TAX, LEGAL & TECH

International Fundraising for
Colombian Start-ups

Dispelling Myths of Raising Capital, the View from Silicon Valley.

JA Del Río · MOSSADAMS · GUNDERSON DETTMER · alameda · ruta n MEDELLÍN CENTRO DE INNOVACIÓN Y NEGOCIOS · ANGEL VENTURES · COLOMBIA FINTECH

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Agenda

- Introduction: Colombia cradle of startups in LATAM
- Founder's Experience - Alameda.
- Venture capital considerations and cross-border investments.
- Tax and legal considerations in the US & Colombia:
  - o US Holding company.
  - o Offshore holding company.
- Q&A session

ANGEL VENTURES

ABOUT US

Founded in 2008, AV is one of the most active and influential Mexican VC firms in Latin America. The Firm invests in early-stage to early-growth companies by becoming a leading Series Seed and Series A investor in startups that drive innovative business models tailored for the Latin American market. We manage two investment funds (one of them in divestment period), and we strive to perform the best possible investments by attracting best-in-class entrepreneurs, applying exhaustive and progressive methodologies to assess opportunities and leveraging our intangible assets to boost our portfolio returns, all while being compliant with major global standards for VC practices.




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We are a furniture and home décor marketplace operating in Mexico and Colombia
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VC Financing Tax Considerations



Tax and Legal Considerations - VC Financing

- Structuring
- Individual Income Tax Considerations for Founders & Investors
- Investor Rights Agreements

Cross-Border Investment Considerations

- Cross-border investments present a variety of tax issues
- Tax compliance and structuring considerations
  - What local taxes (e.g., capital gains, dividends, withholding) will the investor be subjected to?
  - Can local taxes be reduced by utilizing an intermediary jurisdiction that has more favorable tax treatment?
  - Will the investment create a permanent establishment for the investor in the target jurisdiction?
  - Is the company a “Passive Foreign Investment Company” or a “Controlled Foreign Company” for U.S. tax purposes?

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Alternative A: US Corporation Holding Company

Structuring – US Corporation Holdco

Benefits

- Familiar and often required by early-stage investors.
- Inexpensive to set-up.
- If QSBS, either low or no US federal tax for founders on exit

