

PROPOSING CHANGES IN LEGISLATIVE AND INSTITUTIONAL CONDITIONS FOR PRIVATE EQUITY AND VENTURE CAPITAL FINANCING IN THE CZECH REPUBLIC – A COMPARATIVE STUDY WITH POLAND

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Abstract

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This paper discusses the conditions of private equity and venture capital financing in the Czech Republic and Poland. Especially the related legislation, taxes and support of this type of financing are discussed in detail. The purpose of this research is to evaluate the conditions, to find factors that have positive influence and to formulate recommendations that would improve the conditions for both PE/VC investors and firms with new business ideas. Improving the conditions for PE/VC financing helps small businesses get the needed capital that cannot be obtained from banks and other institutions. This form of financing has a proven positive effect on whole economy. Identifying and removing obstacles is therefore important and helps the government to promote economic growth. This form of financing is used frequently in other European countries. In the central and eastern Europe it is not used as frequently but the situation is improving according to (Zinecker & Rajchlová, 2010). According to the study made by EVCA an array of legislative shortcomings were identified in the Czech Republic. Poland and Hungary have better conditions for PE/VC financing. According to EVCA studies made in 2004 and 2006 Poland shows that the conditions improve each year. Therefore Poland was chosen in this research for a comparative study with the Czech Republic.

private equity, venture capital, tax, legislation, support, SMEs

The PE/VC investors entered the markets in Central and Eastern Europe in 1990s. Private equity and venture capital are financial resources that are invested into dynamic and growing businesses that are not traded at the stock exchange. The objective of the investor is to make profit therefore investments are made into new products and services that have high growth potential. Investor becomes the co-owner of the business. After certain period of time the investor sells his share of the company – the conditions of this transaction are formulated in the investment contract (Zinecker & Rajchlová, 2010). Numerous studies document the positive impact

the private equity and venture capital have on growth of the business enterprises and also on the growth of whole economies for example Brophy (1988), Sapientza *et al.* (1996), Frederiksen (1997), Brav & Gompers (1997), Wipler (1988), Lerner *et al.* (2000), Engel & Keilbach (2002), Engel (2002) and others.

European association of private equity and venture capital (EVCA) published the Benchmark study 2008 in 2009. This study was created by the KPMG and evaluates the tax and legislative environment of individual countries. These conditions have significant impact on PE/VC

I: *Legislative and tax conditions of PE/VC financing in Europe*

Rank	Country	Average grade 2008	Rank	Country	Average grade 2008
1	France	1.23		Evropean average	1.85
2	Ireland	1.32	15	Latvia	1.88
3	Belgium	1.33	16	Finland	1.92
4	The United Kingdom	1.45	17	Poland	1.95
5	Greece	1.46	18	Italy	1.96
6	Spain	1.58	19	Sweden	2.02
7	The Netherlands	1.63	20	Norway	2.03
8	Portugal	1.63	21	Estonia	2.06
9	Luxembourg	1.65	22	Germany	2.18
10	Lithuania	1.75	23	Cyprus	2.24
11	Switzerland	1.76	24	Romania	2.27
12	Denmark	1.77	25	Slovenia	2.3
13	Hungary	1.84	26	Slovakia	2.33
14	Austria	1.87	27	Czech Republic	2.4

Source: own work based on (EVCA & KPMG, 2008)

financing and can either promote or limit it. The Czech Republic was on the last 27th place of all European countries. Of all the countries in the CEE region (Central and Eastern Europe) the best conditions were in Poland and Hungary according to Tab. I. Poland was chosen as the country the Czech Republic will be compared with in this research. KPMG evaluated several criteria in each country. For example the current situation, conditions for PE/VC investors, pension funds, fund structure, tax and legislative conditions for investors and businesses receiving the investments. Each criterion was rated from 1 (ideal conditions) to 3 (unsuitable conditions). Tab. I shows that the Czech Republic got an average grade 2.4 and Poland 1.95.

RESEARCH OBJECTIVES AND METHODS

Based on the EVCA study it is clear that the conditions of PE/VC financing in the Czech Republic are not good enough and there is a lot of space for improvement. The objective of this research is to analyze the legislation and government support of PE/VC financing and to identify the conditions that are positive and promote PE/VC financing. Based on these findings a list of recommend changes is formulated. These changes

should improve the conditions of PE/VC financing in the Czech Republic in the near future. Scientific analysis, synthesis, induction, generalization and comparison are used in this research.

