Denmark
Lars Gunnar Aas & Are Zachariassen	Wikborg Rein	Norway
Páll Jóhannesson & Áslaug Gunnlaugsdóttir	Deloitte	Iceland
Erik Johansson & Carl-Peter Mattsson	Nordic Investment Solutions	Sweden

As part of their broad efforts within venture capital the Nordic Innovation Centre established a "Nordic Venture Capital Forum" composed of leading public- and private market players in the Nordic and Baltic regions. The Forum functioned as a reference group for various projects as well as an advisor regarding potential future projects. The input and feedback from the Forum has been important in the execution of the Nordic Legal project and the Forum functioned as an active reference group for the original report published November 2006 and for its recommendations. These recommendations are still valid in this updated version.

The members of the Nordic Venture Capital Forum were:

Nordic Venture Capital Forum	Company	Country
Anki Forsberg, Partner	HealthCap	Sweden
Cecilia Gross Friberger, Portfolio Manager	Sixth AP-fund	Sweden
Christian Motzfeldt, CEO	Vækstfonden	Denmark
Claes de Neergaard, CEO	Industrifonden	Sweden
Petri Niemi, Senior Partner	CapMan	Finland
Peeter Saks, Managing Partner	BaltCap	Estonia
Tellef Thorleifsson, General Partner	Northzone Ventures	Norway
Jón Steindór Valdimarsson, Chairman	New Business Venture Fond	Iceland

This report describes the updated findings and suggestions of the Nordic Legal Project and will be presented at the Nordic Venture Capital & Legal Seminar in Copenhagen on September 11, 2007.

4. Background – what do investors look for when it comes to the legal and tax treatment of a venture capital fund?

4.1 Status today

The majority of the venture capital funds that make investments predominantly in the Nordic region are not operating out of the Nordic countries. Most Nordic countries have today no structures that can compete successfully with foreign fund structures as they lack either of two important criteria for venture capital funds, namely favorable tax treatment and trust.

4.2 Legal

From a legal point of view, the investors expect that a private equity fund shall be structured so that there are basically no restrictions (i) on how profits can be allocated among and immediately distributed to the partners, or (ii) how the business of the limited partnership is organized. The freedom to make tailor made solutions has thus over a very long period of time, amongst both investors and management teams, created a general feeling of trust in the limited partnership structure as the only appropriate vehicle for venture capital funds.

4.3 Tax

From a tax standpoint, investors in a venture capital fund expect that a venture capital fund should have the following characteristics:

- The fund should be fully tax transparent. This means that no income tax should be imposed in the country where the fund is established or where the management carries on the investment activities. Tax, if any, should only be paid in the country where the investor comes from. Tax transparency has two main advantages for an investor: Firstly, the investor has to consider only the tax laws in his own country. Secondly, many investors, such as pension funds, are tax exempt, which in case of full tax transparency means that they neither pay tax in the country where the fund is established and/or carries on its business (because it is tax transparent), nor in the country where the investor comes from (because the investor is tax exempt).
- No VAT should be imposed on management's services to the fund. The fund pays a management fee to the company that manages the fund. As a general rule, all supplies of goods and services, such as management services, are subject to VAT. Since venture capital funds generally are not registered for VAT (since they do not carry on any activities subject to VAT), any VAT charged on the management fee will not be recoverable. This means that any VAT paid on the management fee may be an additional cost that in the end will be paid either by the investors or the management team.
- Absence of other significant taxes or charges such as transfer, stamp or wealth taxes.

5. Obstacles to Swedish based venture capital funds

5.1 Recent developments

Following the debate in many other countries, Swedish private equity firms have been under media scrutiny in 2007. The popular debate has mainly focused on the fact that most Swedish private equity firms have their funds established in "tax havens" such as Guernsey and Jersey. As discussed in this report, however, this has (contrary to popular belief) little to do with the taxation of private equity executives; the reason for funds being established abroad is that non-Swedish investors will not invest in Swedish funds because of the associated Swedish tax consequences. This issue was, amongst others, discussed in a hearing with Mats Odell, the Minister for Financial Markets, in a recent hearing on the climate for private equity in Sweden. However, no tangible proposals have come out as a result of this meeting, and neither the Ministry of Enterprise nor the Ministry of Finance can at the present time say when or even if the obstacles to Swedish private equity funds will be removed. The Ministry of Finance emphasizes however, that these are important issues and that it's their ambition to look deeper into the technical questions going forward.

5.2 Status today

Swedish limited partnerships (kommanditbolag) can normally not be used as venture capital funds as Swedish investors (unless tax exempt) and foreign investors will be taxed on the income derived from the limited partnership. Swedish private limited liability companies (aktiebolag) can be structured so that the investors in most situations can avoid paying income tax, but Swedish companies have been difficult to use mainly because foreign investors are unwilling or unable to invest in other structures than limited partnerships. Thus, venture capital funds of some size having Sweden or the Nordic countries as their home market have to go abroad and use foreign limited partnership structures that are acceptable by all their investors. This trend has accelerated as the number of Swedish venture capital investors investing in funds that are only active in Sweden has decreased dramatically over the past few years. Consequently, in order to increase the chances of a successful fund raising it is critical to satisfy the wishes and demands of foreign investors. Management teams are therefore hard pressed to use structures that are well known and accepted by most Swedish and foreign investors.

5.3 Recommendation

Venture capital funds organized as Swedish limited partnerships should be truly and fully tax transparent. This means that no income tax should be imposed in Sweden, even if the management carries on the investment activities in Sweden. The guiding principle should be that investors are taxed only in their home countries, not in Sweden. Sweden should look through the venture capital vehicle to the end investor to ensure that tax is applied only in the home state of the investor.