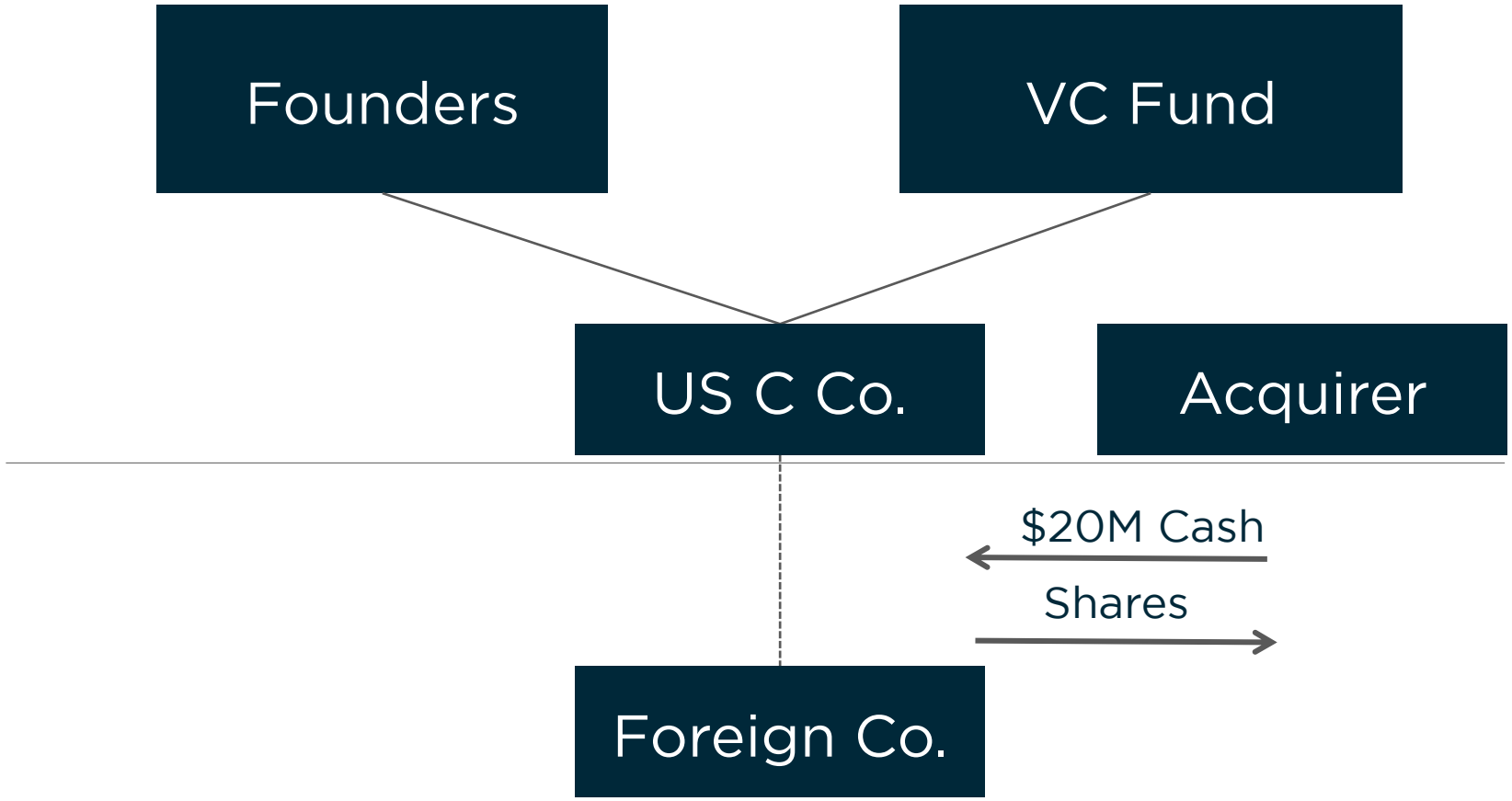
Drawbacks

- Double tax structure.
- Very expensive to unwind.
- Later investors may not want to invest in US Corp.
- Indirect tax sales (anti-abuse rule).





EXIT VIA SALE OF FOREIGN Co.



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TAX IMPACT OF EXIT – DOUBLE TAXATION

- **Step 1 –**

Capital Gains Tax is imposed at 21% at the Corporate Level

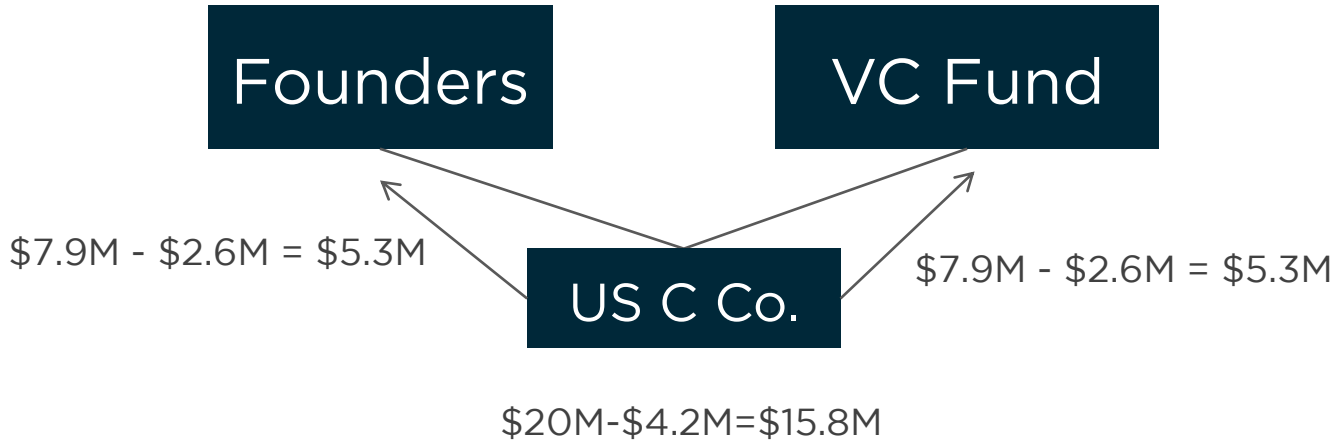
(Assuming $0 in basis for presentation purposes)

