

SMALLER BUSINESSES POLICY DOCUMENT

"We shall therefore be announcing in a few months a detailed programme for the revival of smaller businesses".

(THE RIGHT APPROACH, October 1976)

<u>Contents</u>	<u>Page</u>
1. INTRODUCTION	1
2. THE CONTRIBUTION OF SMALLER BUSINESSES	3
3. JUSTICE FOR THE SELF-EMPLOYED	4
4. PLANNING, RATING AND LOCAL GOVERNMENT	6
5. FINANCE AND TAXATION	9
6. INCOME TAX	12
7. VALUE ADDED TAX	12
8. CAPITAL TAXES	13
9. EXPORTING	14
10. FAIR COMPETITION	15
11. THE PROPRIETARY COMPANY	16
12. THE OVERHEADS OF GOVERNMENT	17
13. EMPLOYMENT	18
14. THE VOICE OF THE SMALL FIRM AND THE SELF-EMPLOYED	20
15. A VITAL PART OF OUR STRATEGY	22

INTRODUCTION

Why does the Conservative Party support small businesses so actively? It does not do so out of mere sentimentality, because of a vague feeling that small businesses are a "good thing". Nor does our concern for small businesses mean that we undervalue the contribution made by larger firms to the economy. On the contrary, we fully understand their importance in terms of jobs, exports, and the creation of wealth for the future. In our strategy document "The Right Approach" published last year, we set out our broad proposals for creating a climate of expansion in which the whole of British industry can flourish.

But we promised in that document four further proposals for the encouragement of smaller businesses, and we present them now in the belief that a small business sector is necessary to an economy, and moreover, that its success is critical to a nation's economic success. If small firms are not allowed to thrive, then the whole economy - including the very largest enterprises - is liable to wither.

In the future, Britain will have to look to a great extent to its smaller and medium sized concerns to provide many of the new jobs which we need. Many of the new ideas and initiatives in industry will be found among these firms, and many of our exports will come from them. Moreover, in a rapidly changing world, a country's industrial base must be sufficiently flexible to cope with different needs and tastes. Tomorrow's giants of industry will not all be the same as those of today. There must be a "seedbed" of potential large firms, ready to grow and cater for tomorrow's demands.

It is not only history which shows that a growing and dynamic small business sector goes hand in hand with a healthy economy. Only recently, there have been two academic studies which have provided striking new evidence about the successful partnership of small and large concerns in the economies of our industrial competitors.*

The last Conservative Government recognised the importance of encouraging our smaller businesses. For the first time a Minister was appointed with special responsibility for smaller businesses. A lower rate of Corporation Tax was introduced for small firms. The restrictions applying to 'close' companies were eased. Where small firms were unable to benefit from the new Training Boards, exemptions from their levies were introduced.

... / Events since 1974

* "The Smaller Business in Britain and Germany", Graham Bannock, Wilton House Publications, London 1976, "The Evolution of Giant Firms in Britain", S.J. Prais, Cambridge University Press 1976

Events since 1974 have increased the need for special consideration of the smaller business. On top of the world-wide problems caused by the oil crisis private enterprise in Britain has had to find a path to survival through the chaotic and destructive policies and actions of the Labour Government: massive and unsustainable increases in public spending followed inevitably by sudden and disruptive reductions; a great increase in the burden of taxation and its threatening extension into many new areas; a never-ending stream of budgets and mini-budgets - thirteen at the last count; hundreds of pages of new legislation dealing with health, safety, the rights of unions and related matters; violent, unforeseen and totally mismanaged changes in the exchange rate and domestic interest rates; a catastrophic wage explosion followed by the distortions and rigidity of two rounds of wages policy, price control, and so on.

It has been a disastrous period. Over the past two years small firms have closed down at a record rate, and bankruptcies have been running at higher levels than in the Great Depression. Enterprise is being sapped at every level. Where firms have been skilful or lucky enough to survive, the incentive to grow and develop has been greatly diminished. For many who started in a weaker position, the only rational course of action has often been to close. For those considering starting up on their own, the risks and discouragements have often reached a point where it makes no sense to start an enterprise.

