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

29 January 2016

Dear Chancellor,

I am writing to you ahead of the forthcoming Budget to offer the perspective of the private equity and venture capital industry. In 2014, BVCA members invested £4.7bn in over 700 companies employing around 130,000 people. This brings total investment over the past five years to £30bn in nearly 3,900 UK companies that employ around 490,000 people. Notably, 85 per cent of these were small and medium-sized enterprises. Our industry has significantly contributed to economic recovery across the UK, with investors looking to fund businesses from Scotland to the South Coast. Indeed, Yorkshire now represents the most attractive region outside of London, with £1.6bn of deals completed in 2015 alone. Private equity also continues to provide a vital lifeline to businesses experiencing trading difficulties, with over 17,000 jobs protected in 2014 as a result of fresh capital injections and the provision of managerial expertise.

As noted in previous submissions, private equity and venture capital firms have been broadly supportive of the general direction of economic policy under the current Conservative Government and that of the preceding coalition administration. Whilst there are of course a number of recent perturbations to be wary of in the broader global economy, continuing steady growth, falling unemployment and a determination within Whitehall to resolve the UK budget deficit are all positive developments.

Ensuring the resilience of the British economy is therefore the major task ahead, and a central element of this effort will be to foster and maintain opportunities for private investment in business. Through our recent discussions with your department on a range of issues, and in particular those relating to taxation and State Aid, we hope to have clearly demonstrated the potentially chilling effect of certain measures on the UK's status as a global hub for fund management and in turn our members' ability to finance business growth and innovation. For the remainder of the Parliament it is therefore imperative that we continue to work together to develop a stable and fair policy environment which enables our industry to strengthen its contribution to the British economy by scaling up businesses, creating jobs, and backing pioneering entrepreneurs.

The stability and predictability of the Government's approach to taxation, from both a business and an individual's perspective, is crucial to ensuring the competitiveness of the UK as a global centre for fund management. The proposed business tax roadmap should provide the comfort businesses need to make long-term investment decisions and at the same time ensure that the UK's approach to practitioners behind this capital recognises their commitment. On the latter point we remain grateful for the time spent with us on the implementation of the changes to the taxation of carried interest that were first announced in the Summer Budget. More broadly, the Government's approach to implementing the outcomes of the OECD's BEPS project will be of most significance to our members in 2016. The policies adopted on measures to address treaty abuse and interest deductibility will need to reflect the characteristics of private equity and venture capital funds and not jeopardise genuine investment activity that is not engaged in BEPS.

Domestically, we are continuing to work with the Government on the impact of State Aid rules on Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investment. The changes introduced do not sit well with broader policy objectives of overcoming market failures in SME finance and encouraging job creation, and we will be contributing to the proposed review at a European level on tax incentives. We also note that in the UK an increasingly significant portion of venture capital investment is via EIS fund managers. However, due to structural differences, some EIS managers are ineligible for the capital gains tax treatment on carried interest despite the underlying nature of the investment and risk capital being similar to traditional private equity and venture capital. This inconsistency should be explored further to ensure such managers are not disadvantaged when seeking to attract talent.

Aside from fund-focussed matters, the Autumn Statement included several welcome announcements for private equity and venture capital firms. We were particularly pleased to see that spending has been protected for Innovate UK and its network of Catapult Centres. These sector-focussed hubs have proven to be not only an excellent location for growing companies to access state-of-the-art technologies and specialist advice, but also a useful forum for meeting and developing relationships with prospective investors. We look forward to the opening of new centres such as the Medicines Technologies Catapult and will continue to connect our members to the network. The suggested merging of Innovate UK into a new body, Research UK, to improve collaboration between British universities and the business community is also a promising proposal, and we will be interested to see how this effort feeds into the Government's existing efforts to enhance the 'Eight Great Technologies'. Innovative companies thrive, of course, through their ability to export, and it is with this in mind that we also welcome the announcement that UKTI is to be refocussed towards exports and investment promotion, with significant sums invested into improving access to the organisation's resources.

If you would like the opportunity to discuss these and other issues I would be happy to do so at your earliest convenience.

Yours sincerely,

Tim Hames
Director General