gamBIT CORPORATE FINANCE

Business Support - 'Looking Forward'

A Human Perspective

06 August 2020

Notice to reader – the contents of this circular are subject to frequent changes and interpretations by government and the private sector.

Artificial Intelligence – A Human Perspective

Our previous publications have featured the Covid-19 return phase by engaging re-imagination and best judgement to adapt to the new normal. We have also considered some of the industrial challenges ahead, exploring the future of mobility and herein, artificial intelligence.

While the pandemic lockdown has disrupted our lives in many ways, it remains in all of our interests to build back better by embracing some of the lessons learnt and accelerating the adoption of net zero, economic inclusion and factoring resilience into our business models, infrastructure and effective governance.

Planning for the new normal is akin to trying to see around corners as the potential scenarios and combinations thereof are ever changing with the threat of localised lockdowns or a possible second wave of global infection, business recovery and failure as well as the knock-on effects of deglobalisation and Brexit.

No matter how clever you are, the future is in the main unknowable and making judgements can lead to bad decisions or raise expectations of our ability to deal with them.

We have witnessed and many businesses have benefitted from, the Covid-19 financial assistance packages dealt out by Government at all levels in collaboration with the financial sector which has involved channelling expertise across many disciplines. Yet, this collaboration does not guarantee the right decisions have been made in every instance, and even if successful that they are all the outcome of good judgement as opposed to chance and unprecedented circumstances.

An initial component of judgement is determined by breadth of relationship and recognition of parallels that are not within everyone's experience, but also knowing when one is out of the 'comfort zone' and willingly seeking the decision of another with the right credentials. Conversely, only listening to what you wish to hear, rushing to decisions or sticking to rules irrespective of the changing circumstances inevitably leads to lack of clear judgement and poor decisions.

Artificial intelligence is a growing feature of consumers daily experience from smart phones and home devices, digital assistants, and self-parking cars. However, its potential beyond task specific applications will permeate the realms of general intelligence, challenging business and society with security and ethical concerns.

As we address the future and the industrial challenge of artificial intelligence with its technological elevation going beyond routine tasks in analytics and robotics, we will need to come to terms with the eventual reality that this software or machine will eventually be less reliant on human intervention.

Developing a technology which can replicate a range of highly advanced human characteristics is some years away, but it will transform our economy and society in ways that are still very unpredictable. For the moment, AI which is programmed by humans to focus on niche tasks will have to suffice.

AI as a tool needs to be clear on what it wishes to solve. Granting too much autonomy to a machine has risks including algorithmic biases which can creep into models, for example, determining credit worthiness or preventative care selection.

The realm of sentient computers replicating a range of highly advanced human characteristics and technological growth becoming incontrollable and irreversible, the so-called singularity, is some way off becoming a reality.

However, until we really understand the ingredients of good judgement, artificial intelligence will remain a tool for efficient task-based decisions rather than surpassing human judgement determining decisions for ourselves.

Review of Capital Gains Tax

Update

- The Chancellor has recently written to the Office of Tax Simplification (OTS), calling for a review of the UK's Capital Gains Tax (CGT) regime in an effort to reduce the c.£350bn public spending deficit resulting from emergency COVID-19 spending.
- Consideration will be given to the current regime of allowances, exemptions, reliefs and the treatment of losses within CGT, as well as how gains are taxed relative to other sources of income.
- Potential options for the Chancellor to consider include:
  - Raising the CGT rates levied in alignment with income tax at varying levels (20% or 40-45%)
  - Reducing or abolishing the £12,300 annual exemption amount available to individuals
  - Levying CGT on new asset classes, such as private homes and classic cars
- With the Conservative manifesto vowing not to raise income tax, National Insurance or VAT, there are few options left for the Chancellor to consider to offset a proportion of the Government's emergency Covid-19 spending.
- Furthermore, CGT is a tax that does not affect the majority of the electorate and therefore it would be politically less impactful for the Government to implement further changes to this taxation category.
- The OTS has published a survey and a call for evidence to seek views about CGT from individuals, professional advisers and representative bodies, which will run until 12 October 2020.
- The Chancellor is expected to announce any changes to the CGT regime in his Autumn Budget.

