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19 January 2009

Dear Sirs,

**2009 Pre-Budget Report**

**The Enterprise Investment Scheme (EIS)**

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies (SQCs), and, therefore, takes a close interest in schemes designed to encourage entrepreneurship and investment in growing businesses.

**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.

## **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.

Yours faithfully,

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