

Spring Budget Submission

Family Business UK

January 2024



Summary

In the UK, we are sitting on an enormous resource of entrepreneurialism in the form of our family business sector. Family businesses make up 90 per cent of the UK's total private sector firms, employing 14 million people and contributing over £200 billion through tax receipts each year alone.

Now more than ever, the Prime Minister's focus on long-term decisions is vital to support businesses in overcoming immediate challenges while delivering long-term growth. Family Business UK makes the following recommendations for inclusion in the Budget that can help support the family business sector in putting the UK economy back on the road to recovery:

- Commit to maintain Business Property Relief (BPR) in full
- Bring Business Assets Holdover Relief (BAHR) eligibility into alignment with BPR to enable a smooth transition in ownership between generations
- Replace the Apprenticeship Levy with a new, fit-for-purpose Future Skills Fund.

Certainty for Long-term Growth

We have been pleased by the government's renewed focus on providing long-term solutions. Family businesses agree that we need an economic plan which supports long-term investment - giving businesses the confidence they need to plan for the future – and promotes the skills, jobs and opportunities needed to unlock this country's potential.

The recommendations in this submission focus on unlocking growth. The family business model engenders a long-term outlook where leaders always have an eye on the long-term health of the business that they aim to pass on to future generations in a stronger state than they took it on. Those fundamental strengths of the model need to be supported by long-term policy decisions, which ensure family leaders have the environment to invest and create jobs over the long-term.

Recommendation: *Commit to maintaining Business Property Relief (BPR) in full, and supporting succession transition planning by aligning Holdover Relief eligibility with BPR.*

Over recent months, there has been constant speculation around plans to reduce or remove Inheritance Tax. As an organisation which represents hundreds of family businesses across the UK, the uncertainty around the future of Inheritance Tax concerns many of our members.

Stability around Inheritance Tax and **Business Property Relief (BPR)** (now called Business Relief but still commonly referred to as BPR) is critical to the ability of family businesses to deliver on their long-term ambitions.

Families build their businesses over the long-term. They scale, innovate, and create jobs over generations. To do that, they need long-term certainty over the ownership of the business, and how the tax system relates to that. Therefore, over the short-term and at the Budget, we would urge the government not to make any significant policy changes around the Inheritance Tax without consulting businesses first. Taking away some of the tax reliefs, such as BPR for example, would significantly damage the UK family business sector and its ability to provide future jobs and investment.

BPR is a positive example of how tax reliefs can support business growth. Since its introduction in 1976, BPR has given business owners the confidence to focus their efforts on building their businesses and competing globally, while also providing further incentive for families to grow their businesses. It is well designed and understood by business owners and gives them the confidence to invest and plan for their businesses to continue trading and providing employment after their death.

Without BPR, each time ownership of a business is passed from one generation to another, family business owners would be hit with significant Inheritance Tax bills, which can jeopardise the long-term future of the business. In these cases, family businesses would be required to be sold, liquidated, or burdened with massive debts just to continue trading. This would put them at an enormous disadvantage compared to their counterparts and would in essence represent a tax on the family business model.

BPR therefore enables family businesses to compete on a level playing field compared to their non-family-owned counterparts. To give some further figures, 85,000 family SMEs are expected to transfer ownership of their business to a new generation each year. BPR affords these firms an option to plan for a stable succession while maintaining ownership stability. It also plays a key role in ensuring that these small and medium firms can focus on scaling up their businesses. Around 77 per cent of family SMEs are estimated to be first generation businesses.

We absolutely share the government's belief that the tax system must operate effectively and fairly and that all reliefs must be rigorously justified and demonstrate that they serve a clear purpose. BPR does just that, enabling family businesses to provide employment and growth and plan with certainty for the future. We urge the government to commit to maintaining BPR in full.

Recommendation: *Bring Business Assets Holdover Relief (BAHR) eligibility into alignment with BPR to enable a smooth transition in ownership between generations.*

Not all transfers of family business occur at death, however. Some business owners will phase their departure from the company, often passing part of the business ownership to the next generation upon retirement. This is a sensible and efficient part of planning management and ownership succession in a business.

For transfers made before death, business owners may be eligible for **Business Assets Holdover Relief** (BAHR) from Capital Gains Tax (CGT).