DISCUSSION AND RESULTS

Tab. II compares several important economic parameters for the Czech Republic and Poland valid on December 31st 2010. The Czech Republic has lower inflation (1.5%) and lower unemployment rate (8.6 %). Poland has a higher unemployment rate (12.6 %). The GDP in the Czech Republic was € 342 billion and € 145 billion in Poland. GDP per capita is € 13 942.2 in the Czech Republic and € 8 883.12 in Poland.

The Czech Republic

Private equity and venture capital financing is closely observed from 1997 by the the Czech venture capital and private equity association. Currently 14 large PE/VC investors are active. The utilization of the PE/VC financing in the Czech Republic is average when compared to other European countries. The system of taxation in the Czech Republic consists of several taxes – value added tax, consumption taxes, income tax, property tax, road tax, inheritance tax, gift tax

II: *Comparison of economic parameters*

	The Czech Republic	Poland
Population (millions)	10.4	38.5
Year of VAT implementation	1993	1993
GDP (billions of Euro)	145	342
Inflation (%)	1.5	4.2
Unemployment rate (%)	8.6	12.6
Tax rate (%)	36.9	34.8

Source: own work according to ČSÚ, (2010), GUS, (2010)

and stamp duty. There are several other transfers that are similar to taxes for example the social and health insurance and other local duties. There are several laws related to private equity and venture capital financing. Act No. 586/1992 Coll. Income tax act. Act No. 589/1992 Coll. Social insurance act. Act No. 592/1992 Coll. Universal health insurance act. Act No. 100/1988 Coll. Social security act. Act No. 42/1994 Coll. Act on supplementary pension insurance. European directive 2003/41/EC from June 3rd 2003 – supplementary pension insurance of employees. European directive 2009/65/EC on collective investing. Act No. 189/2004 Coll. on collective investing. Act No. 235/2004 Coll. on value added tax.

Corporate income tax

Act No. 586/1992 Coll. regulates the corporate income tax. Generally all incomes and profits coming from the utilization of property are subject to this tax except for the businesses that are not founded with the objective to achieve profits. There is a list of other subjects that are taxed differently – banks, pension funds, public universities, investment funds etc. Tax base is derived from the earnings before income tax – this value is then adjusted. The tax loss can be subtracted from the tax base any of the next five years following the loss. The full costs of research and development can also be subtracted from the tax base. There are two types of tax reliefs. For employees with reduced working ability and holders of investment incentives.

The tax rate according to § 21 of Act No. 586/1992 Coll. on income taxes is 19% for 2011. There are several exceptions. For example pension funds discussed further, dividend incomes, profit shares and settlement shares in liquidation are taxed by a special withholding tax which is 15%. These amounts are paid from the previously taxed incomes so they are in fact taxed twice.

Personal income tax

This tax is regulated by Act No. 586/1992 Coll. just like the corporate income tax. Taxable incomes are all incomes from employment and incomes from private business activity. It is possible to calculate the costs as a set percentage of the incomes. These calculated costs can be used also for the capital incomes, rental incomes and other incomes. Tax base is determined by the subtraction of costs from the total incomes. If the taxpayer has several incomes the tax base is calculated from all incomes. The partial tax bases from self-employment and from rental incomes can be negative. Paid social insurance is not tax-deductible. Tax base for incomes earned in employment is calculated by adding the earned incomes to paid social insurance the result is so called super-salary. Currently it is being discussed that the concept of super-salary will be abandoned.

There is a list of tax-deductible costs and expenses. For example a fraction of the interest on loans

for housing purposes, contributions to pension, life insurance and several other expenses are tax-deductible. Tax base is also decreased by gifts with a minimum amount of 1000 Czech crowns. The maximal total amount of tax-deductible gifts can be 10% of the tax base. Each taxpayer has a personal tax-deductible amount of 24 840 Czech crowns. In some cases an amount between 2 520 and 16 140 Czech crowns can be also subtracted from the tax base – it is dependent on the measure of work disability. Students can decrease the tax base by 4 020 Czech crowns and 10 680 Czech crowns can be subtracted for each dependent child. The rate of personal income tax is 15%.

The tax system and legislation in the Czech Republic do not offer incentives for financing by means of private equity and venture capital. The pension funds and insurance companies are not motivated to use this type of financing. Only advantage comes from act No. 586/1992 Coll. – the capital incomes of certain type of investors are freed from tax. Besides this there are no other fiscal incentives.

