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BUSINESS



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EARLY STAGE BUSINESSES

Teamworks gets into top gear to rev past Gordon

By Martin Falnt
Special Correspondent

With entrepreneurial eyes focused on the looming end of month tax return deadline, at least one Birmingham business is hoping the tax system will work to its advantage.

As detailed in these pages two weeks ago, Teamworks Karting is undertaking a third round funding drive to expand into other cities and like a number of other SMEs, the Digbeth business is counting on generous tax breaks to add a certain allure to investing in its business. "While there are still great challenges in raising private equity for established companies, tax incentives help make a real difference," says Simone Schehtman co-founder of Teamworks Karting.

"It's at this time of year that people get around to filing their tax returns at the last-minute, and many people notice for the first time the tax reliefs available for 'EIS' investments."

She adds while it is perhaps unusual for the Chancellor to be generous to investors, Enterprise Investment Relief has enticed many individuals into private company investments. The scheme provides most private individuals with the opportunity to invest up to £200,000. Under the programme, they can claim 20 per cent back on their tax return, plus keep all future gains free from Capital Gains Tax or Inheritance Tax.

"Such investments aid companies with the finance they need for expansion," says Simone, who has been able to offer EIS-qualifying shares to investors.

"We have raised all of our investment capital through the EIS-scheme, and our 38 private investors have benefited immediately on their tax returns.

"Despite being an established company, third round fundraising is still a major challenge and financing would be significantly more difficult for us without the EIS reliefs, which effectively make our shares 20 per cent cheaper to buy, not to mention offering tax-free growth."

With a focus on corporate entertainment, the business pulled in over 20,000 customers in its launch year, putting it firmly on the map.

It will present potential investors its expansion plans into other cities at a special event held through Advantage Business Angels at the track on January 19.

Simone would recommend every small business looking to raise money to at least explore the tax breaks available to investors.

"No one likes paying tax, but breaks in the tax system have proved a vital weapon in our armoury," she says. "EIS may be a lesser utilised tax break but it's a highly valuable one and it's helped our business from the start."

Consumer finally learns the lesson



Has the consumer finally learned the lesson that borrowed money has to be repaid?

The economic news is starting to look marvellous – has the consumer finally learned the lesson that borrowed money has to be repaid?

The problem of high interest rates has dogged UK business and particularly early stage businesses with their heavy reliance on debt.

Business needed low rates to justify investment plans, yet consumers borrowed and spent so much that interest rates were driven up, resulting in a sustained period of underinvestment in the UK since the 1960s.

Expectations are still balanced but there seems to be a growing view that provided the property market does not overheat, further reductions in interest rates are likely.

No wonder the stock market has come to life.

At the start of the 1990s UK interest rates were around ten per cent compared to six per cent in the US, five per cent in Germany and



This week Advantage Business Angels managing director **Neil Mackay** looks at the good news coming from the economy

five per cent in Japan. Now the position looks very different: today UK rates are 4.5 per cent compared to 4.25 per cent in the US, 2.25 per cent in the EU and zero per cent in Japan.

Chinese interest rates are just under six per cent but these are not comparable as they are not based on a full market trading system as yet.

Early stage businesses are more exposed to the adverse effects of high interest rates because they are typically funded by high levels of debt

and have to manage day-to-day cashflow more carefully because of a lack of reserves.

Notional interest rates are not the only factor in stimulating the growth of early stage businesses. Inflation is also a key issue.

There can be little doubt that significant fluctuations in inflation distort our understanding of prices. In many ways they remove the power of price competition.

If we add to this the rising price based competition from China and

India we can see the start of effective price based competition in the UK. Price competition will help to keep inflation under control by reducing companies' ability to pay wages in excess of those that can be billed to customers.

Real price competition is a major help for early stage business and entrepreneurial activity generally. Lower prices are a key tool for a new idea, product or service to establish itself. Many businesses have grown rapidly by making products and services that were only affordable by the wealthiest available to the mass market through price reductions.

There is however one area of the economy where this virtuous circle seems to be a bit awry: the public sector. Current examples include index-linked pensions starting at 60 and public services with outdated ways of working that stifle the productivity and energy of the people working in them.

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