Both BAHR and BPR protect family firms from the danger of having to sell a business to pay a personal tax bill when no cash disposal is intended or planned. It also ensures family businesses do not have to hold cash aside for future tax bills and can instead continue to reinvest profit into the business.

However, to qualify for these reliefs, firms must pass different trading tests to BPR, creating unnecessary confusion and challenges for family businesses. These act as a barrier to delivering an efficient transfer during an owner's lifetime.

To support smoother succession planning, the government should bring BAHR qualifying criteria into alignment with the existing BPR rules.

Ultimately, a smooth transition between generations is best for the family, the business, and the employees. It allows families to focus on what matters most: creating and keeping good jobs locally, investing in their communities, taking action on the big issues such as climate change, and securing investment for the long-term.

Recommendation: *Replace the Apprenticeship Levy with a new, fit-for-purpose Future Skills Fund.*

Put simply, the Apprenticeship Levy is not working. For family businesses, the current skills and apprenticeship regime is too complicated, inflexible and burdensome. While businesses want to train young people and upskill their existing workforce, administrative complexities are damaging long term skills provision.

Funds allocated for training in one of the home nations often cannot be spent in another. Training courses are often of poor quality or do not meet the present day needs of businesses. In order to have a skills regime that is fit for the future, and that unlocks growth, we call for an overhaul of the employee training landscape, by refocusing the Apprenticeship Levy and making the skills landscape work for businesses and individuals.

It is our view that the current skills and apprenticeship system needs to be revamped and replaced with a more holistic Future Skills Fund. This fund, rather than just an Apprenticeship Levy, would provide greater flexibility on how funding can be used to encompass apprenticeship support, training and development for existing employees. This should allow businesses to use the allocated Levy funding on a greater range of training such as internal training, and bite-sized or modular training courses.

Transitioning to a such a Future Skills Fund will give businesses the boost needed to meet the challenges of the future. This includes transitioning to net zero, making effective use of digital technologies and harnessing the power of Artificial Intelligence.

Alongside this shift in how the Levy can be spent, we also propose the following to improve the existing regime:

1. Providing greater flexibility in the use of the Fund to support lifelong learners and apprentices to study, for example through support on transport or living costs.
2. Removing barriers between the nations of the UK to ensure money can be spent where it is most needed, not necessarily where it is paid.
3. Giving a greater say for businesses in the development of the local curriculum and teaching materials for skills development.
4. Renewing focus on supporting people to learn and upskill throughout their career. This should include when re-entering the workforce after a period of absence to ensure that they have access to skills and training in order to meet current and future employment needs. These should be tailored to the businesses and staff, including offering programmes such as refresher courses for people returning to work.

About Family Business

Family businesses are the backbone of the UK economy and the bedrock of our communities. For generations, family businesses have put people at the heart of business. They offer a model of sustainable and responsible business that others can learn from, be part of, work with, and even adopt.

The family business sector in the UK makes up 90 per cent of all private sector firms and employs almost 14 million people.

In 2020, family businesses contributed an estimated £575 billion to GVA; equivalent to 51 per cent of all private sector employment in the UK. From micro start-ups to worldwide brands the innovation, agility and resourcefulness of family-owned firms is second to none.

In 2021, the family business sector as a whole is estimated to have contributed £225 billion to UK public finances. This represents 27% of government receipts from all taxes in the UK. Out of this £225bn, £74bn was contributed in taxes borne- those that are a direct cost to the company – and £151bn in taxes collected, such as income tax and employee National Insurance Contributions (NICs).

By their very nature, family businesses take a long-term view, building on long-term stewardship of people and resources. Their commitment to passing a healthy business on to the next generation is embedded within their corporate DNA.

About Family Business UK

Founded in 2001 as the Institute for Family Business (IFB) before rebranding in July this year, Family Business UK (FBUK) is the largest organisation in the UK dedicated solely to supporting, representing and championing family business.

Representing businesses from across a wide range of industries and of all sizes, we act as a convener and conduit for a large, diverse and sprawling sector, bringing these voices as one. We provide thought leadership and help family businesses build capabilities and capacity to support decision-making among the family, effective management of the business and operations, and help drive sustainable bottom-line performance.

We champion and celebrate the sector, building awareness and recognition of family businesses through campaigns such as the annual Family Business Week, events including regional events and our national conference, and partnerships that support the growth and success of the sector.