- **Step 2 –**

Funds are distributed via dividend and suffer second level of tax at the VC level at a blended rate of 32.8%

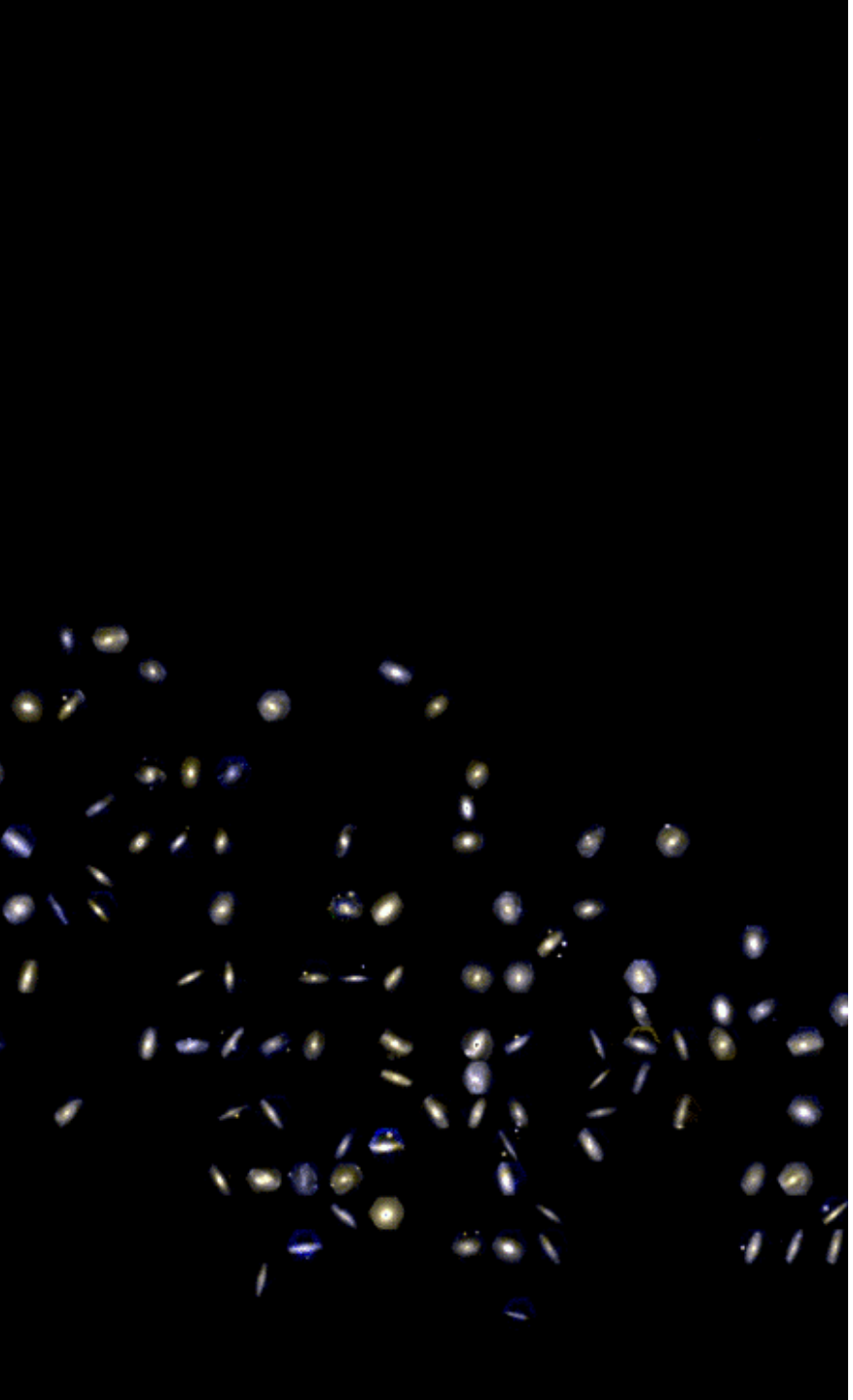
(23.8% Federal and 9% State)

After tax cash to investors of $10.6 million (effective tax rate of 47%)



