

11th March 2015
The Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

I am writing to you ahead of the Budget to offer the perspective of the private equity and venture capital industry. With stable growth and falling unemployment, alongside continued tax stability and certainty, the UK remains the most competitive location in which to raise a fund and invest in growing businesses. This is evidenced by our members investing £4.2bn in over 700 British companies in 2013 alone. As we look forward to a period of sustained growth, founded on benign policy stability, we will invest more, help small companies become large ones, and support innovation across all sectors. We do though believe there are some specific areas that if tackled would help private equity and venture capital investors unlock greater levels of investment, a goal which I know the Government shares.

Scale-Up Alliance

The BVCA has recently partnered with other supporters of start-ups and fast-growing companies to form the Scale-Up Alliance, in an attempt to improve the funding landscape for this vital part of the enterprise economy. Members of this new initiative know that high-growth companies contribute disproportionately to job creation and in their potential to deliver economic growth. It is important that the public and politicians alike recognise the particular role of scale-up founders and their investors in the UK economy. So we call for policy stability, particularly in the tax treatment of equity and debt investing, the incentive vehicles available and improvements in the policy architecture available to channel the nation's savings into high growth businesses.

Unlock corporate venturing capital

We continue to believe that corporate venturing is an untapped and potentially huge source of capital for small businesses and represents the "missing piece" the Government is seeking to close the funding gap and expand SME financing. Figures from the ONS show that there is £509 billion in cash and equivalents sitting on British companies' balance sheets ready to be deployed. We also note that other countries such as France and Japan have introduced measures to incentivise corporate venturing in a bid to improve their competitiveness.

We therefore urge the Government to foster a thriving ecosystem for corporate innovation and to facilitate increased corporate venture capital investment. This could be done by reintroducing the Corporate Venturing Scheme aimed at encouraging direct investments from big business to small business, or by introducing a venture capital trust (VCT)-modelled corporate venturing scheme designed to encourage indirect investments.

The VCT scheme has proven its value to the growing economy. Its rules are already in place and would ensure that the money is targeted at the appropriate sectors and businesses. Our view is that corporates should be allowed to invest in small businesses in the same way that individuals are, to boost growth and foster innovation.

Maintaining the Enterprise Investment Scheme and improving the Entrepreneurs' Relief

The BVCA has previously recommended the expansion of the entrepreneurs' relief to help foster an entrepreneurial culture in this country and support a savings culture, by allowing more of those involved at the outset of a company to pay a lower rate of capital gains tax. The Government's moves in this area have been significant and welcome.

We recognise that increased scrutiny of tax avoidance has had a negative impact on the perception of entrepreneurs' relief. This scheme however is not used to avoid tax; instead the companies that benefit from it are high growth businesses that account for the majority of new jobs. The BVCA specifically recommends softening the 5% equity stake holding requirement to allow smaller employee shareholders to qualify, removing the current requirement that all those eligible must be conventional full-time employees of the firm in order to encourage more business angels to participate in the start-up scene and increasing the overall £10 million cap to encourage the rise of "serial" entrepreneurs.

Similarly, the Enterprise Investment Scheme (EIS) encourages people to invest in the future of Britain, by backing the next generation of successful businesses. In an environment still much constrained for small businesses in terms of access to finance, this scheme is of paramount importance to raise the equity finance so crucial to early stage growth. We are convinced that any uncertainty or worsening of conditions attached to EIS and entrepreneurs' relief will hamper economic growth and risks jeopardising the reforms that have already been achieved. We therefore urge the Government to retain these schemes and where possible to improve them.

Delivering an increase of the investment limit under the SITR and introducing a Social VCT

We welcome the introduction of the Social Investment Tax Relief and the commitment by the Government at the Autumn Statement to increase the annual investment limit under the Social Investment Tax Relief (SITR) to £5m, provided EU State Aid clearance is forthcoming. The BVCA has long been an advocate of an ambitious investment level to really seize the momentum in the social investment market. We can only urge the Government to deliver on that promise.

The Government also introduced the proposal for a "Social VCT" that would allow investors to make indirect investments via a separate legal structure, modelled on the existing VCT. The BVCA believes the introduction of a Social VCT presents a real opportunity to expand the number and type of investors. We would be delighted to work with the Government on the details and implementation of the scheme to ensure the attractiveness and take-up of a social VCT by the mainstream investment community.

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