



The unsung heroes of business

Entrepreneurs and their
total tax contribution

NOVEMBER 2012

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Contents

About the report: Tax & UK enterprise	3
Foreword from Ruby Parmar	4
About the methodology	5
Alex Cheatle – Ten Group	6
Andrew Noble – Health Management Limited	10
Hugh Robertson – RPM	14
Jonathan Quin – World First	18
Paul Wedgwood – Splash Damage	22
Rachel Clacher – Money Penny	26
Rob Hamilton – Instant Offices	30
Conclusion	34

About Prelude

Prelude creates and delivers programmes, events and initiatives with a single purpose in mind: to help make Britain the most enterprising nation in the world.

Prelude has worked with and supported over 1,000 of Britain's most experienced entrepreneurs. We provide support and a championing voice for the fast-growing, job-creating businesses that the economy needs so badly.

At the forefront of what we do is The Supper Club, home to a few hundred of Britain's most successful entrepreneurs from across all sectors. It is our members' experiences that shape the best practice we share with those looking to emulate their success.

We have been described as 'a Do Tank, not a Think Tank'. We like that – ideas are two-a-penny. As any entrepreneur knows, it's the execution of an idea that counts! We help with that execution.

For more, visit www.preludegroup.co.uk

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About the report:

Tax & UK enterprise

After enduring the longest recession in living memory, the UK economy is now finally edging towards recovery, with GDP growing 1% in the last quarter. Unemployment has been steadily decreasing but there is still a long way to go. An upturn in the UK services industry is heartening, but the manufacturing sector continues to struggle and bank lending is still failing to reach the majority of cash-strapped businesses, despite various initiatives launched by government. The UK's economic recovery relies chiefly on growth from the private sector, rather than economic lever-pulling within government. In short, it is business rather than the state that is tasked with creating jobs and driving the UK towards a more prosperous era.

While those in government may embrace the idea that entrepreneurialism is fundamental to the future prospects of the country – witness, for instance, the Prime Minister's latest call for an 'aspiration nation' at the Conservative party conference this is not necessarily a narrative that the general public finds particularly compelling.

The recent media and parliamentary debates around whether businesses are paying the right amount of corporation tax may be partly to blame for people's antipathy towards business in general. These debates however often ignore sizeable contributions that business makes to the UK. In particular, the contribution of the relatively small number of entrepreneurs who set up and grow medium-sized businesses from scratch is often overlooked. This group of just thousands not only enrich the UK's innovation landscape through the services they provide and the products they produce, they also create many of the new jobs as well as contribute new sources of tax receipts for the UK Treasury. Yet their input is seldom acknowledged by people beyond the confines of government and traditional business circles.

The result is the perpetuated myth that successful business owners are the sole and selfish beneficiaries of the fruits of their business's output. The British Chambers of Commerce have attempted to address this lack of awareness through their 'Business is Good for Britain' campaign, but more needs to be done to change the tone of the debate. The key message of this report is that we need to do all that we can to encourage and support the relatively small cohort of business innovators who drive value into our economy and make such a significant and mostly overlooked contribution to public finances in the UK.

The report is meant only to provoke thought. It does this by drawing on a handful of real-life experiences and by analysing the tax accounts of those entrepreneurs who have kindly opened their books to PwC for analysis.

Authors

Duncan Cheatle, CEO Prelude Group, co-founder StartUp Britain
Rebecca Burn-Callander, web editor Management Today

Foreword from Ruby Parmar

Partner and Head of Private Business at PwC

The unrecognised heroes of British business

In many respects entrepreneurs have become the unrecognised heroes of British business. Traditionally entrepreneurs are dynamic, creative and risk-taking individuals who use innovation to create wealth in even the hardest of economic climates, and this is borne out by the seven entrepreneurs who have taken part in this study.

In particular, this study quantifies the significant contribution that successful entrepreneurial companies make to the public finances in the UK through the taxes they pay and collect. It also highlights the wider economic contribution made by these businesses as they have continued to grow through the recession. Even where profits have stalled, these firms have continued to grow their workforce with the expectation that they will get through the downturn.

One view that we see expressed by the public and in the media is that entrepreneurs are in business purely for their own interests. This view has often confused me, as it lacks all understanding of what it is to be an entrepreneur and their valuable place in society. As the interviews in this report show, it is not easy to build a successful business from scratch.

Most of the businesses in this report started as one or two individuals with a great idea. Some of them started from home (where 60% of all small businesses start), some were fortunate enough to have access to business premises, one started from a cow-shed and another began with little more than a telephone and a phone book. However and wherever they began, these businesses have become successful largely due to the hard work and persistence of the people who founded them.

The stories in the report show how taking risks and using initiative can generate wealth, jobs and large amounts of tax revenue. Whether it's making currency exchanges quicker and easier, providing trusted outsourced PA services or creating cutting edge video games, the ability to be agile and to respond to change in order to exploit opportunities with new products and services, is a common theme.

The personal and financial sacrifices taken by entrepreneurs, particularly in the early years, should not be underestimated. One entrepreneur sold everything he had to raise start-up capital; another funded his business entirely from credit cards. Happily these risks paid off, but many entrepreneurs will suffer several setbacks before building a successful business.

All of the entrepreneurs in this study have created jobs and wealth for workers. They have benefited their local economies and the wider UK economy by paying increasing amounts of tax to the UK Exchequer. These case studies show how vital it is that the contribution made by entrepreneurs is recognised and that they are encouraged to keep taking risks and to grow their businesses. A business that is started today by one person in a spare room with a great idea and a bank overdraft, could soon be employing many people and generating millions of pounds in tax revenue.

About the methodology

This report uses data provided by the participating businesses on their significant UK tax payments. It uses the PwC Total Tax Contribution methodology which looks at all the different taxes that businesses pay and administer, including employment taxes, VAT and other taxes as well as corporation tax.

The tax payments are split into taxes borne and taxes collected. Taxes borne are those taxes that are a cost to a business and affect its results. Taxes collected are taxes that, while generated by a business's operation, do not directly affect its results, but which are administered on behalf of the UK Government.

The businesses provided details of tax payments for at least the five most recent business years for which data was available. As the businesses have different financial year-ends, there is some variation in the precise time period covered by each business. In addition some were able to provide data for more than five years.¹

The study does not include the tax paid by the owners of the businesses on the dividends that they may receive from the business. This is because the tax due will be affected by whether or not dividends are declared and the personal circumstances of the individuals. The results do include the tax withheld by businesses on any payments of salary to owners who are also employed by their business.

The results do include the tax paid by partners in respect of the profits made by the partnership in which they hold a share. This is because partnerships do not pay corporation tax. The partners pay income tax based on the partnership's profit as, for tax purposes, the partners and the partnership are viewed as a single entity. The only business in the study that operates, in part, through a partnership is Instant Offices.

To illustrate what the total tax borne and collected (in the last five years) equates to in terms of contribution to public services we have applied a consistent measure of how many newly-qualified Band 5 nurses this would pay for for one year. That figure was sourced from the NHS website.

1. While PwC has analysed the data received from the businesses to produce the study results, it has not verified, validated or audited the data and cannot give any undertaking as to the accuracy of the study results.

Alex Cheatle

Ten Group

'I didn't pay myself for the first 18 months and built up debts to pay other people's wages. I was basically surviving on bread and water.'

Alex Cheatle is the boss of lifestyle management firm Ten Group. He launched the business from a spare room in 1998 with Andrew Long. 'I sold everything I owned to start the business,' he recalls. 'I didn't pay myself for the first 18 months and built up debts to pay other people's wages. In fact, I went backwards quite savagely in the net worth stakes. I was basically surviving on bread and water.'

But Cheatle's hard work and sacrifice paid off, and over the past 14 years Ten has grown into an international, 350-employee strong business turning over £20m a year. Clients – or members, to use Ten terminology – use them for everything from booking concert tickets to finding a good local plumber.

As Ten's revenues have grown, so has its tax bill. 'Pay us £120, and £20 goes to HMRC as VAT,' Cheatle explains. 'Then we have to spend £55 on salaries, of which around £14 is funnelled out through income tax and national insurance. So, before other taxes like corporation tax have even kicked in, £34 of the £120 has gone to the taxman.'

But Cheatle is pragmatic about the UK tax regime. 'I don't have anything against paying tax,' he says. 'Like most entrepreneurs, I am obsessed with creating really high quality products and services, building a team; I am not obsessed with reducing the rate of corporation tax.'

Is government doing enough to ensure that small firms are encouraged and incentivised by the UK tax regime, rather than penalised? Cheatle pauses. 'What UK entrepreneurs need are clearer rules and lower levels of tax on genuinely entrepreneurial ventures,' he says. 'There are a few things that government is doing right, like the Enterprise Investment Scheme and R&D tax credits, but otherwise there should be a flat, competitive rate for all small businesses.'

Indeed, it seems fair that entrepreneurs – as the risk-takers and grafters of the enterprise world – should receive some support in return for their services to the UK economy. Nearly half of the UK's GDP is generated by small firms after all. Over the last five years in business, Ten Group has generated £16.7m for Her Majesty's Revenue. By continually reinvesting into his business, Cheatle is ensuring that his concierge service will keep on generating tax receipts for the taxman long into the future.

And while long-term rewards may await the successful entrepreneur, in the short term, running a business is a serious undertaking, and

As an entrepreneur, your job is to take the biggest risks in the business and to put yourself on the line more than anyone else

entrepreneurs are under the constant threat of financial ruin. ‘As an entrepreneur, your job is to take the biggest risks in the business and to put yourself on the line more than anyone else,’ explains Cheatle. ‘You are always the last person to get paid and the first to put your hand in your pocket in times of trouble.’

