Institute for Family Business

Mark Hoban MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

May 27th 2010

Dear Minister

Capital Gains Tax

May I take this opportunity to congratulate you on your appointment as Financial Secretary to the Treasury.

As you may know, the Institute for Family Business (IFB) is an independent, not-for-profit, politically neutral, membership association which supports the UK family-owned business sector through advocacy, education and research. The IFB membership accounts for approximately £38 billion in turnover.

Studies have consistently demonstrated the importance of the family business sector. Research conducted by Capital Economics on the UK family business sector, covering all areas of the economy, estimates that:

- Family firms account for **65% of private sector enterprises** in the UK economy - 3 million businesses

- Family firms account for over 40% of private sector employment, providing jobs to 9.5 million people – **one job in three throughout the UK**

- Family businesses account for **£73bn per annum in UK tax receipts**

The evidence not only highlights the size and importance of family businesses to the UK economy, but also the contribution the sector makes to the diversity of UK plc. The overwhelming emphasis of successful family businesses is on sustainable, long-term investment and employment practices.

As you prepare for the Government's first budget I write on behalf of the IFB with regard to the planned changes to capital gains tax (CGT). We appreciate that you will have received numerous representations; our focus in this letter is on aspects of CGT policy that relate to the success and development of family firms in particular.

The IFB has several concerns relating to the announcement of the planned increase in the rate of CGT in the following three areas:

1. Uncertainty around the nature of the “business assets” exemption:

Reliefs from capital gains tax for ‘business assets’ are crucial for investment in family businesses. This will increase yet further if the rate for CGT increases. Due to their ownership structure family businesses have particular financing methods. Families often invest funds collectively in their business, with one or more family members having an active role in management. Very often family shareholders are not involved in management roles, but their equity investment is vital to the success and growth of the business.

The IFB is concerned that in defining a business asset for the purposes of any reform to the capital gains tax HM Government may impose overly restrictive rules that damage family enterprise. If limitations are imposed by using a particularly onerous definition of 'business assets' investment into certain types of family business could become significantly less attractive.

Although we understand that holdover relief will not be impacted by the new legislation we would like to emphasise that relief from CGT in this regard is critical to families who seek to involve the next generation in the business.

2. What transitional rules will exist:

The IFB believes that retrospective changes would be wholly unjust in this context and that nominally prospective changes without transitional measures would be deleterious to investment in UK businesses.

3. The rate of capital gains tax for “business assets”

To encourage entrepreneurship and to foster the wealth and job creation it produces, the incentive for return on business investments by family firms should remain strong. For this reason the IFB believes that the CGT rate for business assets should not be increased from the current rate of 18%.

The IFB requests that these issues, that could affect family businesses, are considered in drafting any changes to CGT policy. We would welcome an early meeting to discuss these matters.

Yours sincerely,

Grant Gordon
IFB Director General