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Family businesses call upon the Treasury to encourage entrepreneurial Britain

Family businesses are calling upon Alistair Darling to do more to encourage enterprise in the UK.

In a letter to the Chancellor the Institute for Family Business has requested that Alastair Darling takes nine key steps in his pre budget report, including extending the Enterprise Investment Scheme (EIS).

Family businesses constitute the majority of the SME sector where a high proportion of new business start up activity and innovation occur. They are a driving force for entrepreneurship in the UK economy, employing approximately 9.5 million people and contributing over 30% to UK GDP.

A key incentive for investment into early stage businesses is the EIS. EIS and venture capital rules however discriminate against early stage firms raising capital from relatives. This makes it even harder for family firms to raise capital to support investment in new entrepreneurial activities.

Grant Gordon, Director General, of the IFB comments: "Existing family businesses and their owners have been identified as key sources of early stage entrepreneurial activity. EIS income tax deferral only applies where individual investors are not connected to the company that they are investing in. Parents, spouses and most other relatives are considered as "connected" persons and are therefore excluded from claiming EIS deferral. This discriminates against active business participation by related investors, typical in family businesses. We would welcome the removal of these restrictions."

"It is critical that finance can flow to these young businesses and help ensure that they do not succumb to the problems encountered in the "equity gap", which have been exacerbated by the credit crunch."

The letter to the Chancellor also included recommendations on the following:

- Business Property Relief
- Trusts
- Corporation tax

Maintenance of Business Property Relief on Inheritance Tax

Business Property Relief (BPR) is a crucial relief from inheritance tax which facilitates the transfer of family business management and ownership between generations, allowing a long term approach which focuses on the stability and sustainability of the business. Given that BPR is vital to the continued long term existence of the family business sector in the UK, 100% BPR relief on Inheritance Tax should be maintained.

Restore greater ability to use trusts for the purposes of succession planning

The rules on trusts were amended in 2006. The changes mean that they are taxed more highly than previously which is hampering prudential planning by family businesses. Moreover, the age limit for distributions to beneficiaries has come down from 25 to 18. Under the post-2006 regime, the tax system now encourages families to give money to a young person who may lack the maturity to act responsibly. The IFB calls for HM Treasury to formally assess the impact of these changes to the tax regime for trusts.

Encourage a balanced approach to funding businesses treating equity and debt more equally

The present corporation tax system is imbalanced when it comes to the treatment of debt and equity, favouring the former which is a deductible expense for corporation tax purposes. Patient capital – retained earnings or new equity that family firms invest in companies is thus treated less advantageously in tax terms than debt. The Government should consult with relevant organisations to consider re-balancing the corporation tax regime to take a more balanced approach towards debt and equity funding.

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About The Institute for Family Business

The Institute for Family Business (IFB) was established in 2001 as an independent, not-for-profit membership association which promotes and supports the UK's dynamic family-owned business sector. **IFB Representation** promotes greater awareness of the sector and highlights policy areas that are of special importance in underpinning the growth and entrepreneurial development of family firms. **IFB Forum** promotes the exchange of knowledge and information to increase understanding of the unique challenges and opportunities that family firms face. **IFB Research** provides the foundation for all the association's work. www.ifb.org.uk

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