So how can government convince more people to start up businesses and contribute to UK plc? ‘For the most part it should do nothing,’ says Cheatle. ‘I’m not a big fan of government trying to pick winners. But, as entrepreneurs are the people that create the jobs, the wealth, and the innovations of tomorrow, our tax system should reflect that.’

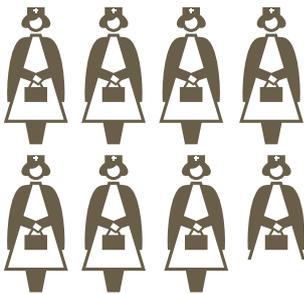
‘There are a few things that government is doing right, like the Enterprise Investment Scheme and R&D tax credits, but otherwise there should be a flat, competitive rate for all small businesses.’

Ten Group

The total tax profile in 2010/2011

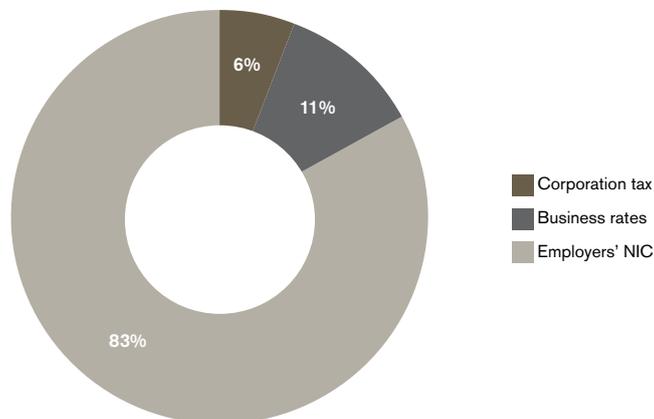
In its business year to 31 August 2011 Ten Group generated revenues of £20.1m, profits of £0.7m and paid £5.2m in taxes to the UK government. In the year 2010/2011 corporation tax was less than 10% of the taxes borne by Ten Group, with 83% (£893,000) relating to employers’ national insurance contributions.

Total Tax Contribution
in the last five years,
equivalent to



789
nurses

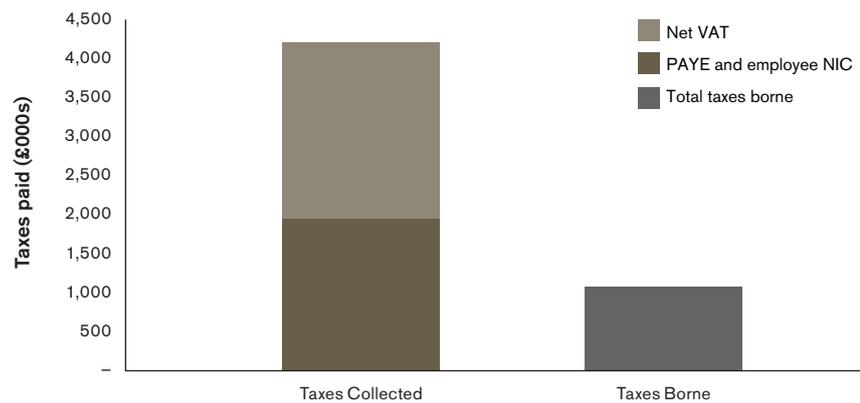
Taxes borne 2010/2011



For every pound of taxes borne by the company a further £3.89 is paid to government in taxes collected.

In 2011, Ten Group paid over £2m in VAT to HMRC on the fees received from its members. The VAT payment is made up of VAT received from members’ fees, less the VAT incurred on the Group’s purchases.

Taxes borne and collected 2010/2011

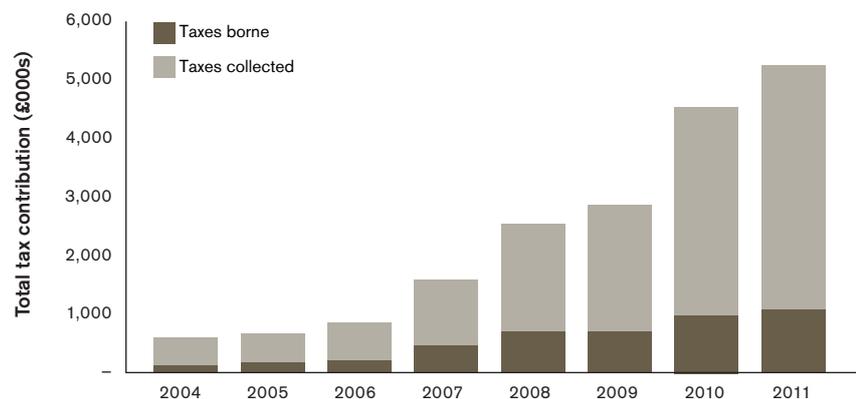


The Total Tax Contribution over the last five years

	£ millions
Total tax paid in the last 5 business years:	16.7
of which	
Taxes collected	12.8
Taxes borne	3.9

Over the last five years Ten Group has paid £16.7m in taxes borne and collected. In 2011, Ten Group paid UK corporation tax for the first time. In earlier years Ten Group made tax losses or used tax losses from earlier years to reduce its corporation tax bill, nevertheless the profile of the taxes paid by Ten Group has been consistent over the period and has shown strong growth throughout.

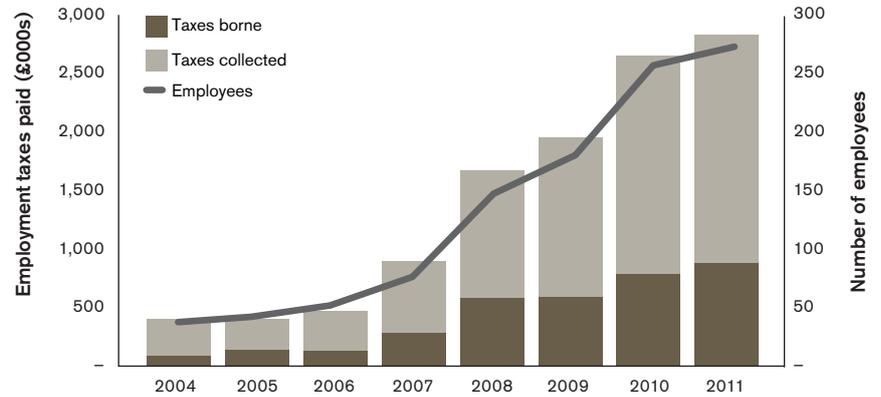
Total Tax Contribution



Ten Group is a people intensive business and so it is no surprise that the biggest element of its Total Tax Contribution is taxes on employment such as social security contributions and personal income tax withheld from employees' salaries.

At the end of August 2011, Ten Group was employing 274 workers. Each of these jobs generated £10,400 on average in 2011 in terms of employment taxes and national insurance contributions. Despite the global economic crisis, Ten Group has tripled its number of employees in the last five years with a similar increase in the amount of employment taxes borne and collected.

Total employment taxes



Andrew Noble

Health Management Limited

‘The financial reward is not a motivator at all. It’s about having independence and creating something meaningful.’

Entrepreneurial ventures can spring from the most unlikely places. ‘We started our business in 2002 out of a basement on Lots Road,’ laughs Andrew Noble, boss of occupational health consultancy Health Management. ‘I had to borrow a desk from a friend. I started with literally a telephone and a phone book. That was it.’

But despite Health Management’s modest start in life the business flourished, turning over £100,000 in its first year. It was a dream come true for first-time entrepreneur Noble. ‘I’d wanted to start my own business since I was at school,’ he says. It had taken rather longer than Noble had anticipated, however. ‘I went into the City. It was only supposed to be for a short while but it turned into 10 years. I worked in corporate finance and it only made me more desperate to launch a business myself.’

The opportunity finally arose when Noble was approached by a friend, Dr Alasdair Emslie. Emslie and his brother Richard had previously run a similar healthcare business. ‘It just felt right,’ says Noble.

The concept may have been perfect but the timing could have been better. Noble was a newly-wed when he quit his job and started Health Management, fresh back from his honeymoon. ‘My wife was very understanding,’ he says. ‘We would be working a minimum of 12 hours a day, seven days a week. When the business was moved to Sussex, I would stay in a B&B for two nights then go back to London.’

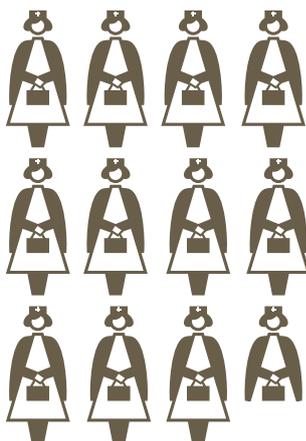
Noble now employs roughly 350 staff nationwide, providing advice and hands-on care for clients ranging from SME to enterprise size. ‘We have saved lives and prevented illnesses,’ says Noble. ‘We were even on site at London 2012, assessing the construction workers building the Olympic Park.’

Health Management doesn’t only help to up productivity and wellbeing among its clients, it also makes a huge contribution to the wider economy in terms of training. ‘We are the largest independent training body of consultant occupational physicians outside the NHS,’ explains Noble. ‘Occupational medicine is largely done in the private sector; it’s the only branch of medicine where the NHS does not dominate.’

Not to mention the firm’s annual tax contribution. ‘VAT is the biggest tax that we collect for government,’ says Noble. ‘As consultants in

Health Management doesn’t only help to up productivity and wellbeing among its clients, it also makes a huge contribution to the wider economy in terms of training

Total Tax Contribution
in the last five years,
equivalent to



1,170
nurses

occupational health, we are standard rated. We do claim some of it back but essentially on £30m sales we are adding 20% for government. That's huge.

'It is about £28,000 to government in total tax by each of our employees,' he continues. 'That's adds up to over £7m a year. How much does a new school cost? Maybe £10m? Over 10 years, Health Management could set up seven schools!'