Where a Swedish management team manages a fund in another Nordic country, the activities of the management team should not create a taxable permanent establishment in Sweden for the fund.

Where a Swedish management team manages a fund, the services should always be exempt from VAT, not only when the management company also is the general partner of the fund.

5.4 Legal

In Swedish law there are no significant legal restrictions that would prevent Swedish or foreign investors to invest in a Swedish limited partnership. Swedish law contains only a few provisions relating to limited partnerships and all statutory provisions that concern the relationship as between the partners can be set aside by agreement. The few provisions that relate to the relationship between the limited partnership and third parties do not constitute an obstacle for a flexible fund structure.

Recent changes in tax laws and in the Swedish Companies Act has made it possible to use Swedish private limited liability companies (privata aktiebolag) as venture capital funds. It is today the only Swedish structure that could attract both Swedish and foreign investors to invest in the same fund vehicle. The investors can be offered the possibility to invest in the fund by means of either shares (preference shares plus shareholders contributions) or participating debentures. This flexibility in creating tailor made capital structures means that investors do not have to pay tax in Sweden regardless of from which country the investor comes from. However, despite having obvious advantages from a tax point of view, and even if the legal obstacles relating to distribution of cash from a Swedish private limited liability company to the investors could be solved by proper structuring, there are so far only a few Swedish private equity funds that have been structured as private limited liability companies. The reason for the difficulty of raising funds in Sweden using a Swedish private limited liability company is the lack of trust, especially from foreign investors who often perceive the structure as uncommon and complicated.

5.5 Tax

5.5.1 Income tax

The income of a Swedish limited partnership is taxed as follows: First, the taxable income is calculated at the partnership level as if the partnership were a taxable entity (which it is not). The taxable income so calculated is then taxed in Sweden in the hands of the investors. The reason why the investors are taxed in Sweden even if they come from abroad is that the income is considered derived from a permanent establishment in Sweden because the fund's management carries on its investment activities in Sweden.

The problem is that dividends and capital gains on shares that the fund owns are included in the taxable income calculated at the partnership level. This means that the investors have to pay tax in Sweden on such income (and all other income of the fund). It should be noted that

foreign investors have to pay tax in Sweden even if they are tax exempt in the country where they come from.

The foregoing has the effect that foreign investors do not invest in Swedish limited partnerships since Swedish limited partnerships do not satisfy the requirement of having full tax transparency.

There are possible solutions to the problem that Swedish limited partnerships do not have full tax transparency. One solution would be to continue to calculate the taxable income at the partnership level as if the partnership were a taxable entity, but from that taxable income exclude income on shares that the fund owns. Another solution would be not to calculate the taxable income at the partnership level, but to disregard the partnership for tax purposes and calculate the tax as if the investor had owned the fund's investments directly (this solution would also require other changes in order to satisfy the investors' requirements).

The main problem with either of these solutions is that the tax exemption from a Swedish tax policy perspective arguably should apply only in respect of investors that would have been tax exempt if they had owned the fund's investments directly. Normally, under Swedish law today applicable to Swedish private limited liability companies, investors that carry on business in Sweden and holds shares through a permanent establishment in Sweden are exempt from tax on income on such shares only if the investor comes from an EU or EEA country. Many private equity investors are established in other countries. Generally, it should be acceptable from a Swedish tax policy standpoint to extend any tax exemption to investors outside the EU or EEA as long as the investor does not come from a low tax country.

To extend any tax exemption also to investors from low tax countries would probably be difficult, since it would undermine a general principle of Swedish tax law, i.e. that business profits generated through activities in Sweden (even if already taxed once in Sweden) cannot be repatriated to a low tax country without a tax charge in Sweden (normally in the form of withholding tax on dividends). However, a possible solution if Swedish limited partnerships are made tax transparent might be to offer investors from low tax countries to invest in one Swedish limited partnership through a capital structure based on loan commitments and to offer the other investors to invest in another Swedish limited partnership through capital commitments. Payments of principal and interest on such loans to the foreign investors should then under our current tax rules be free of any Swedish tax charges.

5.5.2 VAT

Under Swedish case law, management services rendered by the management company (i.e. the general partner) to the fund are not considered to be a supply for VAT purposes if the services fall within the scope of the limited partnership agreement. Therefore, no VAT is paid on management fees charged to Swedish venture capital funds. Consequently, VAT is today not an obstacle to Swedish venture capital funds.

However, where a Swedish management team manages or gives advice to a fund in another Nordic country, the services are subject to 25% VAT in Sweden unless the entity that buys the services carries on a business subject to VAT (which usually would not be the case in a

traditional private equity set up). Therefore, Swedish VAT is often an issue where the management company is not the general partner of the fund. To solve this problem, Sweden should exempt from VAT management services supplied to private equity funds just like in Denmark, cf. Section 8.4.2 below.

5.5.3 Other taxes

Sweden does not impose any other significant taxes or other charges on the activities of a Swedish venture capital fund. Consequently, other taxes or charges are today not an obstacle to Swedish venture capital funds.

6. Obstacles to Finnish based venture capital funds

6.1 Recent developments

Since this report was last published in November 2006 the Finnish legislator and courts have taken some positive steps towards removing obstacles to operating venture capital funds on shore. The new Finnish governmental program promises even more.