£188bn — **Has been spent on tackling Covid-19 and mitigating its economic damage since March**

Source: The Times

£60bn — **Of higher taxes or austerity would be needed to make up the budget deficit incurred by Covid-19 related borrowing**

Source: The Times

£5.1tn — **The total value of Britain's' property wealth, which is CGT taxable**

Source: The Times

£421bn — **Imposing a tax based on a property's rise in value could raise an estimated £421bn over 25 years**

Source: Social Market Foundation

October — **The OTS investigation will be completed by 12th October, with an Autumn budget likely take place after this date**

Source: The Times

Gambit's View

Business owners contemplating a disposal were significantly impacted by the reduction in the lifetime limit on Business Asset Disposal Relief (formerly Entrepreneur's Relief) announced in March 2020. The announcement of this review indicates that the Treasury has set its sights on higher-rate income taxpayers, who are generally more likely to pay CGT in the first instance. Whilst nothing substantive may arise from this review in terms of policy change, any announcement in the Autumn 2020 Budget may take effect without delay, therefore, the immediacy of the review requires due consideration. As part of a prudent strategy, owners should consider succession planning and advancing business exit discussions with a trusted advisor ahead of this deadline in order to explore potential exit transactions within the current tax regime. We would encourage policymakers not to lose sight of the bigger picture of 'turbocharging' the economy through entrepreneurial incentives, thereby creating jobs and boosting the UK's productivity. If this is to be achieved, we require incentivised, unstifled entrepreneurs to propel us beyond the 'new normal', into sustainable, amplified future prosperity.

Corporate Insolvency and Governance Bill

Update

- The Corporate Insolvency and Governance Bill entered into force on 26 June 2020, representing a significant reform to the UK insolvency framework.
- The bill aims to prevent struggling companies from being forced to file for bankruptcy because of problems caused by the Covid-19 pandemic.
- The UK government brought in three permanent measures through the bill:
  - A "company moratorium", whereby struggling companies are given 20 business days to pursue a rescue plan, limiting creditors' ability to take legal action
  - A ban on termination provisions, preventing suppliers of goods and services from terminating, varying or exercising any right under a contract due to its counterparty entering into an insolvency procedure
  - The introduction of a new pre-insolvency rescue and reorganisation arrangement, which dissenting creditors would be required to acquiesce if it is agreed to be "fair and equitable" by a court of law
- There are also some temporary measures as follows:
  - Suspension of wrongful trading amendment, whereby the law will assume the director is not responsible for the worsening of the financial position of the company or its creditors between 1 March 2020 and 30 September 2020
  - Temporarily removing the threat of statutory demands and winding-up proceedings, where the unpaid debt is due to Covid-19
  - The relaxing of filing requirements, offering a temporary extension to the period in which a company has to file its annual accounts at Companies House

732 — **UK company insolvencies recorded in June 2020**

Source: The Times

33% — **Insolvencies in England and Wales decreased by a third in Q2 2020 compared with the same quarter last year**

Source: GOV.UK

2,974 — **Company insolvencies in England and Wales in Q2 2020**

Source: Office for National Statistics

Q2 2020 — **Insolvencies in England and Wales fell by nearly 25% when compared with Q1 2020**

Source: Office for National Statistics

23,000 — **UK insolvencies have been forecasted in 2020**

Source: The Times

31,500 — **UK insolvencies have been forecasted in 2021**

Source: The Times

Gambit's View

This bill represents a significant alteration of the UK insolvency framework at a critical time, offering welcome respite to the Directors of struggling companies and helping to temper national insolvencies. With both the German and Australian governments having already introduced flexibility in terms of their respective insolvency laws, it is encouraging to see that the UK government is adopting an open stance to substantive policy reform where there is evidence of effectiveness in developed overseas economies. Insolvency practitioners in particular are likely to see merit in the changes, alleviating the concerns raised in our Adaption Survey around a forecasted spike in corporate distress at the end of the year. In lockstep with government backed debt and the Job Retention Scheme, it is clear that a near-term insolvency wave has been avoided. Due consideration and care should now be given to ensure that implementing such measures does not produce a further rise in 'zombie' companies who are being kept on unsustainable life-support, hindering sustainable and productive future UK economic growth.

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Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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