Pension system in Czech Republic is different from other European countries. Pension system is implemented through the first and third pillars. The first pillar is the system of paying based on the consumption – it is implemented and controlled by the state. Participation is mandatory and is regulated by act No. 589/1992 Coll. on social security, act No. 592/1992 Coll. on premiums for general health insurance and act No. 100/1988 Coll. on social security.

The third pillar involves commercial companies that maintain special pension funds. Participation in the third pillar is voluntary. People who choose to regularly contribute to these pension funds receive certain amount contributed from the state. Act No. 42/1994 Coll. on pension insurance with state contribution. The amount of pension from a tax perspective becomes important for the taxpayer because a part of this expense is tax-deductible. The conditions are specified in § 15 paragraph 5. The amount that a taxpayer may deduct from the tax base equals the total contributions made decreased by 6 000 Czech crowns. Maximum tax-deductible amount is 12 000 Czech crowns.

The Directive of the European Parliament and Council 2003/41/EC on activities of institutions for occupational retirement provision and supervision from June 3rd 2003 was partially implemented in the Czech Republic. The system of occupational pensions is not typical in this country and foreign companies can find it problematic in some cases.

Pension funds are subject to strict legal requirements. Czech law specifies the instruments in which pension funds can invest. Private equity and venture capital are not listed among the allowed instruments. At most 5% of total investments can be made differently than the law specifies. This significantly limits the possibilities for investment.

Another problem is that it is not allowed to invest in assets that can make losses in any one calendar year. As a result of these regulations, investment in private equity funds is unattractive – if no significant changes are made in the legislation this type of investment will not become more widely used. Although pension funds can invest in assets in OECD countries they cannot invest their money into private equity and venture capital. Czech government has approved the amendment of act No. 189/2004 Coll. on collective investment on February 16th 2011. The amendment implements several changes proposed by the European Union.

The bill reflects the adoption of a new European Parliament and Council directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to collective investment (known as an acronym UCITS IV) and four European legislative acts which implement UCITS IV. The amendment simplifies the administration of special investment funds regulated by the EU legislation and terms are more precisely formulated.

The innovation is in the division of special investment funds according to whether they will be able to use funds from the public or from a specific type of investors. In addition to standard funds intended for retail investors four new special fund types are introduced: the fund for qualified investors, fund of securities, fund of funds and real estate fund. Fund of funds allows the use of private equity and venture capital financing.

Law on income tax in § 21 paragraph 3 adjusts the tax rate for pension funds to 5%. The tax rate is valid for the tax base adjusted according to § 34 act on income tax (business loss, expenses incurred on research and development). Insurance companies in the Czech Republic have a similar problem as have the pension funds. Czech law regulates into which assets the insurance companies can invest their reserves. As with pension funds, these assets do not include private equity and venture capital. This is the reason why there are few PE/VC investments. Insurance companies can invest their resources in other countries of the European Union, but not through private equity and venture capital.

In the Czech Republic there are also mutual and investment funds. They have to be approved by the Czech National Bank. Taxation is the same as for the pension funds – tax rate is 5% and the tax base is reduced by deductions. Legislation regulates these funds by the income tax act § 21 paragraph 2. These funds have to be managed by the firm's own experts. Consequently these funds are not transparent for both domestic and foreign investors who would like to invest in these funds. Under the law on value added tax (§ 54 of Act No. 235/2004 Coll.) are the services related to the fund exempt from VAT. Thanks to this the fund is without unnecessary restrictions and limitations. Except for the liberation of dividends and capital gains the Czech Republic does not offer further tax incentives for those who would like to invest in venture capital.

Interest expense related to loans cannot be deducted from the tax base – so called thin capitalization rules have to be applied. Thin capitalization rules determine the tax deductibility of interest arising from loans and borrowings for so called related parties – these include partners, subsidiaries of affiliated companies, etc.). Interests are generally costs – that means that a part of the debtor's profits is transferred to the creditor. This may allow tax optimization and in case of foreign creditors some profits may escape abroad.

According to § 23 paragraph 7 of the income tax act related persons are:

- Persons directly or indirectly involved in the capital or voting by more than 25 percent
- A person involved in the management or control of another person
- Controlling or controlled person
- Close relatives, etc.

In 2005 the act No. 586/1992 Coll. on income tax brought new provision in § 34 – the expenditures on research and development have become deductible item from the tax base. These tax-deductible costs may include employee wages, travel expenses, depreciation, certification costs and other related expenses. In the Czech Republic the possibility of public support for private equity and venture capital financing is discussed at the level of ministries and banks. So called seed funds could be set up in the near future. They would facilitate the PE/VC investments.