The Finnish parliament has enacted new regulations concerning taxation of foreign investors in a Finnish venture capital fund. Generally speaking, the new regulations have made the Finnish venture capital funds more attractive for foreign investors. According to the new legislation the non-resident partner's share of profit in a Finnish partnership is taxed in a similar way as such investor's direct investment in a target company would have been taxed. For instance, a non-resident partner is not taxed in Finland on capital gain derived from the sale of shares in target companies. The definition of venture capital activity has however remained somewhat unclear. These changes are described further under section 6.3.4.

Besides the above executed changes and the below described potential changes to taxation of Association of Public Good the government's program also promotes an inquiry into taking down the remaining barriers for operating venture capital funds and creating tax incentives for private investors making venture capital investments.

6.2 Legal

In the majority of cases, Finnish venture capital funds are structured as limited partnerships in accordance with the Finnish Partnerships Act (the ”Act”). The Act entered into force on 1 January 1989 and has been subject to few amendments. Although a majority of the provisions in the Act are non-mandatory and as such enable the partners of the limited partnership to arrange their contractual relationship, some mandatory provisions exist. These mandatory provisions also apply to limited partnerships and therefore also to Finnish venture capital funds.

Taking into account the special natures and features of venture capital funds, the following issues may be seen as obstacles to the activities of venture capital funds:

6.2.1 Termination of the partnership agreement

According to Chapter 5, Section 2 of the Act, each partner in a limited partnership has a right to terminate the partnership agreement if the agreement has been entered into for an indefinite period of time (or for a time period exceeding 10 years) and if the agreement has been in force for over 10 years. A provision in the partnership agreement restricting this right is invalid. Accordingly, this provision enables limited partners (and even the general partner) to terminate the partnership agreement although the fund's investments have not yet been realized. This provision should be amended or abolished so that it would serve the purpose of venture capital funds, e.g. by making the provision non-mandatory in relation to passive investors (which the investors in most venture capital funds are).

6.2.2 Registration procedures

Venture capital funds are subject to rather stringent rules relating to trade register registrations. Although these rules perhaps do not affect Finnish venture capital funds' possibility to raise foreign capital, the rules unnecessarily increase the workload of the general partner (and in certain cases also the limited partners). Further, these rules may, in connection with other issues presented in this report, affect the readiness of foreign venture capital managers to establish funds (for example parallel or feeder funds) in Finland. Among other things, the following matters shall be filed with the trade register:

1. establishment of the limited partnership (i.e. registration of partnership agreement);
2. the capital contributions of each partner;
3. amendments to the partnership agreement; and
4. all changes relating to the partners and their capital contributions.

One solution to this problem could be to establish a similar - articles of association - mechanism for limited partnerships as for limited companies. Accordingly, limited partnerships would register their partnership agreements with the trade register and would be responsible to keep and update partnership-specific registers of partners and their interests in the limited partnership. Should this kind of mechanism be applied, then changes in the partners and their interest would not require notices to be made to the trade register. Such a mechanism would be more logical and would fit better the realities of the venture capital market.

6.3 Tax

6.3.1 General remarks

Venture capital funds in Finland are usually organized as limited partnerships in which the investors act as limited partners and the management company as a general partner. A partnership is not treated as a separate tax subject but only an accounting unit for Finnish tax purposes. The total income of a partnership is divided to the partners to be taxed as their income deriving from the partnership. Special provisions apply to the dividends received by a partnership. Such dividends are taxed in the hands of partners in the same way as the dividends would have been taxed in case of direct ownership in the shares.

6.3.2 Recommendations

The following issues related to taxation in Finland should be solved in order to develop venture capital investments:

a) The participation exemption should be extended to venture capital investors;
b) The definition of venture capital activity should be clarified in tax law;
c) Venture capital funds should not be obliged to levy withholding taxes on dividends distributed by target companies;
d) The risk of taxing foreign venture capital funds in Finland should be abolished by explicit regulations;

e) Investments of Associations for Public Good through venture capital funds should be taxed in a similar way as direct investments in the hands of associations;
f) Fund management services should be clearly afforded VAT exempt status.
g) Section 9.5 of The Finnish Income Tax Act should be amended to cover also the investors resident in the countries with which Finland does not have a double tax treaty.

6.3.3 Participation exemption

A significant problem in Finnish legislation concerning venture capital funds relates to the Finnish legislation on taxation of capital gains derived from shareholdings. According to the law, the capital gains of fixed asset shares are exempt from taxation. The general rule is that such capital gains are tax-free for corporations if the seller has owned at least 10 % of the share capital of the company in question for a period of at least one year.

The exemption does not, however, apply to sale of shares by companies of which the main activity consists of venture capital investments. This leads to a situation where capital gains from sale of shares received by venture capital funds are always subject to taxation regardless of the type of the shares e.g. are the shares part of the investment activity or not.

The exemption described above is also not applicable to real estate companies either. This means that basically the sale of shares of a Finnish real estate company creates taxable income in Finland. It is, however, subject to interpretation whether Finnish or foreign companies owning shares of real estate companies are regarded as real estate companies for Finnish tax purposes.

6.3.4 Definition of venture capital activity

The Finnish parliament has enacted new regulations concerning taxation of foreign investors in a Finnish venture capital fund. Generally speaking, the new regulations have made the Finnish venture capital funds more attractive for foreign investors. According to the new legislation the non-resident partner’s share of profit in a Finnish partnership is taxed in a similar way as such investor’s direct investment in a target company would have been taxed. For instance, a non-resident partner is not taxed in Finland on capital gain derived from the sale of shares in target companies.

