The Quoted Companies Alliance

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Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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24 May 2010

Dear Chancellor,

The Quoted Companies Alliance - Budget Representation Summary

We look forward to the Budget announcement on 22 June 2010. In advance of that, on behalf of the members of the Quoted Companies Alliance, we have set out below some of the key areas that our members would appreciate assistance with.

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m. The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

As will be appreciated, the sort of companies the QCA represents (small and mid-cap quoted companies) find it disproportionately difficult to raise equity risk capital. However, these same companies, provided they are able to attract and maintain equity risk capital, make a strong contribution to innovation, employment, and economic activity for "UK plc" in general. We have focused our comments below to four broad areas which we believe should have a long lasting impact to help stimulate the injection of new equity risk capital as well as maintain existing equity capital, at a time of fragile economic conditions.

1. Capital Gains Tax Rates and Timing of Any New Legislation

1.1. The Coalition Agreement announced proposals on changes to capital gains tax. We would strongly recommend that proposals are not rushed through to be effective from 22 June 2010. The experience of ill thought out changes, introduced without consultation (such as those in 2008 which actually reduced the effective CGT rates on "investment" assets), indicates that HM Treasury revenues and Government policy could be optimised by ensuring that there is sufficient time for proper consultation and consideration. Hence we strongly recommend that proposals are put forward for genuine and open consultation with a view to implementation from say 6 April 2011.

1.2. It is understood that CGT rates for "non trading/non business assets" might be raised from 18% to being in line with marginal income tax rates. Whilst the Treasury's need to raise higher tax revenues in the current environment is appreciated, and small and mid-cap quoted companies should make a contribution to this, we would recommend that the following types of investors in the equity capital of such businesses should be provided with any beneficial tax reliefs to be introduced:

1.2.1. Employees of such companies, to encourage alignment between employee interests and shareholder interests, which should lead to increased profitability and ultimately increased tax receipts for HM Treasury.

1.2.2. Large individual shareholders (often founder shareholders) will exist in such businesses who invest significant sums and take significant risks in helping to fund such companies. Withdrawal by such investors of their capital in small/medium sized companies could in turn lead to scarcity of capital which would generally reduce confidence in the small and mid-cap quoted companies sector, with consequential damage to the UK quoted companies sector as a whole.

1.3. In terms of a possible regime, the business asset taper relief regime that existed before its abolition in April 2008, might provide a framework. It allowed shareholders in unquoted trading companies to benefit from taper relief as well as shareholders in quoted trading companies where the shareholders were employed by the investee business.

1.4. We also recommend that the annual CGT exemption (currently £10,100) should be retained. This will help to ensure that the many lower-paid employees who participate in approved Sharesave and other all-employee share plans will continue to be exempt from tax when they sell their shares. It will also avoid the need for many thousands of such employees to complete self-assessment tax returns purely because of their share plan participation.

2. Equity Risk Incentives, e.g. Enterprise Investment Schemes/Venture Capital Trusts

2.1. In recent years, the reliefs for Enterprise Investment Schemes/Venture Capital Trusts have been progressively eroded and also the legislation surrounding them has been made more complex. Regrettably, they are viewed with increasing scepticism by investors, both in unquoted and quoted businesses.

2.2. In the past, they have provided a reasonable measure of tax incentive to encourage investors to provide equity capital to small/medium sized businesses, including businesses quoted on stock exchanges such as AIM. We would recommend that a review is commenced in consultation with small/medium sized businesses (both quoted and unquoted) to discuss ways in which the schemes could be amended to make investment under them more attractive for the small/medium sized company sector. This might involve a comparison with experience in other countries, both in the EU and elsewhere.

3. Complexity/Regulation, Relationship with HMRC and Directional Objectives

3.1. As you will be aware, increasing regulation has imposed significant burdens on businesses generally. As small/medium sized companies (both quoted and unquoted) have limited resources, they are affected disproportionately by such regulations. We would therefore recommend that a consultation is held in conjunction with small/medium sized businesses as to which regulations cause the most burdens without any apparent economic benefit to the UK economy with a view to removing or reducing such regulations over the term of this Parliament.

3.2. There has been a growing feeling amongst our members and businesses in general that the relationship with HMRC generally has become more confrontational in recent years. Whilst robust discussions are necessary and healthy, our National Interest might be better served by having a more co-operative relationship that serves to maximise tax revenues through helping businesses to be more successful. During any consultation process, we would recommend an open debate around increasing co-operation, taking account of the views of HMRC, Business and Professional Advisors.

3.3. Whilst it is appreciated that the scope for tax reductions is limited at the current time, we believe that it would be helpful (in terms of investor confidence for the UK and to help stem the wave of business and entrepreneur “emigrations” from the UK in recent years) if the new Government indicated early on that it will seek to reduce both business and personal taxes if the public finances improve in coming years. We understand that similar “directional” indications in countries such as Canada in the recent past were helpful in restoring sentiment.

4. AIM Shares/ISAs

4.1. The tax status of AIM and PLUS quoted companies has changed radically following the abolition of business asset taper relief. Consequently, companies quoted on an exchange-regulated market do not qualify for certain reliefs that are available to listed companies. Currently shares in AIM and PLUS quoted companies do not qualify to be included as ISA investments. Given that this sector has lost significant CGT advantages, this would be a reasonable step to assist this market sector. We view this measure as redirecting investment into a much-needed area, and hence we believe it can be implemented without significant cost to the Treasury. Investments quoted on exchange-regulated markets (e.g. AIM and PLUS) should qualify for inclusion in ISAs. This would provide needed capital for companies listed on such markets and widen the share ownership.

We trust that this is helpful and would be pleased to meet with your representatives to discuss these areas in more detail and indeed to provide any help that is required.

We look forward to hearing from you.

Yours sincerely,

Tim Ward
Chief Executive