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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SMALL FIRMS - FISCAL QUESTIONS

Memorandum by the Secretary of State for Industry

Our economic strategy has two main thrusts - the defeat of inflation, and the revival of enterprise. The first leads us inescapably to harsh measures which, temporarily, will be seen as depressing activity. There are few more important objectives at present than demonstrating that we mean business on the second - enterprise.

2 The small firms sector is the area where we can best take a bold and imaginative initiative. We have repeatedly stressed the role of small business in innovation and job creation as well as in the more general renewal of an enterprising atmosphere after years of stagnation.

3 There is wide agreement that it is in the fiscal field that we can best help small firms, start-ups and the provision of risk finance. The small firms proposals put forward by the Official Group (with the Chancellor of the Exchequer's paper, E(79)77) comprise in effect two elements:

- (a) A group of technical tax changes, which are helpful but which are not likely to set the small firms world alight;
- (b) A measure to encourage equity investment in small firms where, so far as early action in the 1980 Finance Bill is concerned, we have a choice between a capital losses scheme and a start-up scheme.

The Chancellor recommends in favour of the losses scheme for the 1980 Budget and rejects the start-up scheme altogether.

4 The capital losses scheme is not an adequate centre-piece for an enterprise package designed not only to reaffirm our commitment to small firms, but to demonstrate a positive policy on the supply side of the economy as the corollary of our monetary attack on inflation. Presentationally a scheme for a contingent relief for the minimisation of capital losses, by allowing their off-set against income tax instead of against CGT, is hardly a call to arms. In substance it might have a modest beneficial effect but its significance is not much greater than that of some of the technical measures proposed.

5 The start-up scheme is quite different. Presentationally, emphasis on genuine new enterprise is just right. I do not share the doubts expressed in the officials' Report about the narrowness of the scheme: provided the "physical investment" check is dropped, it covers a wide range of businesses in the service as well as the manufacturing sector. Although of course I would like it to be wider, I am convinced that it would have a substantial effect in stimulating people to take the risk of starting up. Like any scheme of tax incentives, it will go to some people who would have invested anyway; but I am confident that this scheme would produce much additional activity.

6 The cost of the scheme is of course a matter of concern in the difficult context in which we work (though its cost in 1980/81 might be quite small). On the scope for abuse, as we agreed when we last discussed this (E(79)13th meeting, item 2) "the proper concern of the Inland Revenue to prevent abuse should not be given higher priority than the need for new initiatives". I can think of few higher priorities - beyond the defeat of inflation itself - than encouraging the start-up of new wealth-creating enterprises; and it is important that we should achieve results in the life of this Parliament. The broader economic outlook and the need to restrain public spending and borrowing increase, rather than diminish, the need to act here. The start-up scheme represents the best - indeed the only - real chance we have of a bold and imaginative initiative in the coming months.

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