The definition of venture capital activity has remained somewhat unclear. The new regulations involve e.g. several defects related to one of the most important institutional investment groups, so-called fund of funds. Firstly, the regulations contain a tax concession, which requires that double tax treaty is applicable to a limited partner in a fund. This regulation does not take into account fund of funds. Fund of funds are usually partnerships and they are often registered in such countries, which do not have a tax treaty with Finland. The consequence could be that fund of funds are not likely to make investments in the Finnish venture capital funds, since they would not benefit from the above-mentioned tax concession. On the whole, the definition of venture capital activity is too narrow in the new legislation. It leaves funds of funds as well as mezzanine funds beyond the tax concession.

Secondly, according to the Finnish case law, it is possible to apply a tax treaty between Finland and the domicile of a limited partner in a fund of funds instead of applying a tax treaty between Finland and the domicile of the fund of funds. In practice this could lead to a situation where dozens of different tax treaties would be applied to Finnish limited partnership. Consequently, withholding tax would become burdensome to administrate. It is uncertain whether funds of funds would invest in such a fund structure where tax treatment should be clarified case by case for every investor.

Thirdly it is still somewhat unclear whether investments into Finnish or foreign real estate companies can be regarded as venture capital investments and whether these new regulations are applicable to funds investing into such companies.

Finnish Supreme Administrative Court has given two significant preliminary rulings (KHO 2007:10 and KHO 2007:11) concerning the concept of venture capital business referred to in Section 9.5 of The Finnish Income Tax Act. According to the advance rulings the new relief regime for foreign investors applies in the situations where the fund's targets are real estates or other funds as well as in cross-border investments which are made by using international structures. Based on the recent advanced rulings it is now defined, that investing in real estates or other funds and as well investing into foreign targets by using international structures, are deemed to be such venture capital business which is referred in the relief regime of Finnish Income Tax Act.

6.3.5 Withholding tax issues

There are also problems concerning withholding taxation on venture capital funds. According to new Finnish legislation, venture capital funds are obliged to levy a withholding tax on dividends distributed by target companies. Therefore, a general partner has remarkable administrative responsibilities, which may lead to a situation where Finnish investors are not willing to have foreign investors in Finnish venture capital funds. In addition, if a limited partnership is in a loss making position, it is questionable whether withholding taxation is justifiable at all. Such a situation may lead to double taxation of dividends, since Finnish withholding tax might not be credited in the resident country of investors.

6.3.6 Permanent establishments

Foreign investors, who invest in Finnish companies through a foreign venture capital fund, are not usually subject to taxation in Finland. However, it is possible that in situations where actual decision making on investments takes place in Finland or a foreign investor permanently uses a related Finnish advisor, a foreign venture capital fund could be considered to have a permanent establishment in Finland. This could lead to taxation of investment income in Finland. The risk of taxing foreign funds should be abolished by explicit regulations.

Another problem relates to foreign parallel funds. If a foreign parallel fund of a Finnish fund is considered to be effectively managed from Finland, the parallel fund could be regarded as a Finnish partnership for Finnish tax purposes. In such case, foreign investors could become tax liable in Finland.

6.3.7 Associations for public good

Associations for Public Good are tax exempt. However, when an association for the public good makes an investment in a venture capital fund (which generally is taxed pursuant to the Business Income Tax Act), the investment is not exempt from taxation. Therefore, in practice associations for the public good which have a considerable investment asset base have not been willing to make investments in venture capital funds. In order to promote financing of Finnish growth companies, investments through funds should be taxed in a similar way as direct investments in the hands of associations. However, according to the government programme the taxation of Associations for Public Good is going to be amended so that their investments through venture capital funds and investments to non quoted companies are tax exempt in the same way as their direct investments in shares and securities.

6.3.8 VAT

The possibility to group register management companies with the underlying managed funds is in certain situations unclear. In practice group registrations have mostly been approved by the tax authorities. Fund management services should be clearly afforded VAT exempt status also in situations where the management company is not the general partner of the fund.

6.3.9 Amendment of the section 9.5 of the Finnish Income Tax Act

Another necessary amendment which should be executed by the new government is to expand the relief provided to non-resident investors to cover also the investors resident in non-treaty countries. Excluding the investors resident in a non-treaty countries leads to arbitrary tax effects, since a direct investment of the investor resident in a non-treaty country is subject to substantially lower taxation in Finland than an investment made through a Finnish fund. As a starting point, the disposal profits or interest income received from a direct investment are not subject to withholding taxation in Finland, but when investing through a fund these types of income would become taxable in Finland for the investors resident in non-treaty countries.

The Finnish tax revenue should not decrease because of such an amendment, since at the moment the investors in the non-treaty countries avoid investing through Finnish funds. On the contrary, by abolishing the discriminatory taxation Finland could even increase its tax revenue, because Finnish funds would become more attractive to the investors resident in non-treaty countries, and the dividends paid through Finnish funds to the non-treaty resident investors would be subject to withholding taxation of 28 %.

The amendment would provide an opportunity for many significant international institutions, especially international funds of funds, to invest in Finnish funds without decreasing the Finnish tax revenue. Ultimately the amendment would neutralize the taxation of direct investments and investments through funds of a non-treaty resident investors.

6.3.10 New Governmental program

The program for the new government in Finland has taken a clearly positive view on venture capital. Besides the above described potential changes to taxation of Association of Public Good the program also promotes an inquiry into taking down the remaining barriers for operating venture capital funds and creating tax incentives for private investors making venture capital investments.

