

HMRC Consultation: Strengthening the Tax Avoidance Disclosure Regimes for Indirect Taxes and Inheritance Tax

Institute for Family Business Response

The family business sector in the UK now comprises some 4.6 million businesses. From micro start-ups to worldwide brands, the innovation, agility and resourcefulness of family owned firms is second to none.

By their very nature family firms take a long term view, built on long term stewardship of people and resources. They act as incubators for entrepreneurship, future growth and employment. In the UK almost 12 million people are now employed by family owned businesses. The family business sector is a great British success story, generating a quarter of GDP and paying £125 billion in tax.

The Institute for Family Business is the voice of UK family business. Our membership has a combined turnover of around £100bn and employs half a million people.

This response focuses on the measures detailed in Section 14 (Question 18-20). We are pleased to see that the Government has reworked the draft IHT hallmark to address concerns about the potential unintended consequences for straightforward arrangements, and specifically family businesses.

It is essential that the use of Business Property Relief to support the smooth transition of ownership of successful businesses between generations is not affected.

Without Business Property Relief, each time ownership of a business passed from one generation to another an IHT tax liability would be created, the implications of which would be that a sale, liquidation or indebtedting of the company would be required. This would distort the market by imposing a tax penalty on the transfer of family firms which is not paid by other businesses on transfer. Ultimately, without BPR, the death of a major shareholder could lead to the end of an otherwise profitable business.

BPR has a clear objective and purpose – it facilitates the continuity of family business management and ownership between successive generations, allowing businesses to develop a long term approach which focuses on stability and sustainability. Maintaining BPR, and ensuring it operates effectively and fairly, is essential to maintaining the family ownership model in the UK.

BPR provides a degree of stability for family businesses, which number some of Britain's largest and most successful companies. They are drivers of entrepreneurship and innovation and their enterprise is founded on firm family values. BPR gives them confidence to grow and create more employment, and any efforts to tackle avoidance or abusive behaviour must not undermine the core purpose of this relief.

The revised conditions make it clear that use of BPR through ordinary tax planning arrangements will not need to be disclosed. We believe this is the right approach. The Government should continue to review these changes after they are implemented to ensure that ordinary tax planning arrangements are not being caught within the scope of the conditions.