In the Czech Republic there are favorable conditions thanks to the capital gains tax which is regulated in § 36 of the income tax act and is currently at 15%. Personal income taxation provided in § 16 of the act on income taxes is also 15%. Both rates are below the European average. Tax quota in 2006 was 42%. In 2008 it dropped to 39.6 % and in 2009 it was 36.9%. New law on income tax freed the sale of securities from tax if the period between the acquisition and selling was longer than 6 months. This is valid only for persons whose total share of direct capital or voting rights was below 5% in the last 24 months prior to the sale of securities. The provision is set forth in § 4, paragraph 1 point w). If the share is higher than 5% § 4 paragraph 1 point r) is applied. In such case the period between the acquisition and sale has to be longer than 5 years.

Poland

In Poland the private equity and venture capital financing is supported since 1990. Activities associated with this form of financing are covered by the Polish Association of private equity and venture capital PPEA/PSIK (<http://www.ppea.org.pl/new/index.php>). At present there are 16 PE/VC investment companies. The Polish tax system is based on direct taxes. Corporate and personal income tax is connected with the classical system – corporate income is taxed at the corporate level and the distribution of profits will be subject to

income tax for the shareholders. Beside direct taxes there is of course social insurance, indirect taxes and property taxes. Legislative changes related to the issue of financing of venture capital and private equity in Poland and personal income taxes are regulated by: Ustawa z dnia 26 lipca 1991 r. o podatku dochodowym od osób fizycznych (tekst jedn. Dr. U. z 2000 r. Nr 14, poz. 176 z późn. zm.). Taxes on corporate income are regulated by: stawa z dnia 15 lutego 1992 r. o podatku dochodowym od osób prawnych (tekst jedn. Dr. U. z 2000 r. Nr 54, poz. 654 z późn. zm.). Commercial code is regulated by: Ustawa z dnia 15 września 2000 Kodeks spółek handlowych. (Dz. U. z dnia 8 listopada 2000 r.). The law on pension funds: Ustawy o organizacji i funkcjonowaniu funduszy emerytalnych (Dz. U. z 2004 r. Nr 159, poz. 1667 (tekst jednolity)). The law on investment funds: Ustawa z dnia 27 maja 2004 r. o funduszach inwestycyjnych Opracowano na podstawie: Dz.U. z 2004 r. Nr 146, poz. 1546.

Corporate income tax

Joint stock companies, limited liability companies, state enterprises, cooperatives and several other types of businesses are subject to corporate income tax – Ustawa z dnia 15 lutego 1992 r. o podatku dochodowym od osób prawnych, 1992. Investment and pension funds are exempt from this tax. Costs incurred to obtain taxable income are deductible. Tax-deductible expenses include payments to social insurance and property taxes. Tax depreciation of fixed assets in Poland is mandatory and cannot be postponed. Linear depreciation method is preferred. The property which is not amortized or which can be amortized progressively is regulated by law. It includes machines and equipment used in the chemical industry, agriculture and food industry. Tax incentives include the possibility of faster depreciation for small businesses that have a lower annual turnover than € 1.2 million including VAT. In Poland there are also 14 special economic zones in which it is possible to get help in form of 50 % of the qualified expenses if the investment is larger than € 100 000. Tax loss has to be applied in the 5 years following the loss. Up to 50% of the tax loss can be applied. The tax rate on corporate income is 19%. The withholding tax that is used for dividends is also 19%.

Personal income tax

Taxable income can be one of the following: income from dependent occupation (including

employment and pension income), independent profession, business activity, from selected agricultural sectors, from real property, from investment and property rights, from the sale of immovable property, property rights and movable property or other income according to Ustawa z dnia 26 lipca 1991 r. o podatku dochodowym od osób fizycznych, 1991. The tax is calculated from the sum of partial tax bases minus eligible expenses. Exempted income includes income from state benefits and amounts received from insurance of persons and property. The basic deductible amount is 3089 PLN per taxpayer. Donations and gifts for specific purposes are deductible up to 6% of the annual income. Costs associated with an Internet connection are also deductible up to 760 PLN per year. Tax credits cannot exceed 1% of the tax – they include insurance and child care. Tax rates are progressive. The individual tax rates are listed in Tab. III.