7. Obstacles to Norwegian based venture capital funds

7.1 Recent developments and status today

In Norway, venture capital funds have usually been structured as private limited companies (Nw: *aksjeselskap (AS)*) or limited partnerships (Nw: *kommandittselskap (KS)*). More recently, and usually in respect of larger funds, Norwegian fund managers have organized their venture capital funds in foreign jurisdictions, particularly on the Channel Islands. The reasons stated for setting up funds abroad have partly been that such jurisdictions are considered by investors and fund managers to provide for particularly predictable and stable tax regimes, partly that investors in such venture capital funds may be taxed according to the tax laws in their own jurisdiction and finally that the corporate laws governing the fund structures in these jurisdictions are more flexible than Norwegian corporate law.

The limited partnership is the most common structure for funds organized in Norway. The limited partnership has many similarities to limited partnerships based on the Channel Islands and also in Denmark. In the following we have therefore particularly focussed on the limited partnership, but the comments in relation to MiFID are also valid for funds organised as a limited company.

7.2 Recommendation

By the circular issued by the Norwegian Financial Supervisory Authority (the FSA) in relation to the new Securities Trading Act of 2007 (implementing MiFID) coming into force on 1 November 2007, it seems that most Norwegian venture capital fund structures will be exempt from licence requirements. We encourage the FSA to approach the Norwegian venture capital fund structures carefully so as to not create instability or uncertainty of coincidentally different treatment of seemingly similar structures. We also recommend that the FSA look to the supervisory authorities of the other Nordic countries to align enforcement of the licence requirements so as to avoid creating barriers for Norwegian fund managers.

It is our recommendation that the Norwegian Partnership Act of 1985 is amended to seek to make the limited partnership as flexible as in competing jurisdictions, especially with respect to minimum participation of the general partner and general funding requirements.

The Norwegian exemption method provides for tax transparency for corporate investors in venture capital funds organized as a Norwegian limited partnership. The same applies for a corporate investor's investment in a limited company. This means that both Norwegian and foreign corporate investors are exempt from income tax in Norway in relation to shares in companies that are tax resident within the EEA and held through a limited partnership or a limited company. This provides for a relatively investor-friendly tax regime. Foreign corporate investors nevertheless seem to be reluctant to investments in funds incorporated in Norway, due to the risk of changes to the Norwegian tax regime. It is therefore important that more emphasis is put on the stability of the tax regime than what has historically been the case in Norway. Since this is a perceived risk, it is not only a matter of refraining from amendments to the tax legislation but also of communicating stability over time.

A Norwegian limited partnership structure is not tax transparent for foreign investors where the limited partnership constitutes a permanent establishment (a Permanent Establishment) in Norway. This may be a certain disadvantage to Norwegian-based venture capital funds, notwithstanding the fact that foreign individual investors are not treated less favourably than Norwegian individual investors in this area.

7.3 Legal

7.3.1 Implementation of MiFID

The new Securities Trading Act of 2007 implementing Directive 2004/39/EC on Markets in Financial Instruments (MiFID) in Norwegian law comes into force on 1 November 2007. From then on, 'investment advisory services' will become a regulated activity in Norway. In July this year the Norwegian Financial Supervisory Authority (the FSA) published guidance on delineation of the new licensing requirements in its Circular no. 23/2007, which is of major importance for most Norwegian venture capital fund structures.

It follows from the FSA circular that strategic advice relating to acquisitions of companies, management of investments or business development shall not be considered as investment advisory services subject to the license requirements under the Securities Trading Act. Generally speaking, advisory services relating to passive financial investments will be subject to licence requirements while advice relating to acquisitions followed by active ownership will fall outside the scope of the act.

Importantly, the exemption from licensing requirements for venture capital-related investment advisory activities is not limited to situations where the investment advice relates to a fund's acquisition of all or the majority of the ownership interests in a target company. Investment advice relating to acquisition of minority interests may also be exempt from the licensing requirements, provided that the investment is made with the purpose of contributing actively to the management and business development of the target company and provided further that the investor obtains the corporate power to exercise such influence in practice (alone or as part of a syndicate).

Although the advisory services relating to most Norwegian venture capital fund structures will fall outside the licence requirements under the Securities Trading Act based on the description above, this needs to be determined in relation to each specific case based on inter alia the purpose of the investment, the ownership share, the ability to and intention of exercising active ownership (alone or as part of a syndicate) and what advice is offered to the target company (in addition to identifying the investment opportunity for the fund). According to the said circular, other characteristics of exempt advisory services are that that the advisor only advises one fund or some few funds within the same structure and that the advice generally relates to long-term investments. Hence, it seems clear that the FSA will take an interest in how Norwegian venture capital fund structures are organised.

We encourage the FSA to approach the Norwegian venture capital fund structures carefully so as to not create instability or uncertainty of coincidentally different treatment of seemingly

similar structures. We also recommend that the FSA look to the supervisory authorities of the other Nordic countries to align enforcement of the licence requirements so as to avoid creating barriers for Norwegian fund managers.

7.3.2 Other

A Norwegian limited partnership is regulated by the Norwegian Partnership Act of 1985 and its partnership agreement. A Norwegian limited company is regulated by the Norwegian Private Limited Companies Act of 1997 and its articles of association. In addition, there is always one or more agreements between the investors in a venture capital fund structured as a limited company.

Investors expect that a venture capital fund is structured in line with international market practice. Important features in this respect are inter alia that (i) capital commitments from investors are paid in to the venture capital fund on an as needed basis, (ii) profits may be distributed to the investors without delay, (iii) that there are no undue restrictions on investments the investment activities and (iv) that customary decision making bodies may be implemented in the fund.

