UK budget 2015 and its impact on entrepreneurs

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The focus of this year's Budget was individuals, particularly savers. Business entrepreneurs appear to have been left largely unaffected by this year's Budget, but a number of minor changes and proposals may be of interest.

Venture capital and enterprise investment schemes

The British Business Bank is launching a pilot 'Help to Grow' programme to increase the supply of growth loans (£500,000 and £2 million) to firms. Budget 2015 announces a request for proposals to deliver the pilot, which will facilitate up to £100 million of finance for growing businesses.

The government will amend the Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS), and Venture Capital Trusts (VCTs) to ensure that the UK continues to offer significant and well-targeted support for investment into small and growing companies, including:

- requiring that companies must be less than 12 years old when receiving their first EIS or VCT investment, except where the investment will lead to a substantial change in the company's activity
- introducing a cap on total investment received under the tax-advantaged venture capital schemes of £15 million, increasing to £20 million for knowledge-intensive companies
- increase the employee limit for knowledge-intensive companies to 499 employees (from 249)

The government also plans to remove the requirement that 70% of the funds raised under SEIS must have been spent before EIS or VCT funding can be raised.

Business rates

The government is conducting a broad review of business rates to ensure that they are fit for purpose for a 21st century economy with a view to reporting its finding by Budget 2016.

The review will consider changes to business rates in view of trends in the use of non-domestic property and in response to concerns raised by ratepayers that the business rates system is in need of modernisation. The government's preference is for business rates to remain a tax based on property values, collected by local authorities. However, the government welcomes suggestions of alternative ways of raising local business taxes and how they could work in practice. Terms of reference were published on 16 March 2015.

Funding for science and innovation

In order to support science and innovation, the government plans to commit £40 million for the development of demonstrator programmes, business incubator space and a research hub to develop applications for Internet of Things technologies in healthcare and social care, and Smart Cities.

Financial technology

Competition in banking, also described in 'Banking for the 21st Century: driving competition and choice' is to benefit from the government's approach to establishing a supportive framework for legitimate digital currency businesses and helping financial technology (FinTech) firms gain access to banking data.

To promote the UK as the world's leading FinTech hub, the government announces further support of innovation across the whole of the UK while safeguarding financial stability and consumer protection. The following initiatives are worthy of note:

- the Financial Conduct Authority's (FCA) 'Project Innovate' [1] will work with HM Treasury and the Prudential Regulation Authority (PRA) to:

- investigate the feasibility of developing a regulatory ‘sandbox' for financial services innovators (this involves relaxing regulatory requirements while new rules are undergoing consultation); and
- identify ways to support the adoption of new technologies to facilitate the delivery of regulatory requirements – so-called ‘RegTech';
- Innovate Finance[2] has agreed to deliver its FinTech regional strategy through local partnerships – already been established in Leeds, and planned for Manchester and Edinburgh by April, and in Newcastle, Bristol and other centres before the end of the year.

Research and development (R&D) relief for corporation tax

To ensure that R&D tax credits remain effective in helping small businesses grow the government plans to implement measures to improve accessibility to R&D tax credits, including issuing new guidance aimed at smaller firms and setting out a roadmap for improvements over the next 2 years.

Entrepreneurs' relief for capital gains tax

Entrepreneur's Relief provides for a 10% capital gains tax rate on the first £10 million gains arising on the disposal of qualifying interests in trading businesses. From 18 March 2015, changes have been introduced to counter apparent use of the relief contrary to policy intention by tightening of certain conditions:

- The “associated disposal rules” give relief where an individual disposes of personal (as opposed to business) assets in connection with his withdrawal from the business. “Withdrawal” from the business by the individual now requires a disposal of at least a 5% shareholding, or a 5% partnership share in order for an associated disposal of a personal asset to attract relief.
- Employees with small stakes in their private equity businesses or in structures that underwent management buy-out often took advantage of the relief. The government views this as counter to policy intention, therefore shareholders in such joint venture companies will only benefit from relief on disposals where they have a significant stake and the business is a genuine trading business.
- The application of the relief to a disposal of goodwill to a related close company, which had been perceived as being exploited for tax avoidance purposes, will also be abolished. This will restrict the ability of partnerships to access a profit stream at a lower rate of tax by restructuring as a company.

Where does that leave things?

In summary, although the 2015 Budget was no jackpot for small businesses, there are a number of measures and proposals for entrepreneurs to take note of which may yet bring some benefit if they are implemented.

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[1] an initiative to help start-ups and established businesses launch innovative ideas: www.fca.org.uk/firms/firm-types/project-innovate

[2] a cross-sector, member-driven organisation that aims to accelerate the UK's leading position in global financial services by directly supporting the next era of technology-led financial services innovators, large and small, who are bringing new financial products and services to consumers': www.innovatefinance.com

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