



**The Quoted
Companies Alliance**

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David Harris
HM Revenue & Customs
Area 3/36
100 Parliament Street
London, SW1A 2BQ

david.harris@hmrc.gsi.gov.uk

1 February 2010

Dear Mr. Harris,

HMRC – Venture Capital Schemes – Draft Legislation (EU State Aid Approval)

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Tax Committee has examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

We welcome the opportunity to comment on HMRC's draft legislation implementing changes to the Venture Capital Schemes (including the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs)).

Improving the Venture Capital Schemes

We believe that the VCT scheme in the past has been successful in encouraging new investment into smaller quoted companies. However, changes to the legislation in recent years have generally had a negative and restrictive impact on the scheme. At a time when banks are reluctant to lend and liquidity is low, more needs to be done to encourage equity funding in small and mid-cap quoted companies and, more importantly, maintain capital levels for this sector.

As a result, we strongly support the AIM VCT Managers Group and London Stock Exchange's proposal to allow VCTs to invest in the secondary market. This will protect VCTs from an overall withdrawal of capital and help increase trading in the secondary market. Furthermore, this will help to increase liquidity in markets, at a time when investor confidence and market participation is low.

State Aid Approval of Venture Capital Schemes

We understand that the changes being proposed are necessary in order to secure EU State Aid Approval for both the EIS and VCT schemes. We do not have any specific comments on the drafting, but believe there are two areas that could benefit from further guidance from HMRC on, including:

- the definition of ‘a company in difficulty’; and
- the meaning of ‘permanent establishment’.

Further guidance from HMRC would clarify how these new requirements are triggered.

Size of Businesses Benefiting from the Schemes

We welcome the announcement that the consultation period for the change of definition of small businesses has been extended. We believe that this area needs further consideration to fully understand the effects of the change on VCT and EIS investments.

We also welcome the announcement from HMRC that the new size definition will only apply after the final announcement of the detail of any legislation, and as such, will not apply retrospectively to funds already raised.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'TDWL', is written over a light blue rectangular background.

Tim Ward
Chief Executive

Quoted Companies Alliance Tax Committee

Bernard Sweet (Chairman)	Consultant
Paul Barnes	KPMG LLP
Chris Bond	PKF LLP
David Boyd	Mazars LLP
Jason Collins	McGrigors LLP
Tim Crosley	Memery Crystal LLP
Paul Fay	Horwath Clark Whitehill LLP
Stephen Lane	Fox Williams LLP
Neil Pamplin	Grant Thornton LLP
Michael Ridsdale	Wedlake Bell
Amanda Solomon	Charles Russell LLP
Vijay Thakrar	Deloitte LLP
Tim Ward	QCA
Kate Jalbert	QCA

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

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
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European **Issuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
 - corporation tax payable of £560 million per annum
 - income tax paid of £3 billion per annum
 - social security paid (employers' NIC) of £3 billion per annum
 - employees' national insurance contribution paid of £2 billion per annum

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

For more information contact:

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