There is no regulation that prohibits implementation of customary market terms in Norwegian venture capital funds. However, the Norwegian Partnership Act of 1985 contains certain limitations which are deemed problematic for fund managers and investors, such as for example:

(i) at least 20 % of the limited partnership's equity must be paid in at closing and 40 % of the equity must be paid in within two years from closing. This requirement will normally result in the investors paying in capital commitments to the venture capital fund more rapidly than needed, which could have a detrimental effect on the IRR performance of the fund;
(ii) at least 40 % of the equity is restricted capital which may delay distributions from the fund and thus also reduce the IRR performance of the fund; and
(iii) the general partner (Nw: komplementaren) of a limited partnership must invest and at all times own at least 10 % of the partnership's total equity and have the right to receive at least 10 % of the profits. Like in most international funds, the general partner can have the exclusive responsibility for the operation of the fund, including making decisions relating to investment and realizations on behalf of the fund. However, due to the funding requirement of the general partner, the fund managers do not often have financial means to own the general partner. The most common solution is that the investors invest in the general partner as well as in the fund. Whilst doable, this makes the structure more complex in respect of distribution of the funds profits (incl. carried interest), implementation of customary decision making bodies etc.

In addition we would like to highlight that although issue of physical share certificates is optional in a limited partnership, the legal perfection of a security over shares of a limited partnership is always conditional upon such issue of physical share certificates (as opposed to registration in a shareholder register). This is different from the situation in a limited company where registration in the shareholder register kept by the company is sufficient. We

recommend that legal perfection requirements for shares of a limited partnership are amended in line with what applies for a limited company.

7.4 Tax

7.4.1 Income tax

According to Norwegian tax law, a limited partnership is not a taxable entity. However, the taxable income of the limited partnership is calculated at partnership level as if the limited partnership was a taxable entity. The income is then divided among the partners and taxed in Norway at their hands, subject to the regulations of the Norwegian tax code.

A foreign investor becomes taxable to Norway on business carried out in Norway, and will thus become taxable to Norway due to the investment activities of the limited partnership carried out in Norway. Norwegian taxation is dependant on the limited partnership being deemed to constitute a Permanent Establishment in Norway. This will generally be presumed to be the case. As a result, foreign investors in a Norwegian limited partnership become taxable to Norway on the income of the limited partnership according to internal tax law. No venture capital fund has yet been set up with the aim of not creating a Permanent Establishment and thereby challenging the general assumption that participation in a limited partnership constitutes a Permanent Establishment. It is therefore yet uncertain whether a limited partnership structure could effectively be implemented without creating a Permanent Establishment, cf. the Danish section 7.4.1.

Even if a limited partnership is deemed to constitute a Permanent Establishment, the Norwegian exemption method will, under the current regime, in many cases effectively exempt foreign investors from Norwegian taxation, cf. below.

Corporate investors - the Norwegian Exemption method
The Norwegian exemption method applies to corporate investors regardless of the corporate investors' tax residency.

According to the Norwegian exemption method, Norwegian corporate limited partnership investors as well as foreign corporate limited partnership investors, are not taxable in Norway on income on shares in companies that are tax resident within the EEA held through a limited partnership. For investments within the EEA the Norwegian exemption method has no minimum shareholding requirements and no holding period requirements whatsoever.

Income on shares in companies tax resident outside the EEA held through a limited partnership may also be exempt from tax under the Norwegian exemption method. For investments in companies tax resident outside the EEA the Norwegian exemption method requires a shareholding of at least 10 % and a holding period of two years. It is currently unclear whether these requirements apply to the limited partnership as a whole or to each investor. The exemption is furthermore not applicable on investments in companies resident in a low tax country. A company is deemed to be resident in a low tax country if it is subject to less than two-thirds of the income tax it would have been subject to had it been tax resident in

Norway. Income on shares not covered by the exemption method will be taxable as general income at a rate of 28 %.

Furthermore, a corporate investor, whether foreign or Norwegian, is not taxable in Norway on the proceeds arising from the realization of a limited partnership share in a Norwegian limited partnership, provided that the value of share held by the limited partnership falling outside the exemption method does not exceed 10 % of the total value of shareholdings held by the limited partnership. If the value of shares held by the limited partnership falling outside the exemption method exceeds 10 %, gain will be taxable in Norway as general income at a rate of 28 % for the investor. Norway's right to tax foreign investors may however be limited by tax treaties.

Even though foreign corporate investors are not effectively taxed under the current tax regime, they are obliged to file tax returns with the Norwegian tax authorities as a result of their investments in a limited partnership that constitutes a Permanent Establishment in Norway. As foreign investors tend to regard the Norwegian tax regime to be highly unpredictable they are reluctant to invest in a Norwegian limited partnership, even though they are effectively not taxable under the current regime. As a result it is generally regarded as difficult to attract foreign investors to invest in a Norwegian limited partnership structure.

Individual investors
Norwegian individual investors are not taxable on income on shares held through a Norwegian limited partnership, provided that the shares are covered by the Norwegian exemption method as described above. Income on shares not covered by the exemption method is taxable at a rate of 28 %. A distribution of funds from a limited partnership to an individual investor is however taxable at a marginal rate of 28 %.

Non-resident individual investors in a Norwegian limited partnership that constitutes a Permanent Establishment in Norway are taxable according to the same regulations as a resident individual investor.

Furthermore, a Norwegian individual investor is taxable at a rate of 28 % on the proceeds arising from the realization of a partnership share in a Norwegian limited partnership. Norwegian authorities have taken the view that non-resident individual investors are taxable on the proceeds arising from the realization of a partnership share in a Norwegian limited partnership that constitutes a Permanent Establishment in Norway. Whether this view is correct in all cases is however questionable.

