QUOTED COMPANIES ALLIANCE

Press Release
19 November 2014

Quoted Companies Alliance calls for rethink on taxes to boost UK's engines for growth

The Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies, today calls on the Chancellor to level the playing field for equity and debt in corporate funding.

George Osborne should use the upcoming Autumn Statement to make the costs of raising equity tax-deductible to create a level playing field and encourage more companies to raise equity, according to the Quoted Companies Alliance's submission to HM Treasury.

The proposal details how the move could work and compares the tax treatment of raising equity across 19 European states, highlighting the UK's 'extreme' position. Against an estimated £60m cost to the Exchequer in any year, the effect would be to liberate companies to raise funds far more cheaply and efficiently, creating wealth and jobs.

Tim Ward, Chief Executive of the Quoted Companies Alliance, comments: "The tax treatment of fundraisings has been one of the features of equity markets that has prolonged the effects of the 2008 financial crisis. As we start to emerge from this historic upheaval, we urge the Government to settle this anomaly once and for all to the benefit for wealth-creating businesses and their stakeholders across the UK.

"The inconsistency is all the more unsustainable because recent case law confirms VAT on the costs of raising equity funding are deductible if a company's activities are taxable."

For a small and mid-size company, the costs of raising equity represent a big percentage of funds raised and thus can be a major disincentive to listing on a public equity market. The current arrangement distorts the tax system. This is widely discussed in the context of the global financial crisis but effectively ignored by a Government, perhaps understandably keen to maximise tax receipts.

The anomaly puts the UK at a competitive disadvantage to Austria, Belgium, Bulgaria, France, Germany, Greece, Hungary, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Russia, Serbia, Spain, Switzerland and the Ukraine, which all provide some form of tax relief for raising equity finance.

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The Quoted Companies Alliance believes raising debt is not a long-term solution for small and mid-size companies. The focus should be on long-term capital – equity finance. Tax relief would level the field and encourage companies to consider public equity on its merits. The Quoted Companies Alliance's research suggests growth companies would benefit most from the change.

The Quoted Companies Alliance estimates the measure would not be expensive to implement, costing the Exchequer approximately £60m over 12 months, based on an analysis of the number of IPOs (132 of which 102 raised money) and further issues (1,258) on the London Stock Exchange in 2013.

Other potential measures highlighted by the Quoted Companies Alliance to stimulate business are removing the arbitrary 5% threshold for capital gains tax Entrepreneurs' Relief for shares held by employees and officers, and simplifying the UK's highly complex tax system generally.

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Notes to editors:

1. The Quoted Companies Alliance's Proposals for Taxation Reform: 2015 Budget are available at: www.theqca.com/budget2015

2. The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. We campaign, we inform and we interact to help our members keep their businesses ahead. Through our activities, we ensure that our influence always creates impact for our members. For more information please visit www.theqca.com.