Indeed, Noble is very clear on his motivations for running the business. 'It's never been about money,' he says. 'The financial reward is not a motivator at all. It's about having independence and creating something meaningful. If Health Management had failed I would have tried again ten times over.'

But Noble does admit that running a business can be challenging. 'I feel the responsibility of my staff enormously,' he says. 'That's what makes me cautious. I'm responsible for the livelihoods of hundreds of people. Every month our payroll is about £750,000. That's way beyond what any of the individual directors could be responsible for. It's an enormous weight on our shoulders.'

That said, Noble is adamant he wouldn't change a thing. 'I could never go back to an investment bank,' he says. 'Once you've experienced the sheer excitement of creating something and building a team, you are hooked.'

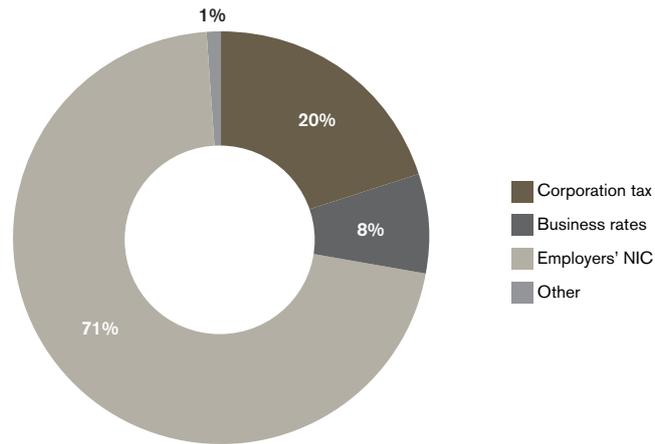
'VAT is the biggest tax that we collect for government,' says Noble. 'As specialist consultants to business, we are standard rated. We do claim some of it back but essentially on £30m sales we are adding 20% for government. That's huge.'

Health Management Limited

The total tax profile in 2011

In 2011 Health Management Limited generated revenues of £24.7m, profits before tax of £2.4m and paid £7.8m in taxes to the UK government. As a people-intensive business with average salaries in excess of the national average, it is not surprising that Health Management's largest tax borne is employer's NIC contributions of nearly £1m in 2011. This accounted for 71% of taxes borne in 2011 with corporation tax making up only a fifth of taxes borne in that year.

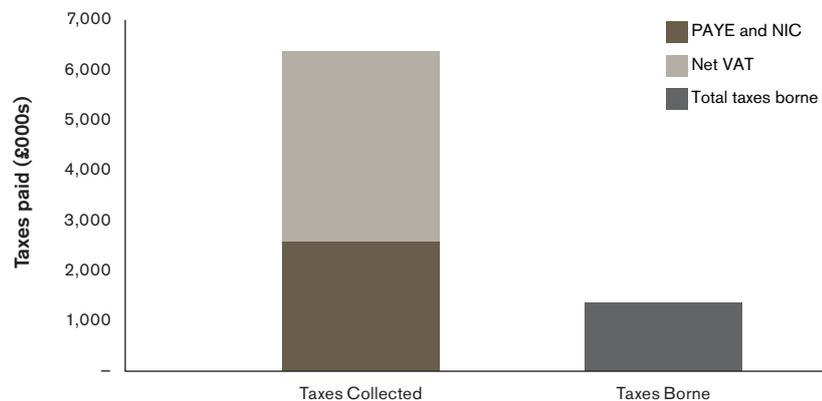
Taxes borne 2011



For every pound of taxes borne by the company a further £4.64 is paid to government in taxes collected.

VAT of £3.7m made up nearly half of the all taxes borne and collected by Health Management Limited in 2011. The VAT payment is made up of VAT received from customers less the VAT incurred on the company's purchases.

Taxes borne and collected 2011



The Total Tax Contribution over the last five years

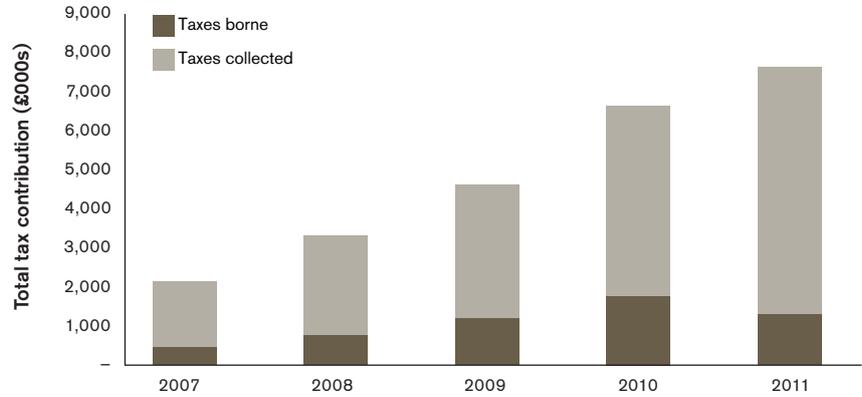
	£ millions
Total tax paid in the last 5 business years:	24.8
of which	
Taxes collected	19.0
Taxes borne	5.8

Over the last five years the company has made tax payments of nearly £25m to the UK government – more than the company's entire turnover in 2011.

Although Health Management Limited's Total Tax Contribution has grown steadily over the last five years, the amount of corporation tax paid

has fluctuated over the years as the company's profits have varied. In 2011 the company's Total Tax Contribution was over three times as much as its Total Tax Contribution in 2007.

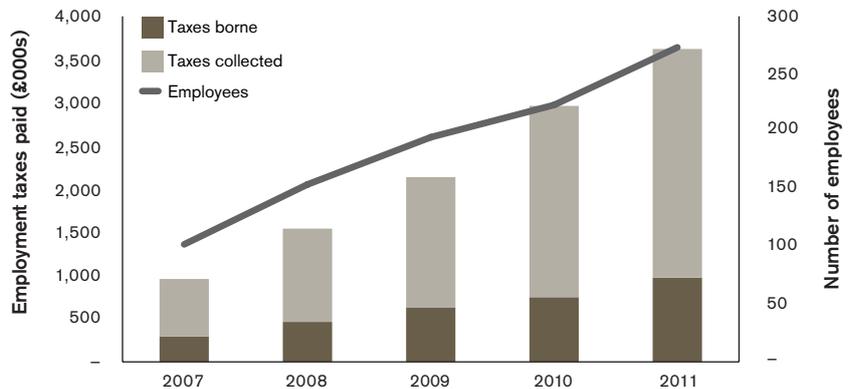
Total Tax Contribution



Between 2007 and 2011, the number of people employed by the company increased by 168% to 273. In the same period, the total employment taxes borne and collected by the company had increased by 277%, equating to £13,266 per employee in 2011.

Not only was the company employing more people in 2011 than in 2007, but on average they were each earning £4,000 a year more and the employment taxes per employee were also almost £4,000 more per year.

Total employment taxes



Hugh Robertson

RPM

'I think of myself less as an entrepreneur and more as an ethical employer.'

There's no such thing as a typical entrepreneur. They hail from many different cultural, academic and financial backgrounds. Sometimes, even the entrepreneurs themselves are surprised by the direction their careers take. Take Hugh Robertson, founding partner of marketing agency RPM. When he was a youngster, he was determined to be a rugby player when he grew up – until an injury forced him off the field. 'I couldn't play anymore,' he says, 'and that was upsetting. I became rebellious and got kicked out of school with just a few O'Levels.'

That may have been the end of Robertson's sporting career but it was the beginning of his entrepreneurial journey. He got a job driving trucks for an events agency on the weekend to make a little pocket money. 'I loved it,' he says. 'I ended up applying for a full-time job and never looked back.'

It was while working at this agency that Robertson met the two future co-founders of RPM. 'We wanted to do things differently and we pitched our ideas to the board but they turned us down,' he says. 'So we borrowed £5,000 and took the plunge.'

In January 1993, RMP Ltd launched out of 'a cow shed in Wokingham,' recalls Robertson. The trio had no clients, very little start-up capital, and bills to pay so they secured a £70,000 overdraft from the bank to tide them over for those tough first months. 'We soon got a call from the bank manager,' remembers Robertson, 'saying that he had changed his mind and was calling the loan in. We had one month to turn the business around.'

Most companies would have been driven to the wall but Robertson and his co-founders pitched their hearts out over the next four weeks, landing Marks & Spencer as a client. Robertson worked all hours to keep the business on track, 'I'm a firm believer in leading from the front,' he says. 'I would never ask my people to do something that I wouldn't, so I'd drive lorries, I'd take the weekend shifts.'

The business has now grown into a multi-discipline agency, running all kinds of global campaigns, from pop-up events and social strategy to employee engagement programmes for clients including Reebok, Adidas and Diageo. Robertson bought out his other co-founders in 1998 and 2005 – 'When we were not united we were destructive for the business,' he explains – and now runs the business with three partners, one of the his brother. 'Doing it on your own can be difficult,' he admits.

We only turn over

£25m

RPM employs 175 people today. People that Robertson describes as the firm's most valuable asset. 'One of the most rewarding parts of my job is getting the best out of the people who work for me,' he says. 'I think of myself less as an entrepreneur and more as an ethical employer.'

Indeed, Robertson takes his responsibilities as an employer very seriously. He has scaled the company gradually, through organic growth, in order to make sure that jobs are never at risk, nor too much strain placed on his staff. 'We only turn over £25m,' he says. 'And I've chosen to go for the slow burn. It's more important to me to build a long-term sustainable business rather than a money-spinner.'

It seems that making millions isn't at the top of Robertson's priority list: 'Not at the expense of the business or my people,' he says. 'Being a good entrepreneur sometimes means being selfless. Making decisions for the greater good of the business and not yourself...'