7.4.2 VAT

Financial services as defined in the Norwegian Trading Securities Act are exempted from VAT. Services rendered by a management company to a venture capital/venture capital fund are in relation to VAT deemed as financial services provided that such services relate to "genuine" investment activities. Services that are not connected with the investment activities are not comprised by the exemption and are consequently subject to VAT. The exemption on financial services applies to fees for financial services irrespective of whether such fee is determined as a fixed fee or as a success fee.

7.4.3 Other taxes

Norway does not impose any other significant taxes on the activities of a Norwegian venture capital fund organized as a limited partnership.

8. Obstacles to Danish based venture capital funds

8.1 Status today

Danish Limited Partnerships (kommanditselskaber) can be used as vehicles for venture capital funds since neither Danish nor foreign investors will be taxed on the income derived from the Limited Partnership in Denmark. Also, the Danish Limited Partnership's structure is very similar to the structure that foreign investors are used to from Anglo-Saxon based funds which further entails that the legal documentation is normally drafted along the lines of the Anglo-Saxon funds and thereby known by the foreign investors.

In conclusion, no major legal issues are impeding foreign investors from investing in private equity/venture capital funds in Denmark.

8.2 Recommendation

The Danish Limited Partnership structure is well-known to foreign investors and for tax purposes the Limited Partnership is transparent.

In addition, in administrative tax case law it is held that a foreign investor in a Danish Limited Partnership is not subject to Danish tax since the investor does not "carry on a business through a permanent establishment" as the only function of the Limited Partnership is to invest in portfolio shares.

Danish legislation - and its application – is consequently not to be considered an obstacle to the establishment of venture capital funds in Denmark.

Nonetheless, it seems to be a not entirely unknown perception within the venture business in Denmark that there is a risk that the investment could create a permanent establishment for the foreign investor in the scenario where the management of the fund is related to the investors or the LP, including the general partner, or if the general partner (or the management) has extensive powers in relation to taking decisions on behalf of the LP.

It could, therefore, be a recommendation to the Danish tax authorities that the administrative tax practice be more explicitly explained and set out in the Tax Assessment Guidelines.

8.3 Legal

In Denmark there are no significant legal restrictions that would prevent foreign investors from investing in a Danish Limited Partnership. Most Danish Limited Partnerships are governed by common law and not by the Danish Companies Act. Although not an obstacle, this lack of detailed legal framework regulating Limited Partnerships can present an uncertainty.

The Limited Partnerships that are governed by the Danish Companies Act have a less flexible capital structure and are therefore not yet used very often when setting up private equity and/ or venture capital funds in Denmark.

The general partner in the Limited Partnership shall have a minimum of influence on the Limited Partnership. The management company will normally prefer not to be the general partner due to (i) the unlimited liability and (ii) tax complications, but instead to have a management agreement with the Limited Partnership. Since the actual influence is vested with the management company, the influence which is granted to the general partner is somewhat diluted and unclear.

8.4 Tax

8.4.1 Income tax

A Danish Limited Partnership is transparent for tax (but not VAT) purposes. Tax transparency entails that a foreign investor

- is not subject to tax in Denmark on the income of the Limited Partnership, and
- is not subject to tax on capital gains on shares.

It should be added that in some cases a Limited Partnership will be deemed to be controlling a Danish company as if the Limited Partnership were a non-transparent entity. This may have an effect on intra-group trade and thin capitalization among other things.

The foreign investor is subject to tax on dividends from investments in Danish companies. This is, however, no different from investments in Danish companies through foreign Limited Partnerships (or directly) and therefore is not regarded an obstacle. It has been debated whether a venture capital fund in the legal form of a Limited Partnership may constitute a permanent establishment in Denmark because it carries on investment activities in Denmark, cf. the Swedish tax treatment.

Pursuant to Danish tax law, which is based on the OECD Model Tax Convention, a permanent establishment requires that a foreign enterprise carries on business in Denmark either through a fixed place of business or through a person acting on behalf of the enterprise with an authority to conclude contracts in the name of the foreign enterprise (dependent agent).

In a ruling from 2001 the Danish National Tax Assessment Board held that if the only activity of a venture capital fund in the legal form of a Danish Limited Partnership was to invest in other companies by acquiring shares - which cannot be deemed trading in shares - such activity does not in itself qualify as "carrying on business" and, hence, cannot constitute a permanent establishment.

Since the mere acquisition of shares does not qualify as "carrying on business" there is - in our opinion – no need to consider whether or not there is a fixed place of business or whether or not the dependent agent-rule, i.e. Article 5, Paragraph 5, of the OECD Model Tax Convention, could apply.

Nonetheless, it seems to be a not entirely unknown perception within the venture business in Denmark that there is a risk that the investment could create a permanent establishment for the foreign investor in the scenario where the management of the fund is related to the investors or the LP, including the general partner, or if the general partner (or the management) has extensive powers in relation to taking decisions on behalf of the LP. This should, however, not present an issue, cf. said ruling.

It could be added that according to internal Danish tax law, as a main rule, shares - not connected to a taxpayer's trade - are not allocated to a foreign taxpayer's permanent establishment in Denmark, if such permanent establishment exists.

Pursuant to a change in Danish tax law adopted in June 2007 and aimed primarily at capital funds the possibility of deducting interest expenses has been significantly diminished especially for companies with few non-financial assets. This has limited the possibility (i) of making debt pushdowns into the Danish acquired company and (ii) to finance acquisitions outside of Denmark.

Danish tax law should, however, not to be considered an obstacle to the establishment of venture capital funds in Denmark with the purpose of investing in Danish companies.

8.4.2 VAT

In the context of VAT, the primary issue is whether the supply of management services from a Danish management company to a Danish Limited Partnership is subject to VAT.