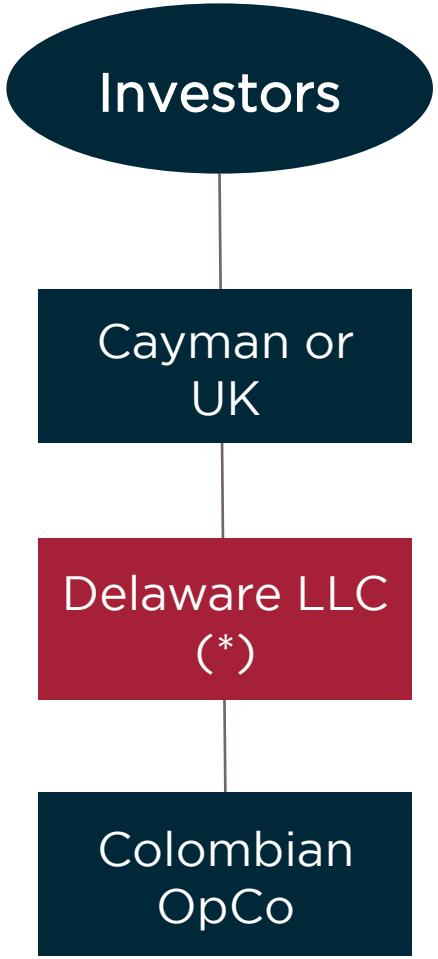


Alternative B: Offshore Holding Company



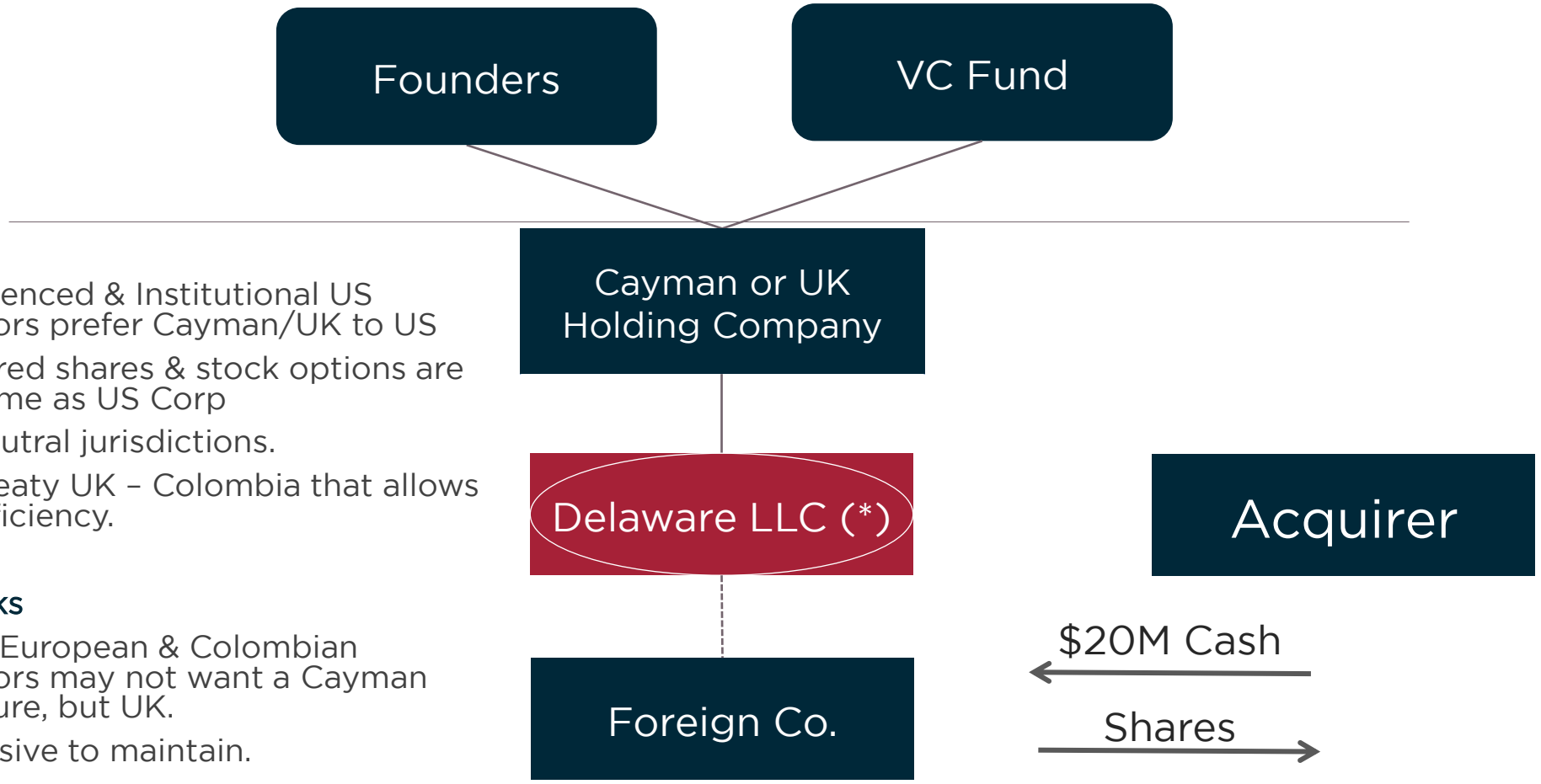
Structuring – Cayman or UK Holdco

- **Benefits**
  - Experienced & Institutional US investors prefer Cayman/UK to US
  - Preferred shares & stock options are the same as US Corp
  - Tax neutral jurisdictions.
