Institute for
Family Business

IFB Pre-Budget Submission - March 2011

The table below sets out the policy views of the Institute for Family Business on the legislative changes that could be made to boost growth in the family business sector.

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PART A. Who does the IFB represent?	
Family Business sector (Source: Capital Economics)	• Family firms account for 65% of private sector enterprises in the UK economy – 3 milion businesses and the clear majority of SMEs. • Family firms account for over 40% of private sector employment, providing jobs to 9.5 million - one job in three throughout the UK and account for 31% of GDP • Family businesses account for £73 billion per annum in UK tax receipts
Family business values	The family business sector's strength draws heavily on two mutually reinforcing values : • Entrepreneurship (innovation and change) • Stewardship (responsible management & growth of assets and resources)
IFB membership size	IFB membership includes approximately 200 family-owned companies turning over in excess of £40 billion.
PART B. Policies for Family Business Sector Growth	
1. Business Property Relief (BPR) for Inheritance Tax	Business Property Relief (BPR) is a crucial relief from inheritance tax which facilitates the transfer of family management and ownership between generations, allowing a long term approach which focuses on the growth and sustainability of the business.

1.1 Maintaining BPR	Business property relief for Inheritance Tax is crucial and should be maintained in full – this policy encourages family firms to invest for the long-run.
1.2. BPR and Joint Ventures	Legislation should be introduced to reduce the impact of the holding and control tests in the BPR rules – a change in policy would unlock additional investment by family firms in joint ventures (particuarly relevant for international growth).
1.3. Business Asset Holdover Relief (BAHR) and BPR	Create a single qualifying test that applies equally for BAHR and BPR. A new single test should be no more stringent than the "wholly or mainly" test for BPR – the complexity of the tax system in the area of capital taxes has had the effect that in many cases the effectiveness of the relief can be limited. The uncertainty is damaging family business owner's confidence in investing in some situations.
2. Capital Gains Tax (CGT) - Entrepreneurs relief	Remove the 'working in the business' restriction on entrepreneurs relief for CGT- family investors and managers are not always the same; the investors are taking the financial risk and should not be discrimated against.
3. Enterprise Investment Scheme (EIS)	To allow family members relief on EIS investments through a "commerciality test"- unlocking additional funding in early stage high risk ventures.
4. Corporation Tax (CT)	The IFB welcomes the lower CT rate and calls for further reductions- this will create more of level playing field in terms of the cost of debt & equity funding encouraging firms to maintain healthy balance sheets that will boost long-term investment for growth.
5. Family Business Trusts (FBT)	Create a road map for legislation to establish a Family Business Trust (FBT). FBT's would be restricted to business assets thus making trusts and outright ownership tax neutral. The legislation should aim for simplicity to reduce compliance costs – as a consequence family firms will be able to manage generational transitions more effectively: boosting their confidence in investing for growth.
6. Big Society **New tax breaks on donations to create a multiplier effect.**	Government could explore the possibility of giving tax breaks to employers who match their employee's charitable donations – creating a multiplier that will boost support for the Big Society agenda.

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