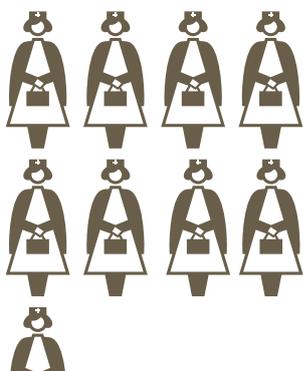
We all need to pay taxes but the current system doesn't always provide a level playing field in an ever more global market

RPM Limited

The total tax profile in 2012

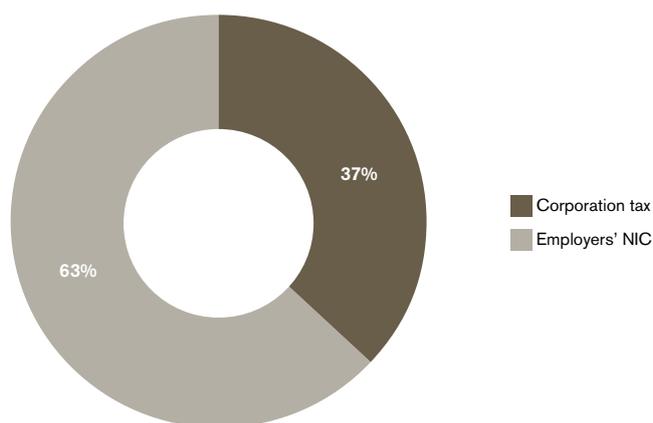
In the business year ended 31 March 2012, RPM generated revenues of £25.1m, profits before tax of £1.6m, and paid £5.7m in taxes to the UK government. Corporation tax makes up just over a third of the company's taxes borne (37%), with employers' national insurance contributions accounting for the remainder.

Total Tax Contribution
in the last five years,
equivalent to



850
nurses

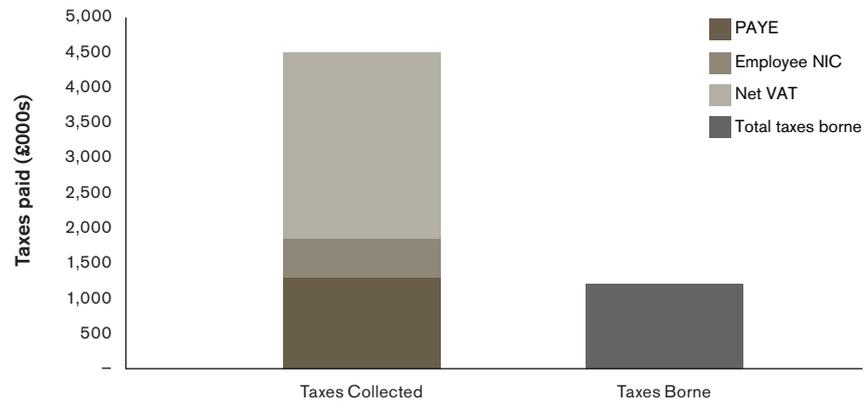
Taxes borne 2011/2012



For every pound of taxes borne by the company a further £3.70 is paid to government in taxes collected.

VAT of £2.6m made up 46% of the all taxes borne and collected by RPM in 2011/2012. Although VAT is not a cost to RPM as it is paid by the customers, it represents a benefit to the UK Exchequer that arises directly as a result of the activities of RPM.

Taxes borne and collected 2011/2012

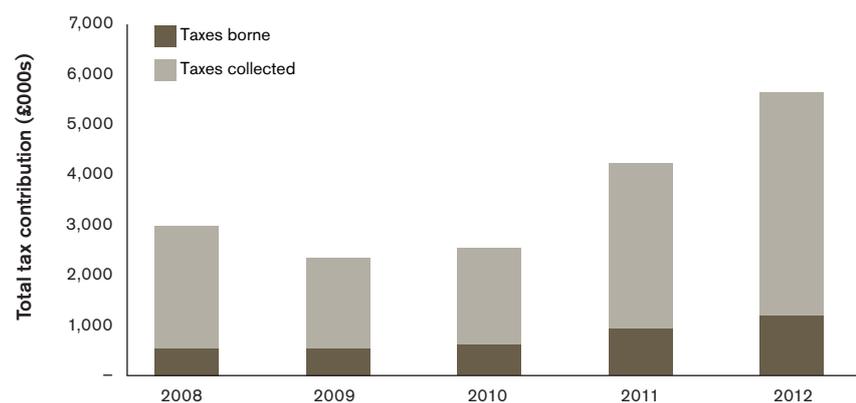


The Total Tax Contribution over the last five years

	£ millions
Total tax paid in the last 5 business years:	18.0
of which	
Taxes collected	14.2
Taxes borne	3.8

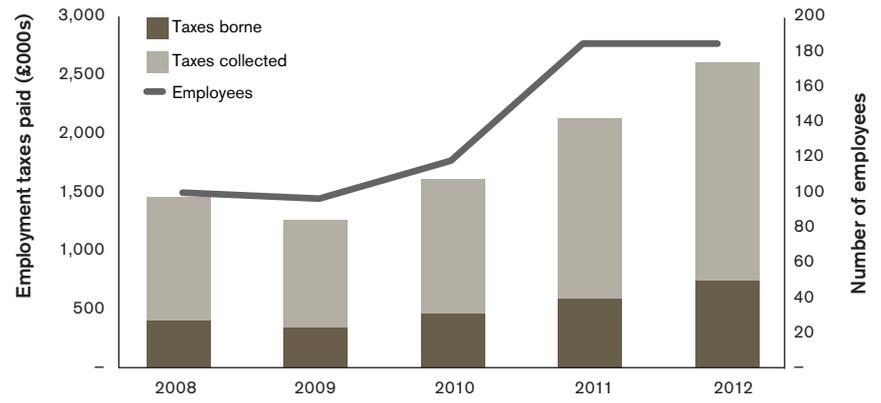
Over the last five years the company has paid £18m in taxes borne and collected. Overall the amount of taxes paid by RPM has grown over the last five years, though it suffered a dip in 2009 and 2010, mainly due to reductions in taxes collected. This appears to be due to slight reductions in revenue and staff numbers.

Total Tax Contribution



RPM had a workforce of some 185 people at the end of March 2012. Each of these jobs generated on average £14,100 in taxes and national insurance contributions in the year to 31 March 2012. The amount of employment taxes can be seen to generally correlate to the number of employees. An increase in staff during 2011/2012 was only fully reflected in the taxes paid in 2012. Over the last five years the number of staff has increased by 85% and the employment taxes by nearly 80%.

Total employment taxes



Jonathan Quin

World First

‘There’s a sign on the M3 as I’m driving to work saying, ‘It costs £1m to run a wing of this hospital for a year’. When you think about it that way, I honestly don’t mind paying tax.’

Less than a decade ago, if you wanted to send money overseas you had to go into a bank with two forms of identification and the money would take five days to transfer. Today, the process is far less arduous. Jonathan Quin, co-founder of foreign exchange firm World First, is one of the entrepreneurs building the technology to allow these transactions to take place almost instantly. World First even recently broke the world record for fastest payment, completing a currency transfer in just six minutes.

Quin founded World First with Nick Robertson in January 2004. The pair met at Citibank in the mid-nineties and both were frustrated that while large companies received great exchange rates from the banks, smaller businesses were usually offered far poorer deals. ‘We saw an opportunity there,’ says Quin. ‘Not only were companies outside the FTSE 250 getting worse currency pricing, they were also getting terrible customer service.’

The pair remained in the banking industry for 18 months after their ‘eureka moment’ to save money to launch the new venture: ‘I wanted to start our new business without any debt,’ explains Quin. And World First has indeed been debt-free since inception, serving private individuals and companies alike, growing organically to become an international business with offices in Asia and the US, bringing much-needed revenue into the UK.

The cornerstone of World First’s success is its commitment to customer service. This goes beyond the usual ‘answer the phone within three rings’ too. Bonuses for staff manning the phones are based on feedback from customers and the company prides itself on employing ‘charming’ and ‘efficient’ people. World First must be doing something right; the firm boasts incredibly high account retention rates, as well as adding 30% new customers every year. ‘We don’t focus on customer service just because it’s good for business,’ says Quin. ‘I want to treat people like I want to be treated. I genuinely want to improve the industry.’

World First currently employs 140 staff, up from 110 last year. ‘It’s been a straight line up in terms of headcount,’ said Quin. ‘And I really like that some of the staff that joined World First as their first job at the start are still with us today.’

But running a global, fast-growing business is not without its challenges. ‘It is slightly stressful that we have overheads of £1.1m every

The cornerstone of World First’s success is its commitment to customer service

month that we have to pay whether we make money or not,' says Quin. Tax is, of course, a large part of this overhead. 'It would have been better if government hadn't put up national insurance,' he says. 'I would rather have kept that the same and not reduced corporation tax, because that comes out after everything else.'

'Still, we'll pay £2m this year in corporation tax alone,' he explains. 'But I think of it as a donation to the world. There's a sign on the M3 as I'm driving to work saying, 'It costs £1m to run a wing of this hospital for a year'. When you think about it that way, I honestly don't mind paying tax.'

As a technology-forward, highly cash generative firm, World First gets a lot of attention from private equity companies. But Quin isn't quite ready to hand over the reins. 'I've always wanted to be an entrepreneur,' he says. 'I started my first business – selling personalised number plates – at 16 years old and I promised myself that one day I would work for myself.'

Indeed, Quin can't ever imagine retiring. He wants to keep giving back to the enterprise ecosystem as long as he can. 'I don't like golf,' he laughs. 'And I'm just so grateful that I'm not still a banker. I want to keep running this business as long as I can – it is a joy.'

