The race is on towards private sector-led economic growth

Business angels and private capital are government's choice to give the UK economy a tonic

On 23 March 2011, Chancellor George Osborne's task was tricky: delivering a fiscally neutral budget, under the backdrop of downgraded growth forecasts and rising inflation. The result was a "pro-enterprise" budget aimed at stimulating the economy through a series of measures providing wide-ranging benefits for small businesses, entrepreneurs and angel investors.

The British government is now very clear in its intentions to foster direct financing from individuals (angel investors) in SMEs. A notable measure was the extension of tax relief available to business angels through the so-called Enterprise Investment Scheme (EIS) in operation since 1994. Since 5 April 2011, angel investors in SMEs can now claim 30 percent income tax relief (previously 20 percent) on investments in EIS-qualifying companies, of up to £1m p.a. per person (previously £500,000). As such, angel investors can now claim income tax relief in any one year of up to £300,000 p.a. (previously £100,000). Furthermore, if the company succeeds and the shares are ultimately sold, angel investors will enjoy a tax free gain (vs. up to 28 percent on other equity investments). Any capital loss incurred by investors on their principal may be offset against income (less the income tax relief received). Overall, for a 50 percent taxpayer, the improved scheme significantly "de-risks" angel investments in SMEs, reducing the maximum potential loss to 35 percent of invested capital.

In addition, the size limit on companies eligible for EIS will be increased, from 50 to 250 employees and from £7m to £15m in gross assets. SMEs will also enjoy other measures announced in the new Budget which include a reduction in corporate tax to 23 percent by 2014-15, giving the UK the lowest rate in the G7 (assuming no reduction in other countries): 16 percent less than the US, 11 percent less than France and 7 percent less than Germany. Financing should also be easier further down the 'development chain' with the 3 April 2011 launch of the Business Growth Fund (BGF) by Britain's top six banks (Barclays, HSBC, Lloyds, RBS, Santander and Standard Chartered). Chaired by Sir Nigel Rudd, the £2.5bn fund will invest exclusively long-term growth capital (£2m to £10m per investment) in SMEs.

Chancellor of the Exchequer • George Osborne

Start up culture is also becoming more socially attractive in Britain. Entrepreneurship and innovation are being widely promoted with clear intentions for East London to become the "Silicon Valley of Europe". The Start-Up Britain campaign was launched less than a week following the new Budget and is a rapid response from the private sector to the Government's call for an "enterprise-led" recovery. Fully supported by the coalition government, it has so far gathered the support of 60 leading brands (including Barclays, BlackBerry, Microsoft, McKinsey & Co. and Virgin Media).

Positive side effects of the financial crisis are now emerging, including a drastic change in mentality towards entrepreneurship. It is now easier than ever for UK-based SMEs to raise "smart money" from investors. Combined with a general tax-friendly environment and a reduction in red tape, these measures will undoubtedly incentivise problem solving through innovation and a "create-your-own-job" answer to unemployment. ■

Nathan Boublil, Associate at Entrepreneurs Partners LLP, a Venture Capital syndicate