



**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

19 January 2009

Dear Chancellor,

We have studied your Pre-Budget Report and have the following comments to make on behalf of small and mid-cap quoted companies:

General Corporation tax measures

Small Companies Tax Rate

We are disappointed that the increase in the rate of corporation tax applicable to smaller companies has merely been postponed rather than reversed. It is now clear that the increase from 18% was a step that should never have been taken and in our view a planned reversal should be announced and implemented without delay.

Cash flow assistance

This is of paramount importance now that bank credit is so tight. Businesses, which are otherwise healthy, may be brought to their knees by difficulties with regard to cash flow. We therefore welcome the government announcement of the HMRC Business Payment Support Service. We are pleased to see that this will apply to all taxes paid by business including Corporation Tax, VAT, PAYE, Income Tax and National Insurance Contributions. We are however concerned at the informal nature of this facility and until we are able to gain a clearer understanding of the parameters that will apply it is difficult to be too enthusiastic. It is not clear just how much resource will be given to this new initiative nor how much flexibility will be afforded to taxpayers. In addition to a general statement that HMRC will be "sympathetic" to the plight of struggling businesses we would like to see concrete steps that would not require specific appeal to the BPSS. In

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particular we believe that a significant uplift of the parameters that bring companies into the quarterly payment regime would provide a clear and unambiguous means by which companies could plan their tax cash flow exposure.

Loss Carry Back

We welcome the proposed increase in the period over which losses can be carried back. We are disappointed to note that a limit of £50k has been applied and that the facility will only apply for one year. We would have preferred a much higher upper limit (say £300k). In addition we believe that the value and extent of this relief should be kept under review. Whilst we would hope that the need for such relief would have receded by 2010 we are far from convinced that this will be the case. It may well be that the facility to carry back losses will need to apply for subsequent accounting periods. If this is the case it is likely that both the limit of the relief and the number of years to which such losses can be carried back will have to be increased if the value of the relief is to be maintained.

Enterprise Investment Scheme

We note that as part of the PBR tax announcements the Treasury published its response to proposals put forward for the reform of EIS. We are disappointed to note that despite an extensive consultation process there has been little by way of radical or bold reform. Given that the original concern was that uptake of the scheme was not as high as the government would like to see we believe that the eventual response borders on the complacent.

We have already, as part of the original consultation process, supplied our detailed analysis of the shortcomings of the scheme. We would however like to draw attention to two particular features where we had hoped for more movement on the government's part:

Gross Assets Test

One of the points that we and other respondents made was that the gross assets test was a strange and uncommercial means by which to measure the size of a company. It succeeds in excluding from the scheme those companies whose trade requires a high asset base. We do not understand why the usual EU measures (involving a two out of three test) should not be used. The current approach enjoys the worst of both worlds.

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Loan Funding

We are disappointed that more flexibility has not been afforded to the means by which funding is obtained. In seeking to clarify the treatment of loan conversions the responses state that an advance payment for shares will be acceptable where "the payment was never intended as a loan". We are grateful for this clarification, as it would appear to indicate that such cases as "Blackburn" should never have been brought.

More importantly we believe that additional flexibility is required in the scheme. The process of persuading a potential investor to participate in a company is a gradual one. One of the steps on this path may involve accepting a loan when equity funding would be preferred. The current rules provide no incentive to convert such a loan to capital. This would be a clear commercial and legal step and we fail to understand why someone who has lent money to a company should be barred from enjoying the benefits of the scheme when they want to make their involvement more permanent.

If you would like to discuss these views we will be pleased to do so.

Yours sincerely,

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

John Pierce
Chief Executive