The EEC VAT Directive exempts from VAT "transactions, including negotiations, excluding management and safekeeping, in shares, interests in companies or associations, debentures and other securities".

The scope of this exemption with regard to services of the nature at hand has not been decided upon in Danish case law, but to our knowledge the tax authorities have not raised any claims in this respect. In our opinion such management services will most likely be considered VAT exempt pursuant to the aforesaid exemption since the services fall within the scope of "negotiations in shares" and since, and more importantly, the services cannot be characterized as "management" within the scope of the Directive. The European Court of Justice's judgment of 13 December 2001 in Case C-235/00 (CSC Financial Services Ltd.) supports such opinion.

Therefore, we do not envisage VAT to be an obstacle to Danish venture capital funds.

8.4.3 Other taxes

Denmark does not impose any other significant taxes or other charges on the activities of a Danish venture capital fund. Consequently, other taxes or charges are today not an obstacle to Danish venture capital funds.

9. Obstacles to Icelandic based venture capital funds

9.1 Recent developments and status today

In Iceland it could be beneficial to structure a venture capital fund as a Partnership or as a Public Limited Partnership (PLP). Icelandic law contains only few provisions relating to general Partnership structures, accordingly there is a certain disadvantage due to the fact that there is a lack of proper legislation. However last year amendments were made on the Icelandic Company Act, which set fourth new rules on Partnership and PLP.

In January 2008 new rules on Partnership will come in effect. On the one hand the new rules set forth general rules that had not been in the code before, on the other the rules also contain provisions that where formed by taking in account rules and experiences on Partnership in other nations.

In relation to venture funds the PLP structure may be more suitable in certain situations. In 2005 the Minister of Industry and Commerce formed a committee, whose task was to review the landscape of venture companies and to make proposals on how it was possible to ease the access of venture capital in the Icelandic market. In its findings the committee proposed that the laws which related to the PLP would be reformed in order for that type of companies to be more appealing. The committee concluded that the Icelandic Corporate Act needed to be better prepared to facilitate a way for venture capital into the Icelandic market.

In 2006, following this conclusion of the committee, a new chapter was added in the Icelandic Company Act governing PLP. Prior to this amendment the only reference made to similar structures in the Icelandic Companies Act was one clause in the Private Companies Act which said:

The scope of this Act shall also include Private Limited Partnership, as fit.

The most noteworthy change in the rules on Limited Partnership is that it is now dealt with in the Public Limited Companies Act and not the Private Limited Companies Act, as they had been. The reason for this change is that the rules on the Public Limited Companies where deemed to be more fit, if a Limited Partnership would be formed whose purpose was to engage in trade in securities and bonds.

Public Limited Partnership is defined as partnership where some partners bare unlimited liability but others are only responsible for the amount they put into the partnership. Partners who bare limited liability generally do not engage in running the company, except when so is noted in the documents of incorporation.

Also noteworthy; with simple measures Public Limited Company can be reformed into PLP with support of all the shareholders in a general meeting. PLP can also be reformed into a Public Limited Company with the same amount of votes as needed to changes the articles of incorporation if the partner or partners bearing unlimited liability agree to the change.

Interestingly the latter reformation can be done without the consent of creditors. To protect creditors there is a special rule applicable in these situations: All obligations and debts relating to events before the reformation of the company will still be subject to unchanged liability of partners. This makes the transition very flexible and in addition is a suitable way to protect creditors. In addition this makes the PLP even more fitting fore venture capital funds, weather the investors are Icelandic or foreign. Since the new law have only been in affect in roughly a year there is little case study to examine at this point but development is foreseen in the tax and legal environment.

9.2 Recommendation

We recommend that full emphasis is laid on the stability of the Icelandic tax regime as to attract foreign investors willing to invest in Icelandic venture capital funds.

We recommend that emphasis is laid on the transparency of the Icelandic tax system with full cooperation with the Icelandic tax authorities in particular the access to binding ruling could be approved. It is also important for the Icelandic tax system that more conventions for the avoidance of double taxation will be concluded.

Despite the above mentioned the Icelandic tax law is consequently not to be considered an obstacle to the establishment of venture capital funds in Iceland.

9.3 Legal

There are no significant legal restrictions that would prevent foreign investors from investing in a PLP or Partnership. The Icelandic PLPs are governed by the Icelandic Companies Act, and thus even though the new rules on PLPs have been in effect during limited time, they enjoy support from the detailed framework regulating Icelandic Public Companies and that presents an advantage and out rules uncertainty. New act on Partnership comes in effect on January 2008, as previously stated, which is quite detailed, thus making the legal framework regarding Partnership strong.

9.4 Income tax

Both Partnerships and PLPs can now choose to be a transparent entity for tax purposes. If a Partnership or a PLP is a transparent entity for tax purposes it will be taxed at a partner level.

9.5 VAT

As a general rule, all supplies of goods and services are subject to VAT in Iceland at a 24.5% tax rate. Venture capital funds generally are not registered for VAT purposes as they do not carry on any activities subject to VAT.

In general financial activities are exempt from VAT. No specific exemptions apply to management fees. Consequently every case has to be examined as if it falls within the scope.

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Nordic Innovation Centre

The Nordic Innovation Centre initiates and finances activities that enhance innovation collaboration and develop and maintain a smoothly functioning market in the Nordic region.

The Centre works primarily with small and medium-sized companies (SMEs) in the Nordic countries. Other important partners are those most closely involved with innovation and market surveillance, such as industrial organisations and interest groups, research institutions and public authorities.

The Nordic Innovation Centre is an institution under the Nordic Council of Ministers. Its secretariat is in Oslo.

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