Institute for Family Business

2 March 2012

The Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2 HQ

Dear Chancellor,

Institute for Family Business submission to the 2012 Budget

The Institute for Family Business (IFB) is an independent, not-for-profit, politically neutral, membership association which supports the UK family-owned business sector – a total of 3 million enterprises.[i] The Government's Mid-Sized Business (MSB) growth review revealed the presence of nearly 5,000 UK family business MSBs - underlining the strategic importance of the sector. IFB membership itself accounts for more than £50 billion in turnover and includes leading family firms such as Clarks, Grosvenor, JCB, Samworth, and Wilkinsons.

With the 2012 Budget imminent the aim of our submission is to highlight proposals, set out below, that will strengthen the family business sector and stimulate growth. We also wish to contribute our views to the current taxation strategies of HM Treasury towards business generally.

Our submission is offered in the context of a family business sector that is playing an active role in promoting responsible capitalism where owners and their boards are committed to supporting long-term investment and to having regard to the interests of their key stakeholders.

Our proposals address:

- Business Property Relief and 'patient capital'
- Simplification of Business Assets Holdover Relief and trusts
- Debt and equity finance
- Access to finance

Business Property Relief and 'patient capital'

Family firms have a unique ownership model which, at its best, sustains and promotes long-term stewardship balancing the management of resources in the short, medium and long-term. This approach has been as associated with the concept of 'patient capital'. We wish to encourage family businesses to deploy long-term capital, in line with their family values and linked to an investment strategy that can create sustainable growth going forward.[ii] A parallel exists with the German

Mittelstand where profit maximisation is not generally the exclusive business goal- investment and long-term growth are generally prioritised.

The Government has recognised that BPR is a crucial relief from inheritance tax that facilitates the transfer of family management and ownership of businesses between generations allowing a long term approach which focuses on stability and sustainability. In the absence of such relief, this approach would not be possible as the inheritance tax which any successful business would attract would almost certainly require a sale, liquidation or substantial borrowing. The retention of the 100% BPR policy on IHT therefore remains the cornerstone policy to promote a healthy and growing family business sector contributing to a balanced economy.

Simplification of BAHR and trusts

There still remain barriers where owners are not able to manage their assets in a manner that is fully conducive to best shareholder practice undermining, for example, good succession planning. As we set out in our 2011 Autumn Submission (see attached) we recommend that the control tests for BAHR are simplified removing the disincentive for some owners to pass on shares to their heirs. Based on the same principle, we also recommend that the connected person's rules be altered in the case of trusts to allow owners to settle assets on trust in the case of minors, if they chose to use this form of ownership structure to manage their interest in a family business.

Debt and equity finance

Promoting entrepreneurship and investment generally relies on owners having access to finance for growth. We believe that it is important that incentives for growth finance do not distort behaviour to favour a particular form of capital. Family firms on average retain a higher proportion of earnings than non-family firms.[iii] When raising fresh capital there is a bias in the tax regime in favour of debt finance. In the case of equity its cost is higher than debt because there is no deductible allowance available in terms of corporation tax. We believe that in the long-run the economy would be healthier if the corporation taxation regime was neutral and did not have a bias towards any particular form of growth finance. We have discussed this with Exchequer Secretary David Gauke MP, building on recommendations in the Mirrlees report. We encourage the Government to commit resources to a review of debt and equity finance.

Access to finance

Another finance related matter that impacts the family business sector is the lack of access to non-banking sources of debt funding for UK firms, which puts them at a disadvantage versus many overseas competitors. In the absence of an active national bond market for MSBs these firms are forced to resort to sources of finance where the term to maturity is not matched to the funding requirement. The IFB calls for Government to work with the key stakeholders to promote the development of a bond market focused on the needs of MSBs generally, and family firms in particular.

Conclusion

We believe there is more that can be done to allow the free movement of ownership (of shares and other assets) from one generation to another in family businesses. Some relatively modest changes would unblock the present barriers and allow families to follow best practice more easily when managing succession which could feed through to improvements in management capabilities. In this respect the IFB itself is committed, through its Family Business Challenges programme of online guides, seminars and other support activities, to strengthening the competitiveness of the UK's family business sector.

We would welcome the opportunity to meet with yourself and your officials to discuss these proposals in more detail.

Yours sincerely,

Grant Gordon
Director General

Enc. IFB 2011 Autumn Submission

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[i] UK Family Business Sector (IFB 2011)
[ii] Family Business Stewardship (IFB 2011) p.20 *Financial Capital and Stewardship* *http://www.ifb.org.uk/media/124392/ifbstewardshipreport%20final%20version.pdf*
[iii] UK Family Businesses: Industrial and Geographical Context, Governance and Performance (Universities of Nottingham and Leeds, Nov 2010) p.30 *Financial Indicators*