  - Tax Treaty UK – Colombia that allows tax efficiency.
- **Drawbacks**
  - Some European & Colombian investors may not want a Cayman structure, but UK.
  - Expensive to maintain.



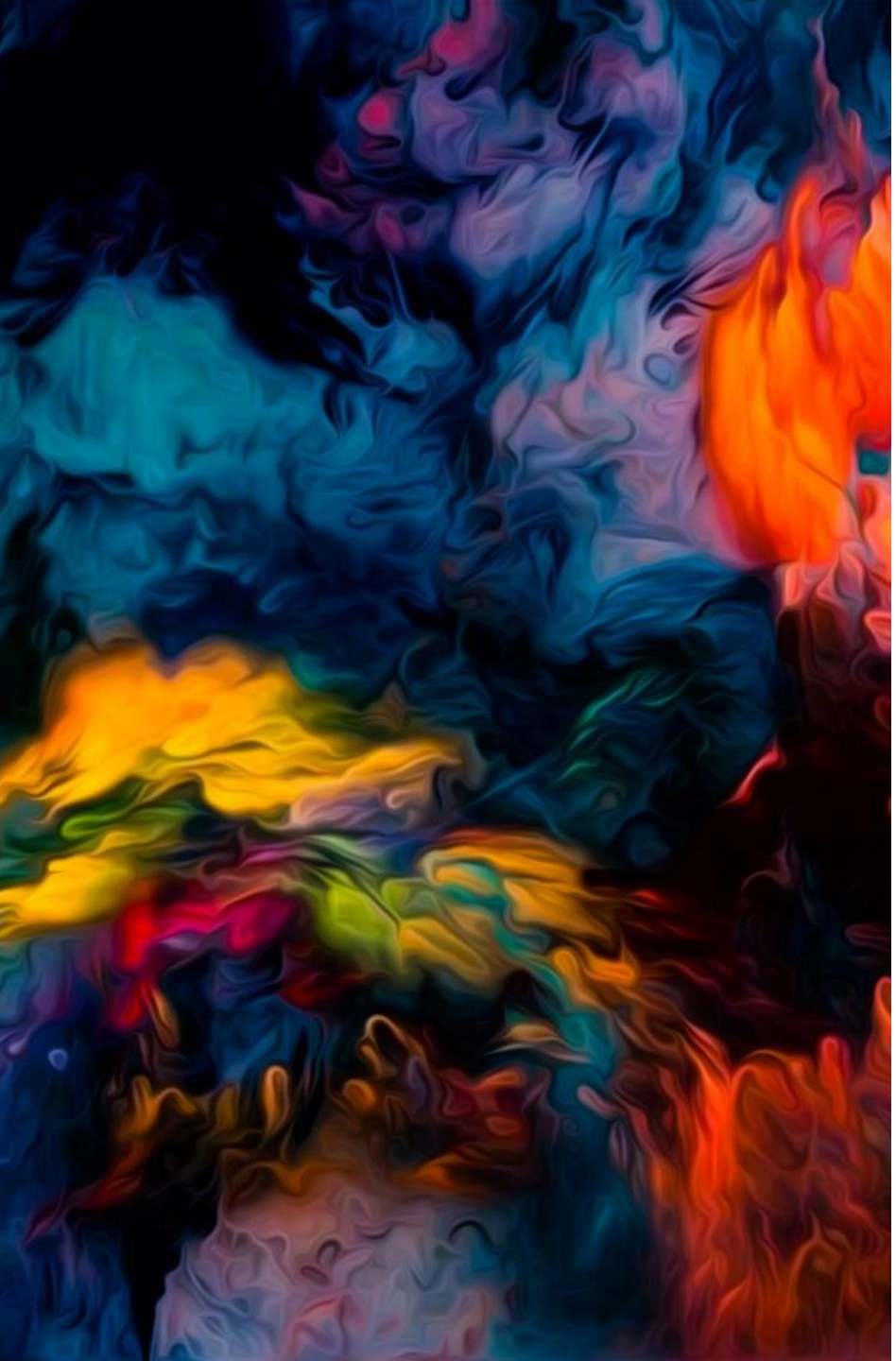
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EXIT VIA SALE OF FOREIGN Co.



