Key to our future is encouraging economic growth – but how do we do this? One approach that ICAS President Sir Brian Souter is proposing is to create a new, more accessible, tax relief to encourage investing in small entrepreneurial businesses, as John Hamilton explains.

“Small businesses – which account for 98% of all enterprises – are often the lifeblood of local communities”
For example, where an individual wishes to set up, say, a bakery, a shop, or a digital workshop, EIS and SEIS would be unduly complicated and inaccessible sources of funding.

As such, the SEIS should be made simpler and more accessible for all and should be delivered directly to the businesses at that important start-up phase. We would call this simpler version the Small Business Enterprise Scheme (SBES) – for how this would work, see box out, left.

ADDRESSING TAX AVOIDANCE CONCERNS

Anyone involved in tax policy formulation knows of the concerns around tax avoidance, which is why a number of conditions would need to attach to the investment. These may include, for example, that the business should be involved in “enterprise” and not speculation. In revising and simplifying the SEIS rules, the complex anti-avoidance rules on “approved trades” would be put aside; and enterprise could simply be defined as “a venture to make a profit through services or trading”.

The investment would need to be made in cash to a bank account of the business; the business would need to be “small” with turnover under, say, £250,000 per annum; and there should be at least one employee who is not related to the business owner, but fewer than, say, 20 employees. The investment would need to remain in the business for a minimum of three years.

PROCESS

Any tax relief for small investments needs to have administrative measures that are easy to work with and which could be designed to encourage tax compliance. We believe that the process by which relief is claimed could follow the current gift-aid arrangements which work well, whereby the business would claim a 20% basic rate tax credit from HMRC. This has the benefit of “declaring” the business and the investor/investment to HMRC, bringing new start-up businesses into the formal economy but without the need for complex forms.

There would also be a mechanism that required confirmation that the investment was made to a UK bank account operated by/for the business. And with many small businesses’ digital accounting and tax packages, the accounts interact with the bank account.

If this relief is to democratise investment and support community-type funding, then letting the business claim and receive the reliefs would be simpler than requiring a large number of individuals to claim for relief.

TIME PERIOD IN WHICH SBES WOULD BE AVAILABLE

The SBES should be introduced for three years to see if it encourages entrepreneurial activity and to stimulate investment. There should be a sunset clause to ensure that the relief: (i) is reviewed as to its effectiveness; and (ii) it will come to an end without further legislative action. It could, of course, be continued at the end of the three-year period.

We recognise that care will be needed in the definitions. For instance, if the business is a company, “relatives” would need further definition, presumably as relatives of the main shareholder/director. There will also be a need for clear and punitive anti-abuse provisions. However, it should not be beyond our abilities to make this work and to encourage entrepreneurial businesses to grow, with all the benefits that this can bring to the community in which they are based.

SUPPORTING ENTERPRISE

Those of you who know Sir Brian will be aware of how passionate he is about business and the role of the entrepreneur to take risks and to innovate, finding new ways to do things and contributing to a prosperous economy.

This is why he believes that people who want to support local businesses to grow and prosper should get access to the same kind of investment tax reliefs that are available to the better off.

Sir Brian notes: “Any good economic strategy should include a strong emphasis on small or family businesses, as well as investment by MNEs [multi-national enterprises]. Everyone should have the opportunity and be supported in having a go at setting up in business. “The objective would be to provide a simple relief, with widespread application, which will encourage local economic activity. This should be part of a strategic policy to retain money and commerce within local economies and to give individuals a stake in local businesses.”

“Any tax relief for small investments needs to have administrative measures that are easy to work with”

JOHN HAMILTON CA
is Group Taxation Director, Stagecoach Group