Uniform tax rate of 19% is applied on capital income from sale of shares and other securities. Withholding tax is 19% and is applied to dividends and interests. Private equity and venture capital financing could be used more frequently if there would be more incentives. Insurance companies can make PE/VC investments. Pension funds are regulated by Ustawy o organizacji i funkcjonowaniu funduszy emerytalnych, 2004. These funds have fewer possibilities and are limited in the selection of assets and there are territorial restrictions. The state already implemented some incentives related to investment, taxes, science and research and development.

Pension funds

Poland's reformed pension system has a mandatory second pillar. The system is divided into three pillars. The first is based on "pay-as-you-go" – payment according to consumption. The second pillar is fully funded and the third pillar is not sufficiently developed. Poland has implemented the Directive of the European Parliament and Council Directive 2003/41/EC only partially according to (EVCA & KPMG, 2008). This directive regulates the institutions for occupational retirement provision and supervision. Pension funds can invest only into assets listed in the act on pension funds – this list does not include private equity. PE/VC investments can be realized through so-called "closed-end investment funds" – yet total volume of this type of investment cannot exceed 10% of the

III: Progressive taxation in Poland

Taxable income	Tax
Up to 3 089 PLN	0
3 089 PLN – 85 528 PLN	18% minus 586,85
Over 85 528 PLN	14 839 + 32% of amount over 85 528

Source: own work according to Ustawa z dnia 26 lipca 1991 r. o podatku dochodowym od osób fizycznych (tekst jedn. Dr. U. z 2000 r. Nr 14, poz. 176 z późn. zm.)

total pension fund assets. There are no geographic restrictions. Polish pension funds regulated by Ustawa o organizacji i funkcjonowaniu funduszy emerytalnych, 2004 can invest in all OECD member countries or countries which signed the agreement on mutual protection of investments. But only 5% of its assets can be invested this way. Investments into foreign countries have to be evaluated by a reputable rating agency.

Insurance companies

Law on investment funds Ustawa z dnia 27 maja 2004 r. o funduszach inwestycyjnych, 2004 does not strictly tell where the insurance companies can invest. The insurance companies may invest up to 10% of their reserves into various assets, which include shares in companies which are not traded on the public markets – this limitation is set by the EU directive. So PE/VC investments are theoretically possible through closed investment funds. There are no geographic restrictions for the insurance companies.

Structure of the investment funds

The most suitable funds that facilitate the PE/VC investments are the “closed-end investment funds in private assets” (CEIF). This form of investment is not transparent but means significant tax advantages. There is no obligation to pay income tax until the investment is repaid. Foreign investors must not establish a permanent establishment if they decide to invest in funds. Management fees are exempt from VAT. There are no special incentives for new and innovative companies in their early stages. Small and medium enterprises also do not have a reduced rate. The limit for turnover including VAT was increased in 2009 to € 1 200 000. Previously this limit was € 800 000. The so-called “small taxpayer” below this limit has certain advantages. For example quarterly tax deposit or the possibility of accelerated depreciation. Companies can fully deduct their net interest expense only if the loan is used to obtain income or to secure sources of income. In addition the interest expense associated with the loan provided directly between the parent and subsidiary companies, where the mother owns at least 25% of the daughter, is burdened with thin capitalization rules.

Poland provides some fiscal incentives for research and development in the areas of business, capital development and technological development according to EVCA & KPMG (2009). If the research and development investment was successful it is treated as intangible assets and can be depreciated for a period of 12 months. If such investment is negative the investment is seen as a tax deductible expense. Poland offers no tax advantage for easier cooperation with institutions providing research and development. Dividends are taxed at a rate of 19% – European average is 15.2%. Taxable income of taxpayers is encumbered by a progressive tax rate up to 40%. Precise rules for the taxation of

shares are not set. The taxable transaction relates to the recipient of such income from shares. It is questionable whether such income should be taxed as a capital gain or income from other sources. In most cases these earnings are taxed as capital gains and thus 19% tax rate is used. If the CEIF is controlled by individual persons the bonuses are paid in the form of bonuses and thus personal income tax is used. These bonuses are then included in the tax base and are taxed by a progressive tax rate.

CONCLUSION

The countries analyzed in this research differ in many individual aspects. The Czech Republic has better conditions when considering taxes and public support of business development. Poland has better overall conditions for PE/VC financing when considering the profit taxation of pension funds. Also these funds are allowed to make PE/VC investments. These factors are important for the development of PE/VC financing.