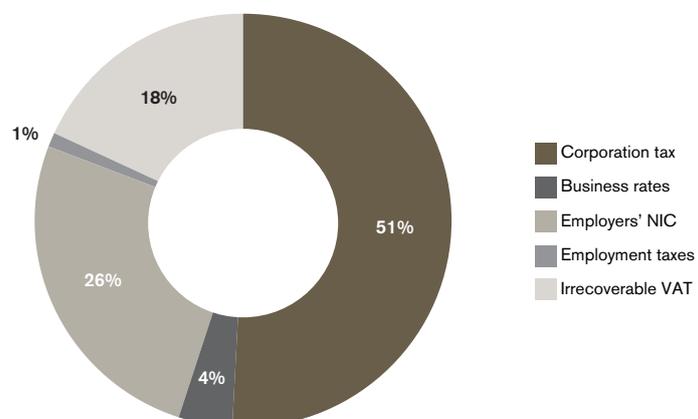
'It would have been better if government hadn't put up national insurance. I would rather have kept that the same and not reduced corporation tax, because that comes out after everything else'

World First

The total tax profile in 2011/2012

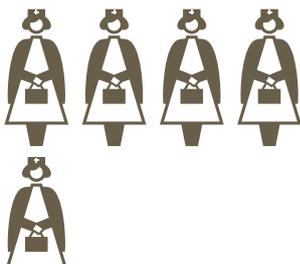
In the year to 31 January 2012 World First generated gross profits of £15.1m, profit before tax of £4.5 million, and paid £3.6m in taxes to the UK government. Corporation tax makes up over half of the taxes borne by the company (51%), followed by employer's national insurance contributions (26%) and irrecoverable VAT (18%).

Taxes borne 2011/2012



For every pound of taxes borne by the company a further £0.68 is paid to government in taxes collected.

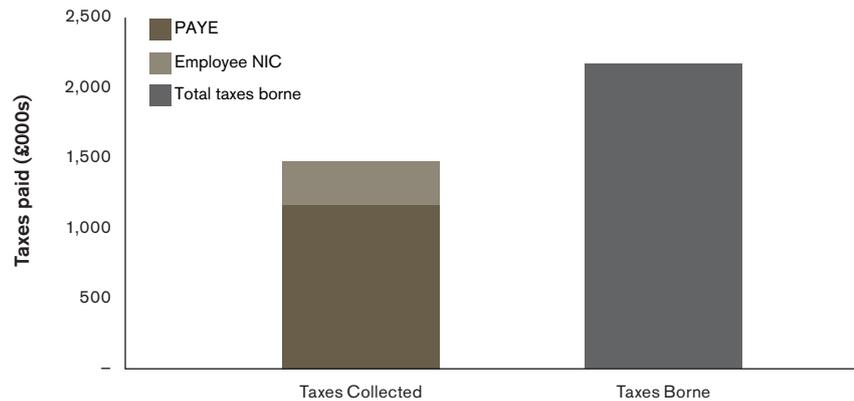
Total Tax Contribution
in the last five years,
equivalent to



472
nurses

World First facilitates foreign currency transactions for its customers and it cannot charge VAT on these transactions. It therefore cannot reclaim the VAT on its purchases and this irrecoverable VAT thus becomes a cost to the company and is a tax borne. For non-financial sector companies VAT is a tax collected as it is charged to customers and reclaimed on the company's own purchases. In the 2011/2012 business year, the company paid £397,000 in irrecoverable VAT.

Taxes borne and collected 2011/2012

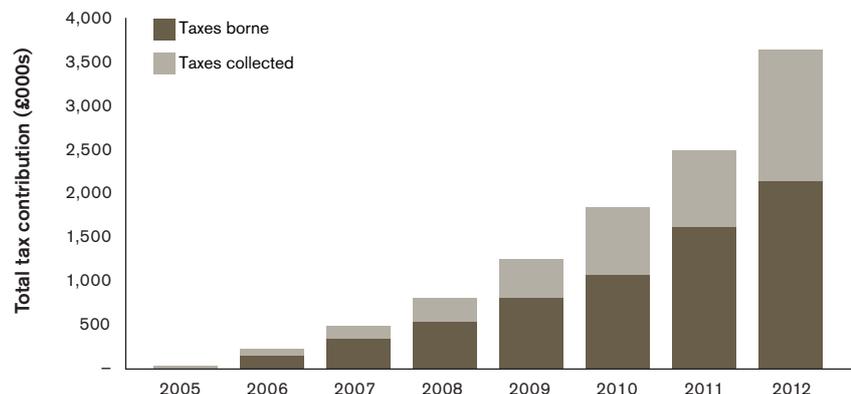


The Total Tax Contribution over the last five years

	£ millions
Total tax paid in the last 5 business years:	10.0
of which	
Taxes collected	3.8
Taxes borne	6.2

Over the last five years the company has paid £10m in taxes borne and collected. The profile of the taxes paid by World First is consistent and shows strong growth throughout for both taxes borne and taxes collected.

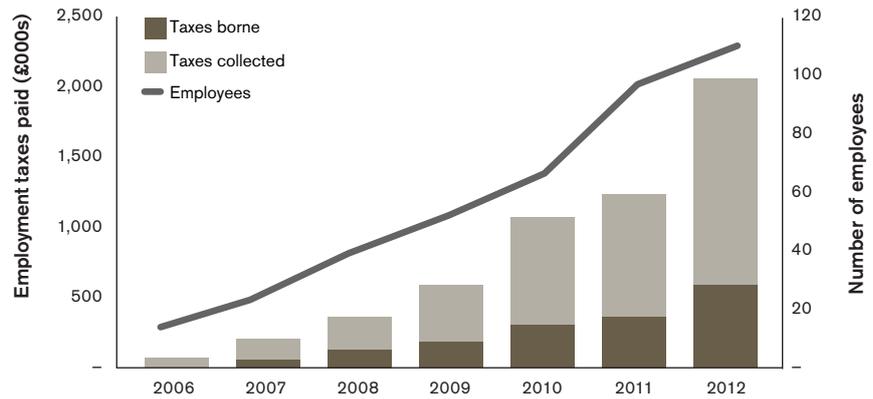
Total Tax Contribution



By the end of January 2012 World First had a workforce of 110. Each of these jobs generated on average £18,800 in taxes and national insurance contributions in the year to 31 January 2012.

Over the last five years the work force has increased from 40 to 110, which is nearly a threefold increase. In the company's 2011/2012 financial year the employment taxes paid were more than five and a half times the amount paid in the 2007/2008 year.

Total employment taxes



Paul Wedgwood

Splash Damage

'I put everything in and there was no way back.'

The videogame industry has undergone many changes over the past decade. Once dominated by giants like Sony and Ubisoft, there is now a raft of new, independent developers creating games for consoles and online audiences alike. This trend has both increased the choice for consumers, and given rise to an era of innovation, both within the games themselves, and in terms of new business models.

Paul Wedgwood is one entrepreneur riding this wave of innovation. He founded games developer Splash Damage in the summer of 2001, and the Kent-based studio now develops games for the Playstation, PC, Xbox 360 and creates multi-player games for the web. The studio boasts 2.5 million players to date and has won over 300 awards including one BAFTA.

Most significant, from an economic point of view, is Splash Damage's business model. It is one of a handful of UK companies that makes its revenue exclusively from exports: while its titles are played all around the world, its clients are all based in the US. 'We're fantastic for the economy,' says Wedgwood.

All this has been achieved with no external debt. 'We've never had corporate finance or any external investors,' says Wedgwood. 'I own the whole business today and it's valued at around £100m.'

Not that the entrepreneur had any idea how successful the business would be when Splash Damage first launched. 'I had £25,000 saved up and I put the whole lot into the start-up,' he says. 'I wasn't aware – in those days – of ways that I could invest in the business and reclaim any tax. I put everything in and there was no way back.'

In the 11 years since inception, Wedgwood has scaled Splash Damage to employ 84 full-time staff. People are a huge part of what motivates Wedgwood in business. 'I run Splash Damage putting people first,' he says. 'I'm very proud that many of our original staff are still here. I have given them 12.5% of the firm in share options so they will benefit if we ever sell the business.' Wedgwood has no immediate plans to exit but adds that Capital Gains Tax is no barrier to a sale: 'Entrepreneurs Relief is generous and reasonable,' he says.

'We only ever lose staff to the US,' he continues. 'We've never made staff redundant, which is rare in this industry.' Employing a large workforce also involves a substantial tax contribution: 'We pay over £1m in PAYE, NIC and corporation tax each year,' says Wedgwood.

In the 11 years since inception, Wedgwood has scaled Splash Damage to employ

84

full-time staff

Wedgwood's story is one of rags to riches. 'I grew up on a South London council estate and left school at 15,' explains Wedgwood. 'I managed to get a job on the Tottenham Court Road at 16, selling PCs. That was right at the beginning – I sold floppy discs to the likes of Stephen Fry and Bill Oddie.' His later career spanned investment banking and even a stint in Downing Street but Wedgwood always knew his future lay in technology. He feels incredibly lucky to be running a business in an industry he loves. 'I pay people to make video games,' he says. 'It's the most incredible job.'

'Entrepreneurs Relief is generous and reasonable.'

