Minutes of the QCA Tax Expert Group

Held on: Wednesday 5 June 2019, 9.00am – 10.30am
Venue: Crowe UK LLP, St Brides House, 10 Salisbury Square, London, EC4Y 8EH

Present:

Paul Fay (Chair)	Crowe UK LLP	PF
Paul Attridge	Beavis Morgan LLP	PA
Daniel Hawthorne	Dechert	DH
Edward Brown	Grant Thornton UK LLP	EB
Sabina Margulies	LexisNexis	SM
Anthony Robinson	Quoted Companies Alliance	AR
Jack Marshall	Quoted Companies Alliance	JM

In attendance:

Chloe Evenson	HM Treasury	CE
Fiona Bell	RSM	FB

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1. **Welcome to Chloe Evenson, Head of Tax Simplification and Small Business Tax at HM Treasury, to talk about the Treasury's current priorities and any issues relevant to smaller companies.**

PF welcomed CE to the Tax Expert Group meeting.

<u>Overview of HM Treasury and their current priorities</u>
CE explained that her department works very closely with the Office of Tax Simplification (OTS) and frequently helps the OTS with their reviews. As well as this function, her team also covers small businesses, whereby they seek to understand the implications of tax and how it impacts small businesses.

CE outlined HM Treasury's (HMT's) current priorities, these include:

- Financial ministry:
  - Spending review
- Economic ministry:
  - The promotion of growth
- Tax:
  - Sustainability of tax base
  - Alcohol duties
  - Political economy
  - EU exit related issues.

Discussion

It was mentioned that the OTS has published its business lifecycle review, which it had been working on with HMRC. The inheritance tax report is due to be published shortly. As such, the OTS are currently open to receiving suggestions about new reviews to undertake.

With regards to CIR, it was mentioned that it applies to those within the AIM population, however, the costs and complexity of dealing with CIR is proportionately higher for the companies that occupy this market. It was asked as to whether there would be ways to reduce the size limits and make it less complex, particularly as it is currently targeted for larger corporates. CE responded to say that HMT was aware of the burdens on SME's and that was the reason why the tax simplification function and the small business function operate together.

In terms of transfer pricing, it was suggested that there were very few directions for medium sized groups and uncertainty over what records need to be maintained. It was also raised that the anti-fragmentation rules that cover SME's create more obstacles and costs for these companies, even where there is no tax adjustment. This is especially so for AIM listed companies, who are very conscious with tax risk and ensuring that they do everything properly.

It was mentioned that the current tax system favours the financing of debt, particularly when compared to share capital. A tax deduction for costs of raising share capital would help to level the playing field between debt and equity, something of which has been evidenced within most EU countries.

There is a significant gap between share plans which is causing a problem for growth companies as they grow and exceed the thresholds for certain taxes. This gap does not encourage the growth of these smaller companies, especially as these companies struggle to employ more than one share plan. EMI and CSOP both have good advantages, whilst SAYE is intended for larger companies. Moving the £30,000 limit up was expressed as desirable.

Another issue was raised in relation to the online filing system. Smaller companies often experience difficulties due to their more limited capacity and smaller finance teams. The issues smaller companies have are often passed over to their advisors, however, advisors are unable to register or deregister a plan themselves as they have to involve the secretary.

It was asked as to whether Brexit presented an opportunity for simplification and adjustments to state aid rules. CE replied to say that a long-term opportunity did exist, but that it would depend on our future relationship with the EU.

In terms of EIS, it was mentioned that the rules become more complex year on year as additional parts get added on. In order to ameliorate this issue, EIS needs to be simplified in order for it to add a higher degree of certainty. It was suggested that there should be some sort of protection once a certain level is reached.

A common issue for people investing into the UK is the lack of an HMRC ruling process. CE highlighted that OTS were going to do a project to review the ruling base with HMRC overseeing it. The Netherlands and Luxemburg both have a ruling system which is highly beneficial.

