



**The Quoted
Companies Alliance**

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The Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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ministers@hm-treasury.gov.uk

18 May 2009

Dear Chancellor,

Budget 2009: Building Britain's Future

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of 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.

The QCA is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in thirteen European countries.

RESPONSE

We write in connection with the Budget Report of 22 April 2009 and the publication of the Finance Bill on 30 April 2009, and further to our letter to you dated 19 January 2009 (copy attached for reference).

Whilst welcoming BN04 introducing a temporary first-year allowance, we believe that there is little in this Budget Report to give our membership in the small and mid-cap quoted company sector any cheer and there are two measures in particular, BN62 Corporate Transparency: Personal Tax Liability of Senior Accounting Officer of Large Companies and BN47 Limiting Tax Relief for High-Income Individuals (Anti-Forestalling), which we would ask you urgently to reconsider.

1. BN62 Corporate Transparency: Personal Tax Accountability of Senior Accounting Officers of Large Companies

Although the QCA represents "smaller quoted companies", we note that some of our membership would already fall within the "large company" sector and would urge you to redefine this to truly 'large' companies. Moreover the Regulatory Impact Assessment (RIA) specifically states that the measure "could be extended later to other companies".

We are astonished that such a measure should be introduced on several grounds.

It is clear that this measure "draws on the US 2002 Sarbanes-Oxley Act". At a time when the US administration is beginning to realize how damaging this legislation has been we fail to comprehend why ministers believe this is a good model. One of the worst aspects of that regime is the threat of imposition of fines or penalties on individuals rather than the business as a whole.

Despite statements to the contrary in the RIA, this measure would increase costs for all affected businesses and will have little if any benefit. The natural consequence of introducing this measure is that the company will be forced to carry out a lengthy and costly exercise just to demonstrate to itself that its internal reporting function is, indeed, up to the required standard. This would no doubt involve the costs of some sort of "company health check" carried out by external advisors. Past experience demonstrates that any new level of culpability inevitably introduces additional administration. It does not help at all that the key phrase "appropriate tax accounting arrangements" is given a general and potentially wide ranging definition.

The lack of consultation undermines the significant work that has been achieved following the extended recent consultations on the HMRC Charter, covering HMRC's powers, deterrents and safeguards. We have a new penalty regime introduced recently across the major taxes (and to be extended next year) whose approach is to award good reporting and voluntary disclosures (in particular the new suspended penalty regime has been designed to encourage improvements in reporting). The introduction of sweeping new powers and obligations invalidates the basis of these negotiations.

Now, when companies are struggling to cope with extremely adverse trading conditions, is not the time to be increasing costs or red tape, or discouraging overseas talent from investing or moving to the UK.

Our recent experience of measures introduced by way of ministerial fiat is that they make for bad law and inevitably require detailed revision or replacement. We would urge you to reconsider this legislation by delaying its implementation by 12 months to allow proper consultation to take place as is envisaged by the Better Regulation code.

2. BN47 Limiting Tax Relief for High Income Individuals (Anti-Forestalling)

We are disappointed in the rise to 50% income tax from 2010. This measure, when considered alongside the abolition of taper relief and rushed-through changes to the non-domiciliary rules in 2008, we believe can only have an adverse impact on individual entrepreneurs and "UK plc".

Similarly we are disappointed at the proposed restriction of tax relief on pension contributions to the basic rate of income tax for those individuals affected by the 50% income tax rate. This seems to run contrary to the greater than ever need to encourage saving and the provision of an adequate personal pension.

However, we suspect that the measure is here to stay, so we are concentrating on one particular aspect of it - the anti-forestalling measures announced in BN47.

Anti-forestalling measures have historically been used to prevent tax *avoidance* where a new regime is announced (although we would note that there was no general anti-forestalling legislation in October 2007 when it was announced that taper relief would be abolished the following year).

Accordingly, we find it a cause for concern that the Government effectively views the making of sensible plans for retirement (including basic tax planning involving regular and variable pension contributions) as "tax avoidance". We believe strongly that those individuals who will be subject to the new rules in 2011 should be allowed to plan accordingly in terms of their pension contributions and that the anti-forestalling legislation is unnecessary and should be abandoned.

We also note with concern the disjunction between these measures and those applying to defined benefit schemes. Planned increases in defined benefit schemes, whether or not these exceed £20,000, are excluded from the new charge even though there may be a significant uplift in contributions. We do not believe that this creates a level playing field with those contributing towards money purchase arrangements and at the very least the same £20,000 limit should apply.

In closing, we wish to point out our disappointment that the loss carry back provision remains capped at £50,000 and has not been increased to the £300,000 level we suggested in our letter to you on the 19th January (enclosed), which would be of much more practical help to our sector.

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,



John Pierce
Chief Executive

Enc: Letter sent to Chancellor, Pre-Budget Report, 19 January 2009

cc: Angela Eagle MP, Exchequer Secretary