Splash Damage

Total Tax Contribution
in the last five years,
equivalent to

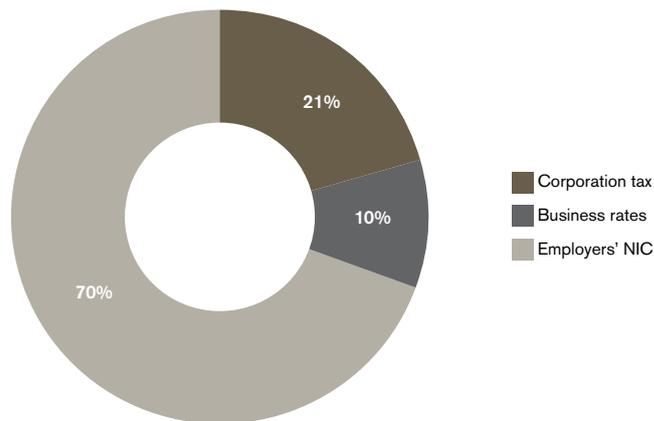


170
nurses

The total tax profile in 2010/2011

At 70%, employers' national insurance contributions were by far the biggest element of the taxes borne by the company in the year to 31 March 2011. Corporation tax accounts for only just over a fifth of taxes borne.

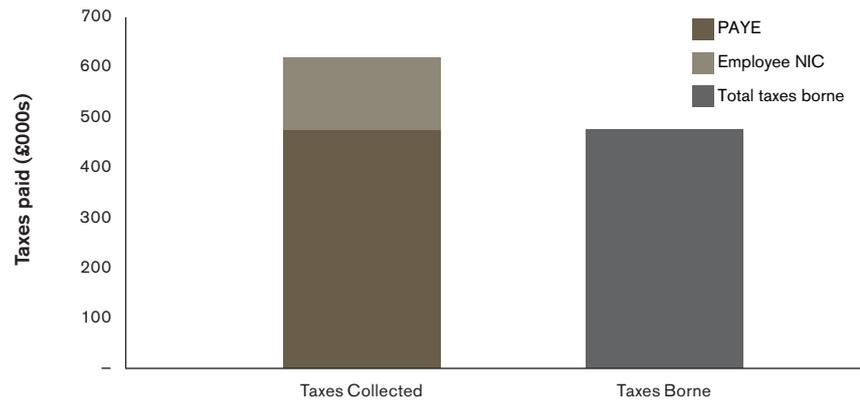
Taxes borne 2010/2011



For every pound of taxes borne by the company in its 2010/2011 financial year a further £1.30 is paid to government in taxes collected.

The taxes collected relate to personal income tax and employees' national insurance contributions that the company withholds from employees' salaries. Splash Damage does not have to charge VAT on the sales to the majority of its customers as they are based in the US. It does however have to pay VAT on the goods and services that it buys, but it is allowed to reclaim this VAT. The company therefore has a net VAT refund, rather than a net VAT payment. As the VAT refund is a repayment of tax already paid on its purchases, it is not included in the taxes collected figures. In 2011 the VAT refund was £155,000.

Taxes borne and collected 2010/2011

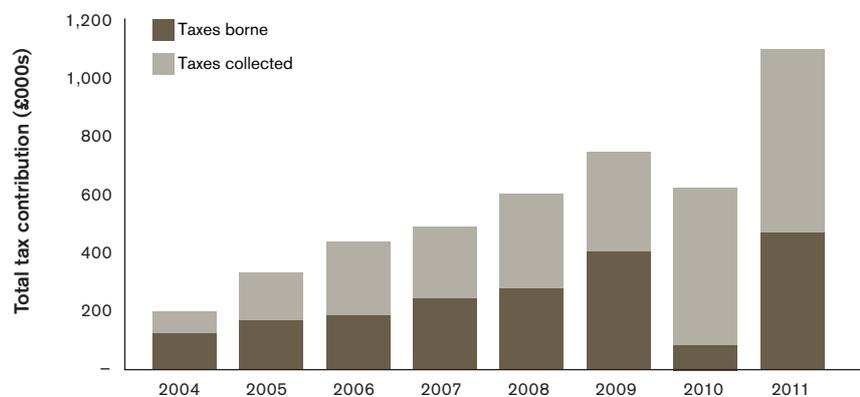


The Total Tax Contribution over the last five years

	£ millions
Total tax paid in the last 5 business years:	3.6
of which	
Taxes collected	2.1
Taxes borne	1.5

Over the last five years the company has paid £3.6m in taxes borne and collected. The profile of taxes collected has been consistent over the last eight years showing a year-on-year increase. Taxes borne however dipped significantly in 2010 as the company paid no corporation tax in that year. This was due to much lower profits in that year, but also the company received a significant refund of corporation tax for earlier years due to the finalisation of relief for research and development activities.

Total Tax Contribution

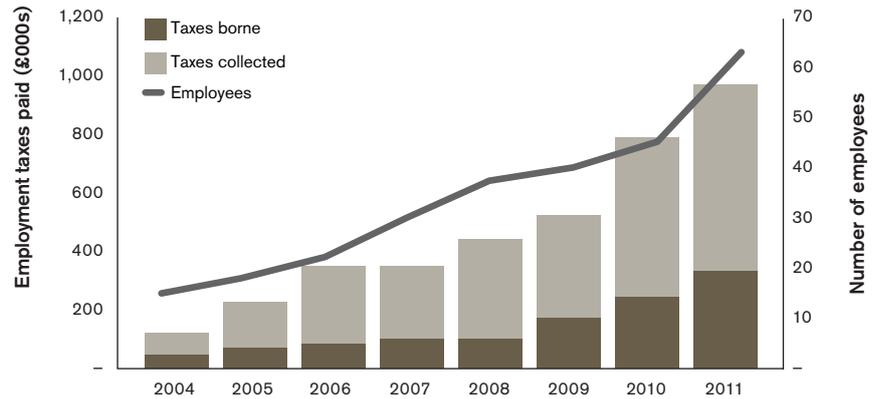


By far the largest amounts of tax paid by Splash Damage relate to taxes on employment. At the end of March 2011 the company employed 62 people (this has since risen to 84). Each of these jobs generated

£15,400 on average in employment taxes and national insurance contributions in 2011.

Over the last five years Splash Damage has doubled its number of employees, but the total amount of employment taxes paid has increased by nearly 175%. The increase in taxes reflects not only the increase in staff numbers, but also increase in average salaries. The average employment taxes per employee have increased by just over 30% in the last five years.

Total employment taxes



Rachel Clacher

Money Penny

‘Once you reconcile yourself to the possibility of failure, you have the freedom to achieve exciting things.’

Start-ups are often launched with the aim of solving a problem or filling a gap in the market. This was certainly the case with outsourced PA and answering service, Money Penny. Indeed, founders Rachel Clacher and her brother Ed were both already running successful businesses when their ‘eureka’ moment struck.

Ed was the owner and sole employee of a graphics business and was struggling to juggle customer service alongside labour. He took on a telephone answering service to free up some of his time. However, when a big client called in to place a large order and the telephone operative said, ‘What do you expect me to do? I’m just a telephone ordering service!’ it became clear that the solution has shortcomings.

‘Ed lost the order,’ recalls Clacher. ‘We decided there was a genuine need for an outsourced PA and answering service that you could trust as though it was your own team.’

The business was launched in 2000. ‘We set up in a spare area in my husband’s office,’ says Clacher. ‘We tried to make it look grown up by painting the walls and putting in nylon carpets but we had very little money.’ The business grew organically from there. ‘We worked 100 hours a week,’ says Clacher. ‘It’s all a bit of a fantastic blur now.’ As Money Penny took on its first clients and they paid their invoices, Clacher would hire new PAs. ‘We’ve never borrowed a penny from anybody,’ she says. Money Penny has also never received any form of government grant: ‘We get R&D tax credits but otherwise there’s not much help,’ says Clacher.

Despite operating on a tight budget, Money Penny was highly innovative from the outset. Its back-end has been built in-house from the ground up and now comprises a highly complex system that can convert voice calls to text, divert clients to their bespoke PAs and manage all the company’s data. ‘Only large multi-nationals have this kind of technology,’ says Clacher.

The technology is not currently licensed out to other businesses but it is a possible revenue stream. ‘The interesting thing about what we are doing is that while most technology drives people apart, we are trying to use it to create stronger relationships,’ explains Clacher. ‘To help you get through to a real person, or speak to someone who understands your needs.’

Despite operating on a tight budget, Money Penny was highly innovative from the outset

Money Penny also makes a huge contribution in the local community. Based in Wrexham near Chester, the firm hasn't advertised for a PA or reception role for 10 years. 'Over 900 people applied to work for us last year,' says Clacher. 'We are committed to the area and proud to invest in the local area. Every two years we apply to the Sunday Times Best Companies to Work For. We came 11th last year, and we were the only telephone service to feature in the list.'

Clacher is hugely proud of the difference her firm has made in the community, and of all the business it has achieved since inception.

But Clacher also enjoys the thrill of building a business, of being her own boss. 'When you are an entrepreneur, you are master of your destiny,' she explains. 'Both Ed and I have always been prepared to take risks. Once you reconcile yourself to the possibility of failure, you have the freedom to achieve exciting things'.

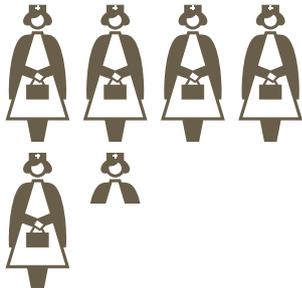
'We get R&D tax credits but otherwise there's not much help.'

Money Penny

The total tax profile in 2011

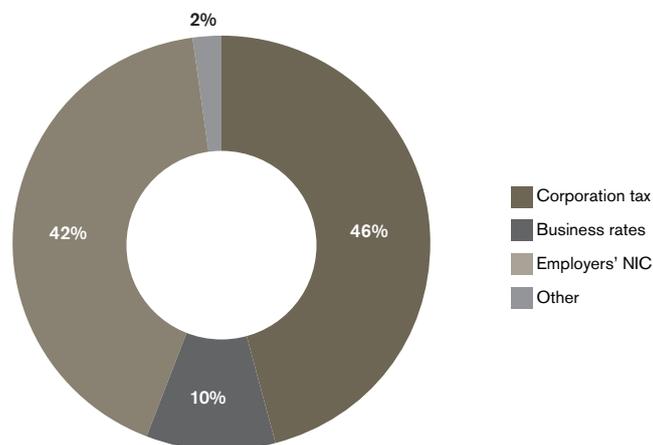
Corporation tax made up a little less than half of the taxes borne by the company (46%) in 2011. Employers' national insurance contributions account for a further 42%, and business rates 10%.

