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# THE BEST LAID PLANS OF SOME ENTREPRENEURS

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CLAIRE MADDEN

JOHN, Jeremy and Joan had a plan. A good plan. A plan to start a business. They were so sure that the business would succeed that each used £100,000 of their own money to fund the start-up costs and take the inevitable losses until they turned the corner into profit. Their hunch was right, and with time and hard work the business did succeed. So much so, in fact, that after 10 years, and now employing 100 people, they were in a position to acquire their largest competitor. But to do so, they needed money, and lots of it.

The bank said no. A private equity firm said yes; but they wanted a substantial stake in the enlarged business. The team thought about it long and hard. It would mean a big dilution of their equity. On the other hand, they all agreed they'd rather have a smaller piece of a bigger pie, so they said yes – and the deal was done.

Five years later, after more hard work, they were approached by a US multinational who wanted to buy their business, but there was a problem: HMRC said that since John and Jeremy now had individual stakes of less than 5 per cent they weren't really entrepreneurs and so they would not be entitled to Entrepreneur's Relief – their capital gains would be charged at 28 per cent, not 10 per cent.

They felt hard done by, as they had paid the same rate of capital gains tax as John's neighbour, Neville, who had recently sold the house his recently deceased maiden aunt had left him in her will. They felt that by creating a business, and employing all those people, their contribution to the UK economy had been rather more than Neville's – who had simply sold a second home.

Joan felt angry too. She was older than the others and due to sudden ill health had decided, a year prior to the approach by the US multinational, to step down as a director. Although her stake was a little higher than the others, at 7 per cent, HMRC said that since she was no longer a director, she wasn't really an entrepreneur either.

The same was true of three others, Steve, Sally and Stuart. They had been early employees but were now in senior management positions – although not directors. They had joined a fledgling company and had invested in the business as it grew, using whatever excess income they had. HMRC said they too weren't really entrepreneurs, as their stakes were less than 1 per cent and they weren't directors.

As the original management team mulled their options, Steve, Sally and Stuart offered to buy the business, with help from a buy-out firm. All three knew the business well and had previously invested substantial sums to build up their, admittedly, small stakes. Their intention was to re-mortgage in order to increase their stakes as part of the buy-out. They too, however, had a problem. Although they were risking substantial sums of their own money to buy relatively small stakes in what was now a large business, HMRC would, in time, tell them too, that they still weren't really entrepreneurs.

The moral of this story? Surely, it's that there are lots of different types of entrepreneurs. They don't have to be inventors, and they don't have to be lone wolves. Sometimes they buy businesses and they often work in teams. The sooner the government recognises this, the better.

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