There is currently an issue with treaty relief as HMRC's practise is not always consistent with their guidance. Some guidance, such as that on DTPP, needs to be updated.

PF thanked CE for her time. CE left the meeting.

2. APOLOGIES

Apologies were received from

3. MINUTES OF LAST MEETING (6 March 2019)

The minutes of the last meeting were approved.

4. ISSUES FOR DISCUSSION AND NOTING

	ITEM	ACTION
a)	**2019 Budget proposals** **i. Approach to proposals** PF led a discussion on the approach to the Budget 2019 proposals and outlined the additions/omissions from last year's proposals, they are as follows: Additions • A green/energy-related section will be added into the proposals, potentially in relation to capital allowance • FB to submit proposals on loans to participators in section 455 • Royalty gross payments Omissions: • Entrepreneurs Relief will be omitted from the proposals as it is unlikely that a further extension will be made. • The de-grouping anomaly will be removed as it was fixed within the last budget The QCA/Hardman & Co. report on the contribution of small and mid-size quoted companies to the tax system, as well as employment and market contribution, should be included in the introduction of the proposals. **ii. QCA member questionnaire** A few amendments were suggested to be made to the questionnaire. The questionnaire will be sent out at the beginning of July and the results will be included within the budget proposals.	**Proposals to be submitted for 2 September deadline.** **JM** to amend questionnaire and send to QCA members at the beginning of July.
b)	**Future meetings and speaker priorities** The group expressed interest in inviting the following groups/people to the next Tax Expert Group meeting:	

	• Opposition MPs
	  o Anneliese Dodds MP (Labour, Shadow Treasury Minister)
	  o Danny Alexander MP (Liberal Democrats, Chief Secretary to the Treasury)
	• HMRC Corporate team
		JM to contact potential guest speakers.

5. COMMUNICATIONS (INFORMATION ONLY)

	ITEM	ACTION
a)	**The QCA, together with Thomson Reuters Practical Law, surveyed QCA members to find out how small and mid-size companies, as well as their advisers, have found the Market Abuse Regulation (MAR) in practice. They key findings are as follows:** **i. Delaying disclosure of inside information. 57% have delayed disclosure of inside information.** **ii. Copy of insider list to FCA. 14% have been asked by the FCA for a copy of their insider list.** **iii. Dealing code. 79% have adopted a code that is largely based on or is similar to the ICSA/GC100/QCA code or have adopted such code pretty much wholesale, with minimal amendments, and 21% have adopted a completely bespoke code.** This was tabled as information only and not discussed.	None.
b)	**A new report that analyses the contribution of small and mid-size quoted companies was publicised by Hardman & Co. and the QCA at the beginning of May. The report analyses the contribution that these companies make to the market, employment and tax. The key findings are as follows:** **i. Small and mid-size companies account for 93% of all companies on UK public equity markets, but just 20% of market capitalisation;** **ii. They employ over 3 million people - an estimated 11% of total UK private sector employment; and** iii. **Contribute over £26bn in taxes - about 5% of total UK tax take.** This was tabled as information only and not discussed.	None.
c)	**The project for updating the QCA Audit Committee Audit Guide is progressing and is on course for release over the summer.** This was tabled as information only and not discussed.	None.
d)	**YouGov are surveying companies that adopted the QCA Corporate Governance Code to identify any ways in which we might be able to**	

	improve the Code and see if we can find evidence that following the QCA Code has helped companies. This will be published over the summer. This was tabled as information only and not discussed.	None.
e)	**Henley Business School have been commissioned by the QCA and Downing LLP to undertake a research project to understand the role that NEDs play in smaller growth companies. The results are planned to be released in September.** This was tabled as information only and not discussed.	None.

6. ANY OTHER BUSINESS

None.

7. NEXT MEETING

Wednesday 18 September 2019, 9.00am – 10.30am (Venue: Crowe UK LLP, St Brides House, 10 Salisbury Square, London, EC4Y 8EH)