SUMMARY - HM Treasury/QCA meeting (4 March 2014)

Meeting with Roland Phillips and members of the QCA Tax Expert Group regarding the QCA Budget 2014 Representations on costs of raising equity being tax deductible

HM Treasury considered this measure last minute due to interest from a number of parties. HM Treasury was considering two options:

- A cautious one: to announce a consultation in view of Budget 2015
- An ambitious one: to announce a measure in this Finance Bill

HM Treasury needs input from the QCA on the details of these measures. Any measure would be subject to threshold cap: 1) cap the size of equity issuers or 2) cap the equity amount of all sizes of issues; they would be interested in assessing both their advantages and disadvantages. The alternative of explicitly targeting the relief to SMEs would be more difficult to do, as they do not want a measure that discriminates. HM Treasury is only considering a self-contained measure, nothing more ambitious than that, but a hybrid cap could also be considered.

Raised issues of concern to HM Treasury:

- Thresholds. The QCA submission mentioned this as a possibility. But what would be the level at which the measure would best target SMEs? Would the threshold be more appropriately applied to issue size or to the deductible amount? Which companies to target in view of potentially targeting smaller companies?

- Types of equity issue. Would the measure more appropriately apply to all types of issues, including secondary raisings, or merely to IPOs? Should/could the measure be available to all types of issuance (e.g. to fund an acquisition) or solely issues where cash is being raised for specified purposes (e.g. to invest in the issuer's business). What would be the practical challenges of seeking to limit the relief in such a way? HM Treasury is interested in finding out what is the rationale behind an issuance, and whether there would be a policy case in making the distinction (concerned about restructuring).

- HM Treasury would like to understand the reasons why companies float, and why equity is a preferable solution to debt.

- How practical is it to distinguish between expenses incurred as a direct result of an IPO / issuance event, and other fees?

- There are various types of listing costs (underwriting fees, professional advisers' fees, direct listing costs, marketing costs, PR etc.). Which of these – if any – do you think should be excluded from the scope of the measure?

- Would the measure more appropriately apply to ongoing listing costs (e.g. annual listing fees), or just costs arising from the issuance event?

- HM Treasury would like to have an estimate of all the costs in detail (listing and ongoing).

- How significant is the risk that the measure would lead to higher fees in the markets for advice, underwriting etc.? HM Treasury is concerned that banks, for example, would raise their fees as a creeping economic effect over time.

- Timing. How long could the deductions span over time (e.g. 2/3/4 years) and when would it start (e.g. year it was incurred)?

- Which would be the best way to bring this measure into effect (tax years/ accounting periods/ set date in legislation/ sunset clause for review)?

- What happens if the issuance does not come through?

Key Aspects To Add to 2015 Budget Representations:

- Which types of companies would benefit in practice (so for example some data and commentary on how many new and further issues are conducted by growing, finance-constrained corporates versus, for example, distressed corporates or investment trust companies)

- How much it would cost the exchequer with the chosen (500k?) relief threshold, and the workings for that

- Various details in designing a relief including the treatment of costs incurred for rights issues that are subsequently cancelled, etc