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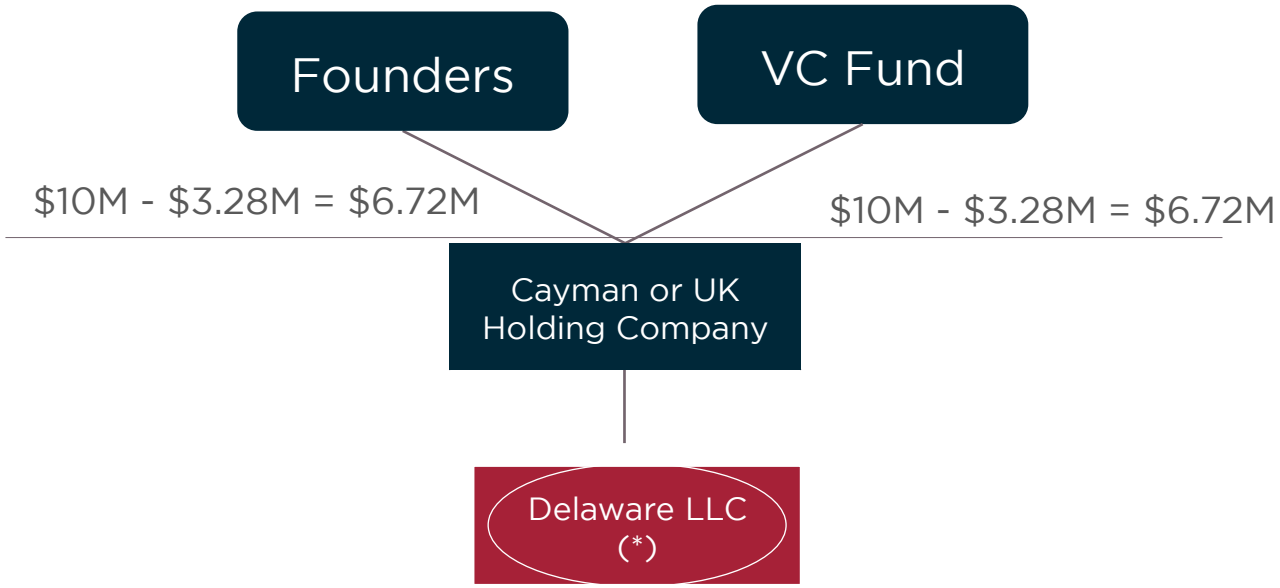
TAX IMPACT OF EXIT – SINGLE LEVEL OF TAX

- **Step 1 –**

Funds “pass through” holding companies and is taxed at the VC level at a blended rate of 32.8% - (23.8% Federal and 9% State).