Total Tax Contribution
in the last five years,
equivalent to



538
nurses

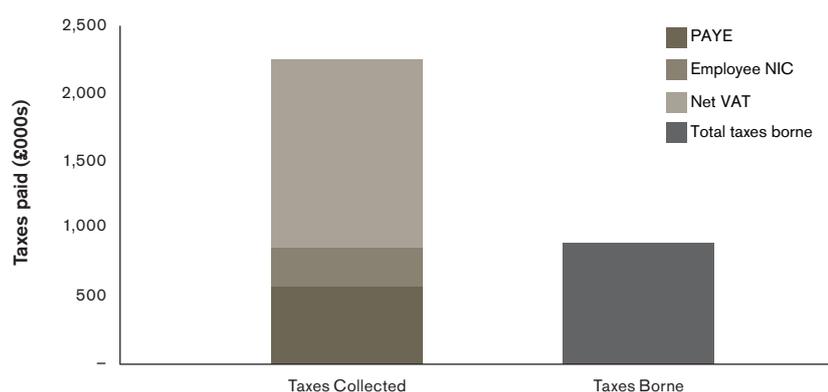
Taxes borne 2011



For every pound of taxes borne by the company a further £2.60 is paid to government in taxes collected.

VAT of £1.4m made up nearly half of all taxes borne and collected by Money Penny in 2011. VAT is not a cost to Money Penny as it is paid by the customers, but it nevertheless represents a benefit to the UK Exchequer that arises directly as a result of the activities of Money Penny.

Taxes borne and collected 2011

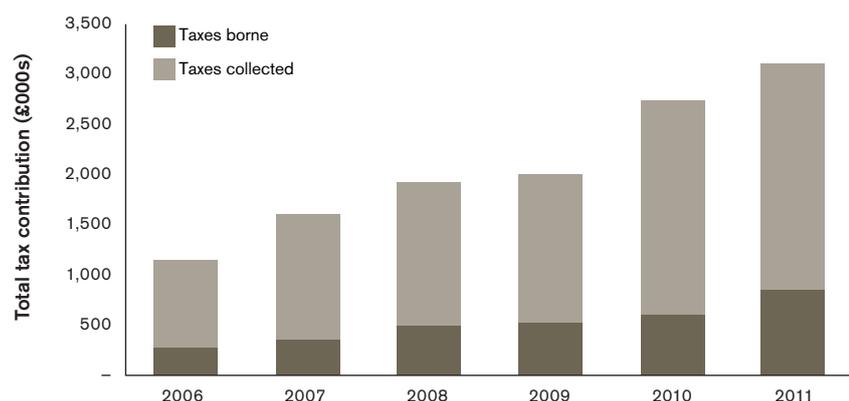


The Total Tax Contribution over the last five years

	£ millions
Total tax paid in the last 5 business years:	11.4
of which	
Taxes collected	8.5
Taxes borne	2.9

Over the last five years the company has paid £11.4m in taxes borne and collected. The profile of the taxes paid by Money Penny has been consistent over the period and has shown steady growth throughout.

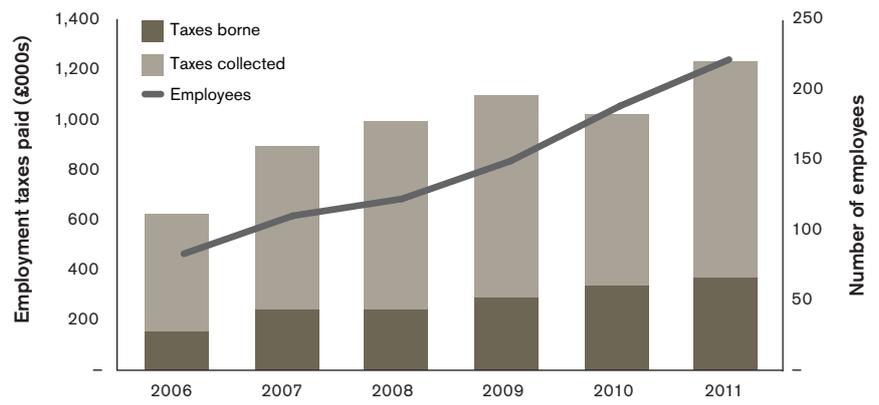
Total Tax Contribution



A key way in which the company contributes to the economy is through employment. Money Penny currently employs some 220 workers. Each of these jobs generated £5,600 on average in taxes and national insurance contributions in 2011.

Over the past five years, Money Penny has doubled its number of employees against a background of economic turmoil and increasing unemployment in the UK as a whole. In the same period, the employment taxes that it pays to HMRC have increased by nearly 40%.

Total employment taxes



Rob Hamilton

Instant Offices

‘In the first year or two, you think you’re going to go bust every other day.’

Rob Hamilton launched Instant Offices when he was just 24 years old. His choice of industry was a no-brainer – he was in possession of a degree in commercial real estate and had spotted a gap in the market for serviced offices that you could book online. He had no savings so decided to fund his start-up using credit: ‘I borrowed about £10,000 on a few credit cards,’ he says. ‘Luckily I was in profit by the end of the first year or I could have ended up in real trouble.’

Hamilton was lucky, it’s true, but also determined and ambitious; traits that are the hallmark of many entrepreneurs. It was this dogged resolve that kept him going through the tough start-up phase. ‘In the first year or two, you think you’re going to go bust every other day,’ he admits. ‘But once you get beyond the initial curve, you never think about giving up again.’

That was back in 1999. Over the past 13 years, Hamilton has diversified into managed offices, opened headquarters on the far side of the globe in Miami and Sydney, and grown from a headcount of just one (himself) to 100. Revenues for the current year are forecast to hit £26m and, at Instant Offices’ current growth rate, the business will hit a turnover of £100m by 2020.

Hamilton puts his success down to his ability to be flexible. ‘If something doesn’t work, you try something different,’ he says. ‘You have to allow yourself to experiment.’ Of course, careful cash flow management is also key: ‘We run cost-effectively and cheaply,’ he explains. ‘This is how we’ve grown.’

These days, around 30% of Instant Offices’ turnover goes to HMRC. ‘Our tax payouts are enormous,’ says Hamilton. ‘There’s national insurance, business rates, VAT... Payroll is our most significant outgoing with around 20% of total costs going on people. I think that’s pretty high.’

Like many of the entrepreneurs featured in this Report, Hamilton believes that one flat rate of tax is the answer. ‘It should just be 30% for the lot,’ he says. But he does feel that government has made a concession to entrepreneurs by bringing corporation tax down to 22% by 2014. That will make the UK’s corporation tax the fourth lowest rate in the G20 by 2015. ‘The little things do add up,’ he says. ‘As an entrepreneur, you need to feel that your government is on your side. That helps to motivate you when the chips are down.’

These days, around
30%
of Instant Offices’
turnover goes to HMRC

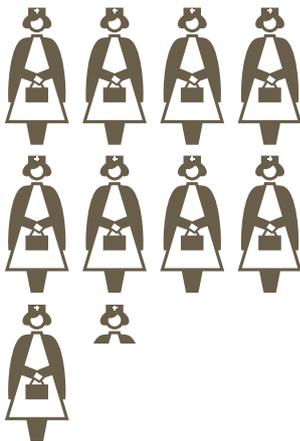
But Hamilton believes that the onus is on entrepreneurs themselves, rather than government, to stimulate enterprise in UK Ltd. ‘There is a limit to what government can do,’ he says. ‘You just have to be relentlessly persistent.’

That said, Hamilton admits that if he had failed back in 1999, he would have struggled to dust himself off and try again. ‘I haven’t been put off because I’ve been successful,’ he explains. ‘If I hadn’t, who knows? Because of that, I have learned to be cautious. I never put everything on black.’

‘Our tax payouts are enormous. There’s national insurance, business rates, VAT... Payroll is our most significant outgoing with around 20% of total costs going on people. I think that’s pretty high.’

Instant Offices

Total Tax Contribution
in the last five years,
equivalent to



920
nurses

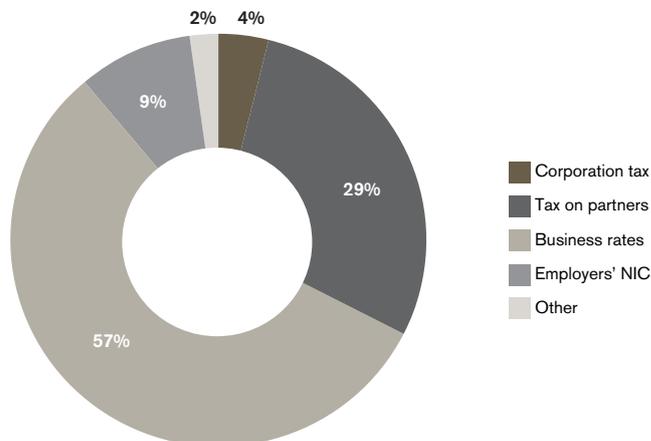
The total tax profile in 2011/2012

In the business year to 30 April 2012 Instant Offices generated revenues of £22.8m, profits before taxes of £3.1m and paid £7.0m in taxes to the UK government. Instant Offices operates through two legal entities – a partnership and a company. The profits of the partnership are not taxed through corporation tax, but through the income tax of the partners. The tax payment discussed below includes taxes that are an expense for the company, the partnership and the individual members in the partnership (taxes borne), and those that are collected by the company and the partnership on behalf of the UK government (taxes collected).

