



**The Quoted
Companies Alliance**

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

21 February 2008

Dear Chancellor,

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation representing smaller quoted companies (SQC), which we define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m. Appendix B to this paper gives more detail about the QCA.

We write in connection with the new entrepreneurs' relief from capital gains tax (CGT) that was announced by you on 24 January 2008.

While we broadly welcome the introduction of this relief we have two significant concerns with how the relief will operate in connection with employee share schemes. We understand that the draft legislation for the new relief is currently being prepared and we hope that our comments and concerns can be addressed in that draft legislation.

We will be pleased to discuss our concerns with you; please contact Nicholas Stretch (Chairman of the QCA Share Schemes Committee) on 0207 367 2862 or Chris Booker (Member, QCA Share Schemes Committee) on 0207 694 1932. Thank you for your time in considering these proposals. A full list of Committee members is detailed at Appendix A.

1. Interaction of new relief with EMI share options

Enterprise Management Incentive (EMI) share options have been granted by a significant number of smaller listed and private companies since they were introduced by the Government in 2000 as part of the Government's measures to improve long-term productivity in the UK. The recent survey (Use of EMI and its perceived impact) published by HMRC on 8 February 2008 showed the success that EMI has had in acting as an effective retention mechanism, improving staff motivation and improving overall company performance.

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One of the key tax advantages of EMI share options was that taper relief was measured from the date of grant of the share option (paragraph 15, Schedule 7D TCGA 1992). This enabled the rate of CGT payable by EMI option-holders to be reduced to an effective rate of 10% if the option was held for at least two years (and other conditions were met).

We note that one of the conditions for claiming the new entrepreneurs' relief will be that an individual will need to hold at least 5% of the ordinary share capital of a company for at least one year and this shareholding enables the individual to exercise at least 5% of the voting rights in that company.

Further to a telephone conversation with the Capital Gains Tax Team we understand that it is not the current intention of the Government to allow EMI share option-holders to measure the commencement of this one year period from the date of grant of the EMI option as was the case with taper relief. Many EMI options only become exercisable on a future event, such as a change of control, where the holder of the option may be required to sell the shares shortly after exercise. Hence in these cases EMI option-holders will not have the ability to benefit from entrepreneurs' relief. Consequently, many EMI option-holders will be required to pay CGT at the new flat rate of 18%.

We believe that such a result will detract from the attractiveness to smaller listed and private companies of establishing and operating EMI share option plans.

Proposal

Our proposal is that a similar provision should be introduced for entrepreneurs' relief as existed for taper relief to allow the requirements of the one year holding period to be measured from the date of grant of EMI share options to allow the holders of EMI options to potentially benefit from entrepreneurs' relief.

2. Level of required shareholding to qualify for relief

As mentioned above, we note that one of the conditions for claiming the new entrepreneurs' relief will be that an individual will need to hold at least 5% of the ordinary share capital of a company for at least one year and this shareholding enables the individual to exercise at least 5% of the voting rights in that company.

While we can appreciate the Government's desire to avoid the new relief being abused, we believe that the 5% limit will exclude many bona-fide directors and employee shareholders of smaller listed and private companies who participate in management equity and employee share plans being able to claim the new relief. Many of these individuals often introduce risk capital to their employing company that is significant in relation to their personal wealth; in addition, they are often the driving force in these

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companies being successful and creating employment opportunities for significant numbers of other people in the local communities in which they operate.

We note that when taper relief was introduced there was a requirement for a 5% shareholding together with the shareholder being a full time working officer or employee but that these requirements were subsequently relaxed by the changes made by s.67 Finance Act 2000. In the Inland Revenue/HMRC press release announcing these changes reference was made to the difficulty that a fixed percentage limit could cause such as on a bona fide restructuring or refinancing where existing owners' shareholdings could be diluted. We believe that the new entrepreneurs' relief should be made available to a wider population of employee owners and stakeholders.

We believe that the £1 million lifetime limit on the gains qualifying for the new relief will limit the availability of the relief and hence the cost of it to the Exchequer.

Proposal

Our proposal is that the size of the required shareholding and voting right limit should be removed so that a greater number of entrepreneurs are able to benefit from the relief and to simplify the operation of the relief.

Yours sincerely,

A handwritten signature in black ink that reads "John Pierce". The signature is written in a cursive style and is positioned above a horizontal line.

John Pierce
Chief Executive

cc The Rt Hon Gordon Brown MP – Prime Minister, First Lord of the Treasury and Minister for the Civil Service

APPENDIX A

THE QUOTED COMPANIES ALLIANCE SHARE SCHEMES COMMITTEE

Nicholas Stretch (Chairman)	CMS Cameron McKenna LLP
David Baxter	New Bridge Street Consultants
Chris Booker*	KPMG LLP
Stephen Chater	Addleshaw Goddard
Sara Cohen	Lewis Silkin LLP
James Dean	Burges Salmon
David Ellis	BDO Stoy Hayward LLP
Amanda Flint	Chiltern (part of BDO Stoy Hayward)
Ian Fraser	K & L Gates LLP
Mathew Gorringe	Eversheds LLP
Colin Kendon	Bird & Bird
Tarl Lall	Charles Russell
Nigel Mills	MM&K Personal Financial Management Ltd
Colin Patterson	The RM2 Partnership
Robert Postlethwaite	Postlethwaite & Co
David Tuch	Hewitt Associates
Nick Wallis	Smith & Williamson Solomon Hare LLP
John Pierce	Quoted Companies Alliance
Laurence Davis	Quoted Companies Alliance

*Main Author of paper

APPENDIX B

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of smaller quoted companies (SQC), their advisers and investors. It was founded in 1992 and originally known as CISCO.

The QCA has nearly 400 members. 75% of these are smaller companies quoted on a stock market, or companies with aspirations to join. 25% are drawn from the full range of professional advisory firms whose business is either wholly or significantly derived from servicing smaller companies.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- introduction of, or changes to, legislation affecting SQCs
- corporate governance
- share schemes for employees
- trading, settlement and custody of shares
- structure and regulation of stock markets for SQCs; Financial Services Authority (FSA) consultation
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various Accounting Standards Boards
- company law reform

The QCA is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in twelve EU member states.

QCA's AIMS

As the only organisation dedicated solely to the particular interests of the SQC sector, the QCA has three primary goals:

Identification

To create a distinct identify for the SQC sector, and demonstrate its value to the stock markets and the UK economy.

Representation

To pro-actively pursue and represent the interests and requirements of the SQC sector to enable it to increase its contribution and ensure that its specific needs are addressed.

Affiliation

To build a strong and vocal collective body of support from within the SQC sector, among corporate directors and securities industry leaders.

DEFINITION

The Quoted Companies Alliance definition of Smaller Quoted Companies (SQC) is:

- all fully listed companies – excluding the top 350 ie with market cap of £340m+
- plus companies quoted on AIM
- plus companies quoted on PLUS

The QCA also represents companies planning to float.

SQCs contribute to the economy:

- there are approximately 2,000 SQCs
- they represent around 85% of the total of quoted companies by number
- they employ 2 million people
- this figure represents around 10% of total private sector employment
- every 5% growth in the SQC sector could reduce UK unemployment by a further 100,000
- They generate:
 - corporation tax paid of £2.0 billion pa
 - income tax paid of £5.0 billion pa
 - social security paid of £2.0 billion pa

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

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