Optimal structure increases after tax return by 35% and reduces tax expense by 58%

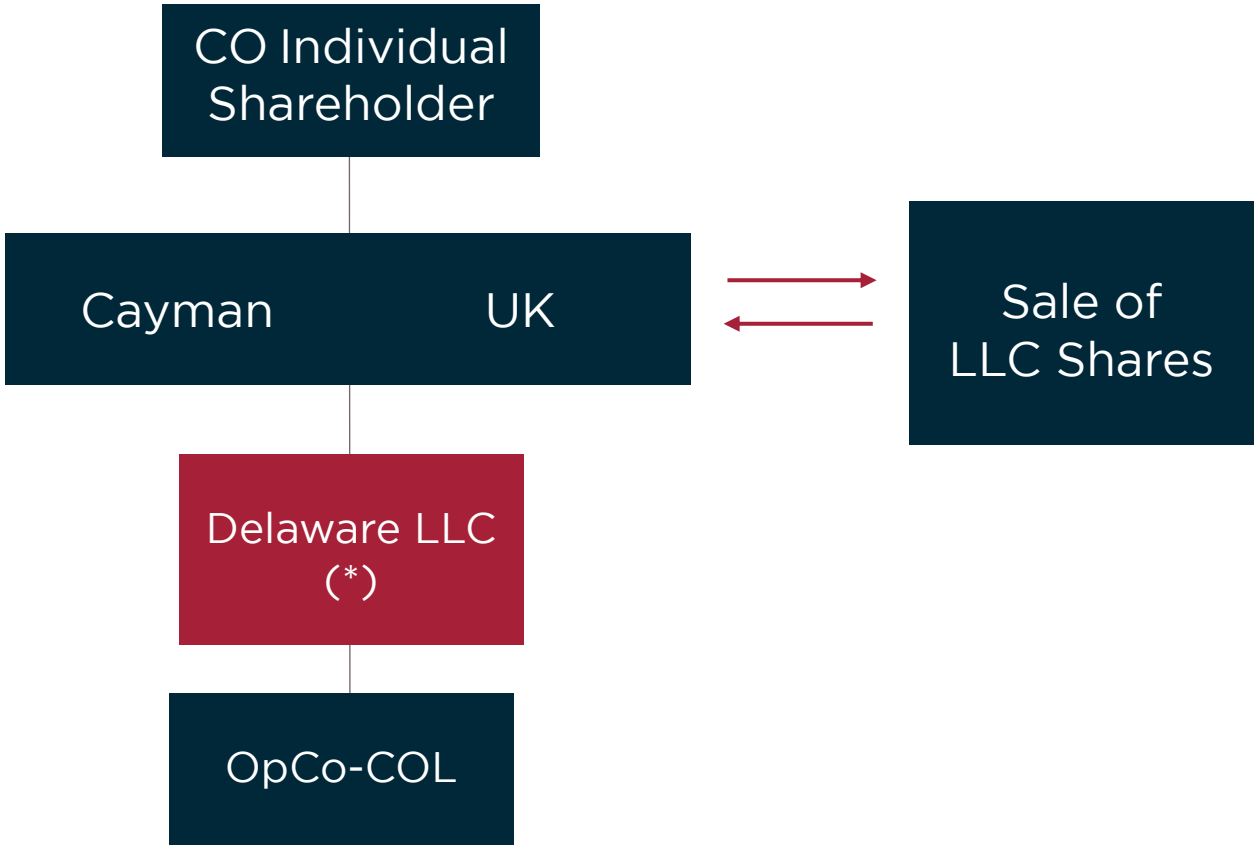
After tax cash to investors of $13.44 million



Cayman or UK Sells Shares of LLC

Effective Tax Rate UK as a seller	
Co CT Paid	
US CT Paid	
Co Withheld Tax	0
US Withheld Tax	0
Co Individial tax to pay	2.000.000
Co Additional tax to pay	0
Tota Tax Paid	**2.000.000**
Sale of shares amount	20.000.000
Effective Rate	**10%**

Effective Tax Rate Cayman as a seller	
Co CT Paid	
US CT Paid	
Co Withheld Tax	0
US Withheld Tax	0
Co Individial tax to pay (*)	6.200.000
Co Additional tax to pay	0
Tota Tax Paid	**6.200.000**
Sale of shares amount	20.000.000
Effective Rate	**31%**



Thank you..!!!



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