Dividends received by shareholders of a company will be subject to income tax in the hands of the shareholders when the dividends are received. The tax paid by shareholders on their dividend income is not included in this study as it is neither borne nor collected by the company.

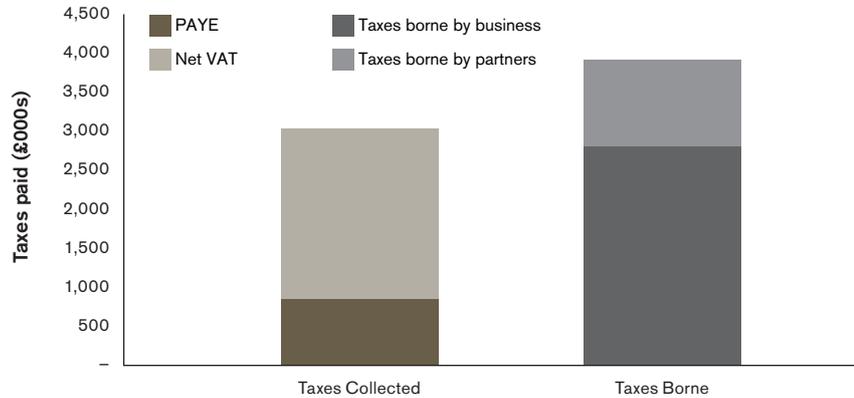
Business rates of £2.3m, which equals 10% of turnover, accounted for 57% of taxes borne in the 2011/12 business year.

Taxes borne 2011/2012



For every pound of taxes borne by the business and the partnership members a further £0.78 is paid to government in taxes collected. The tax borne has been split into tax borne by the business (i.e. the taxes borne by the company and the partnership) and the tax borne by the members of the partnership.

Taxes borne and collected 2011/2012



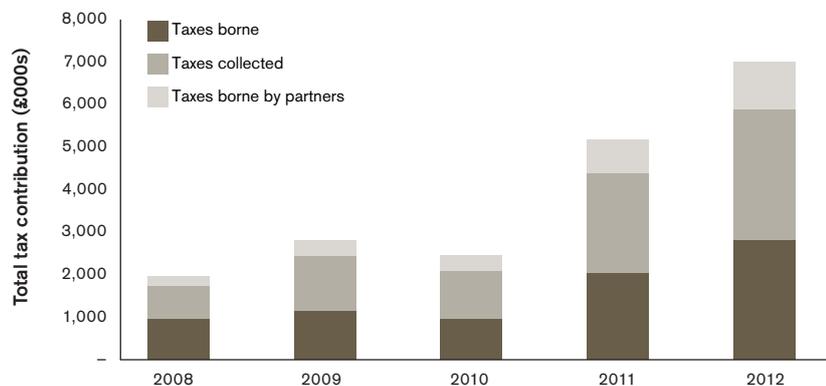
The Total Tax Contribution over the last five years

	£ millions
Total tax paid in the last 5 business years:	19.5
of which	
Taxes collected	8.7
Taxes borne by business	7.9
Taxes borne by members	2.9

Over the last five years Instant Offices has paid £19.5m in taxes borne and collected. While the trend has generally been one of increasing amounts of tax there was a reduction in 2010 due in part to a dip in profits.

The Total Tax Contribution made by Instant Offices has more than trebled over the last five years.

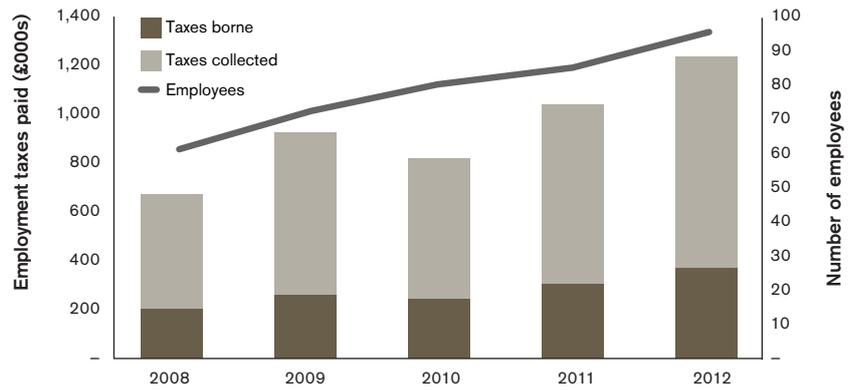
Total Tax Contribution



In the 2011/2012 business year the UK government received on average £13,000 in employment taxes for each of the 95 people employed by Instant Offices. This has increased by nearly 20% compared to 2007–2008.

In the last five years Instant Offices has increased its workforce by over 50%. Over the same period the employment taxes paid have increased by 85%.

Total employment taxes



Conclusion

In the UK today, there are an estimated 4.8 million private firms of which 99.9% qualify as small to medium-sized businesses (SMEs). The vast majority of these are micro businesses with less than five staff.

This report has showcased the less reported and very much smaller population of entrepreneurs who have grown from humble beginnings to employ close to or more than 100 staff.

In 2009 a NESTA report² showed there to be only 11,500 with more than 10 staff which were also growing at more than 20% per annum over three consecutive years. These ‘Gazelles’ accounted for just 6% of SMEs with more than 10 staff and only 0.2% of all private businesses but between them generated half of the new jobs created by existing businesses between 2002 and 2008.³

We have looked at the story behind seven entrepreneurial businesses that closely represent this valuable minority and have undertaken a study with the help of PwC to quantify their Total Tax Contribution. From a cross-section of industries and locations around Britain the common theme is simply this: they are founder-led, successful, fast-growing companies that contribute much more to the economy than is generally reported.

Overall, the entrepreneurs featured in this Report have generated a total of £104.2m for public finances over the last five years

Contribution to the economy and public services

Since inception, these businesses have overcome many challenges, faced stiff competition both at home and abroad, and faced a number of financial hardships.

Yet, throughout it all, they have continued to innovate, to create jobs, and to pay taxes, both directly and indirectly, to HMRC. Overall, the entrepreneurs featured in this Report have generated a total Total Tax Contribution of £104.2m for public finances over the last five years and for most companies in the study the largest elements of this are VAT and employment taxes. In today’s terms, that amount of money could employ 4,910 nurses for a year. And this £104.2m has been created from nothing, brought about through the tireless dedication of seven business owners (along with their co-founders and the teams they have built around them) that have committed their lives to building businesses, to creating ‘something meaningful,’ to quote Health Management founder, Andrew Noble.

As shown in their last filed accounts, these companies employ a total of 1,219 people. And, overwhelmingly, these staff are on remuneration packages that are above the national average. All of the companies have grown headcount year-on-year, contributing to the narrowing unemployment figures across the UK as a whole.

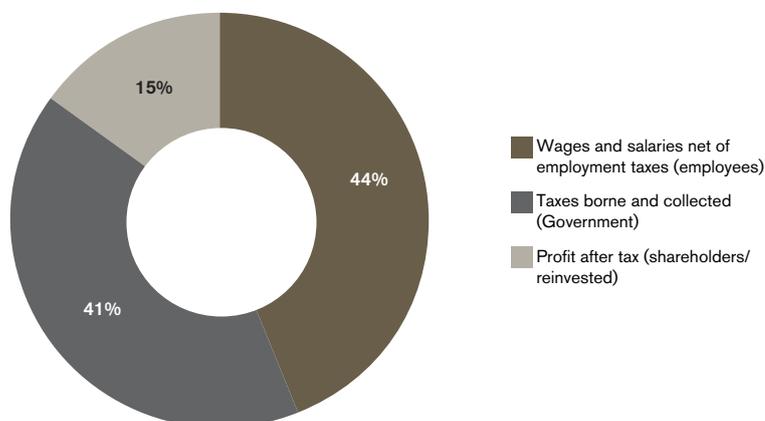
2. NESTA, October 2009 Business Growth and Innovation, *The wider impact of rapidly-growing firms in UK city-regions*, Geoff Mason, Kate Bishop and Catherine Robinson

3. NESTA, October 2009, *Measuring Business Growth, High-growth firms and their contribution to employment in the UK*, Michael Anyadike-Danes, Karen Bonner, Mark Hart and Colin Mason

How the value created is distributed

At a national level economic activity is commonly measured by the GDP. The contribution that companies make to GDP is typically measured by calculating the Gross Value Added. The Total Tax Contribution data collected by PwC, when added to UK profit after tax, wages and salaries (net of employment taxes) and net interest to finance the business, can be used to approximate Gross Value Added. This shows that of the Gross Value Added, on average over the last five years and across our companies, 44% was distributed to employees, (with a range from 29% to 62%). As most of these companies have avoided taking on any significant debt, the interest costs have been negligible. The amount retained or distributed to owners is also relatively low; just 15% on average, while the value distributed to government in taxes borne and collected on average amounts to 41% of the total (with a range from 21% to 64%).

Value distributed by the businesses in the study



Entrepreneurs vary in their views on what government should do to amend tax legislation but one thing is clear: the founders of high growth businesses like those profiled in this report make a big overall contribution to UK plc. We should do all that we can to applaud and encourage them to keep doing what they, and so few others are able to do so well.

Author

Duncan Cheatle, CEO Prelude Group, co-founder StartUp Britain

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In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

Using the PwC Total Tax Contribution framework, this study shows that successful entrepreneurial companies make a significant tax contribution to the public finances in the UK. They have also made a wider economic contribution as they have continued to grow through the recession. It is easy to forget that our entrepreneurs are hard-working people from diverse backgrounds who have risked failure and made sacrifices to pursue their ideas. We must remember that they create jobs and wealth for their workers and they contribute to the public purse. We need to celebrate their success as it brings benefits to all.

Ruby Parmar, Partner at PwC