The objective of this research is to analyze the environment in Poland and the Czech Republic and to present the findings and conditions that promote the use of this type of financing. Corporate tax is 19% in both analyzed countries. In Poland it is possible to subtract 50% of qualified expenses of investments over € 100 000. Pension and investment funds are free from income tax in Poland unlike in the Czech Republic where 5% tax is applied. Dividend tax is 15% in the Czech Republic and 19% in Poland.

Recommendation: Profits of the pension funds should be freed from tax. Also the funds should have the possibility to subtract 50% of qualified expenses. The dividend tax should stay at 15%.

Personal income tax in the Czech Republic is 15%. Poland has a progressive tax. Both countries have a list of deductible items.

Recommendation: Personal income tax should be 15% and there should be a list of deductible items.

The pension system has a lot of space for improvement in both countries. In the Czech Republic the pension system is based on two out of three pillars of the pension system. Poland has a reformed pension system – the second pillar of the pension system is mandatory. The pension funds are not allowed to make PE/VC investments. In the Czech Republic the pension fund is allowed to invest only 5% and in Poland 10% differently than it is specified by the legislation. In Poland the pension funds can invest this part of their resources through “closed investment funds” so PE/VC investments are theoretically possible. This possibility does not exist in the Czech Republic. Pension funds in both countries have geographical limitations and restrictions. Polish funds are allowed to invest to all member countries of the OECD and to other countries that have signed an agreement about the protection of investments. Pension funds in the

Czech Republic are allowed to invest in all member states of the European Union.

Recommendation: Realization of the pension system with all three pillars and allowed investment of 10% through “closed investment funds” seem to be better conditions than current scenario where there are too strict limitations. Also allowing investing to all member states of the OECD provides more investment possibilities for the pension funds.

Insurance companies in Poland are allowed to invest up to 10% of their technical reserves. Similar to the pension funds these investments can be realized with the help of closed investment funds. Insurance companies in the Czech Republic are not allowed to make PE/VC investments. There are no geographical limitations both for Poland and the Czech Republic.

Recommendation: Insurance companies should be allowed to invest up to 10% of their reserves into different types of assets including private equity and venture capital without geographical limitations.

In Poland the easiest way is to make PE/VC investments through so called “closed investment funds for nonpublic assets” called CEIF. Investing through these special funds brings several

advantages to the investor. The tax is paid at the end of the investment. In the Czech Republic a new law about collective investment was recently created. Investments can be made with the help of so called qualified investors. Czech Republic has one advantage related to taxes – dividends and capital profits are free of tax when investment is made between related subjects. Both countries do not have any programs that promote investments into business development.

Recommendation: The law about collective financing and investing is important and should exist. This law makes PE/VC investments possible just like the CEIF.

Public support of PE/VC financing does not exist yet in the Czech Republic but it is being currently discussed by the government, ministry of finance and banks. So called seed funds will be created in the near future. Other forms of support do not exist. The information about public support was not available for Poland.

Recommendation: Public support of PE/VC financing for new businesses with high potential is important and should be available through seed funds.

SUMMARY

Private equity and venture capital financing are used in the Czech Republic for more than ten years. The conditions for this type of financing have been evaluated by the EVCA& KMPG (2008) as the worst of all the countries in the study. The objective of this paper was reached after the evaluation of legislation and taxes related to this type of financing. The findings lead to identification of conditions that have a positive influence. When the suitable conditions are identified it is then possible to formulate recommendations and implement changes that improve the overall conditions and promote the use of PE/VC financing in the Czech Republic. Czech Republic has better conditions than Poland in the taxation of personal income and in the government support. Poland has better conditions for pension and insurance funds – these funds have the possibility to make PE/VC investments. These conditions are crucial for higher utilization of PE/VC financing. Profits of the pension funds should be freed from tax. Also the funds should have the possibility to subtract 50% of qualified expenses. The dividend tax should stay at 15%. Personal income tax should be 15% and there should be a list of deductible items. Realization of the pension system with all three pillars and allowed investment of 10% through “closed investment funds” seem to be better conditions than current scenario with too strict limitations. Also allowing investment to all member states of the OECD provides more investment possibilities for the pension funds. Insurance companies should be allowed to invest up to 10% of their reserves to different types of assets including private equity and venture capital without geographical limitations. The law about collective financing and investing is important and should exist. This law makes PE/VC investments possible just like the CEIF. Public support of PE/VC financing for new businesses with high potential is important and should be available through seed funds.

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