For all these reasons it is more urgent than ever that we should pursue policies which will revive the small business sector before it is too late.

Since the Labour Party came to power, the Conservative Party has continued to pay special attention to the needs of smaller businesses. A committee of MPs has been established to speak up for their interests in Parliament. Eighteen months ago the Small Business Bureau (SBB) was established at 32, Smith Square to keep in touch with individuals, small businesses and interested organisations in the country.

In collaboration with the SBB we are now publishing for public debate our first proposals for restoring the vigour and prosperity of the smaller business. Our motive in doing so is in part to make clear things we definitely intend to do, in part to put forward ideas which need further thought.

In each case we seek and will welcome the comments of all who read this document.

THE CONTRIBUTION OF SMALLER BUSINESSES

Our basic commitment is to recreate conditions in which individuals will see it as worth their while to create and expand successful business enterprises.

This commitment applies throughout the private sector to firms large and small. But it is of particular importance to the smaller firm for it is in this sector that the most damage has been done in recent years and it is from this sector that a considerable contribution to our recovery must be sought.

There can be no precise concept of a small business, because the sector is both so fluid and rich in diversity.* A variety of overlapping definitions are needed. Even then the borders are arbitrary.

The Conservative Party takes a broad view of what constitutes a small business. We are as much concerned with the self-employed man starting up on his own as with the established enterprise and its working proprietor, as much with the independent business which has reached its optimum trading size as with the one which is set for further growth. We are concerned with the whole range of owner-managed enterprises: one man operations, professional partnerships, independent service and manufacturing concerns, farmers, builders, shopkeepers, technical organisations like architects, civil engineering and computer firms, the many important fields of creative activity as well as the many different occupations that meet local community needs. Together, they account for over 90 per cent of businesses in Great Britain, and their contribution to our national life is enormous.

* The Government uses a definition, which we have updated for inflation, based on the terms of reference employed in the last Government Inquiry into Small Firms (Cmd. 4811, "Committee of Inquiry into Small Businesses". Chairman Mr. John Bolton). The figures currently appropriate are:

- Manufacturing: employing 200 or less persons
- Retailing: annual turnover of up to £85,000 approximately
- Wholesaling: annual turnover of up to £340,000 approximately
- All catering, except multiples and brewery managed public homes
- Construction, mining and quarrying: 25 employees or less
- Road transport: 5 vehicles or less.

The Treasury definition of a small firm for the purpose of Corporation Tax relief is one whose post-tax profits are £40,000 a year or less.

Over a third of all jobs outside the public sector is accounted for by small firms, up to the 'Bolton' size. They employ many people today, but given the opportunity they could provide many more jobs, not only within the prosperous areas, but also in the less prosperous regions and in our decaying inner cities where new work is so desperately needed.

Not only will a prosperous small business sector bring more jobs, but the success of any single small business and its increased prosperity is also of direct benefit to all those who work in it, who earn more through the improvements in productivity which go with such prosperity.

Small firms produce about a fifth of the Gross National Product. In addition to the many goods and services they provide directly to the consumer, they also supply many of the specialised components and vital services needed by large companies - in the car, aircraft and ship-building industries for example.

New ideas and new products often spring from the self-employed or the small firm. Indeed, the impetus for starting a small business is often a new invention, a new technique or a service which established firms are not providing.

A multiplicity of small firms bring great benefit to the consumer. Their role as guarantors of competition and freedom of choice is vital. So, too, is the intangible but much valued personal approach of countless small traders, craftsmen and professional people - something which economists, politicians and civil servants have all too often underestimated.

JUSTICE FOR THE SELF-EMPLOYED

A good place to start in the revival of smaller businesses is to deal with the special problems of the self-employed, for they begin so many of our new businesses.

The self-employed are an important part of the smaller business world, both as sole traders, professional people and as small employers. They will find much which concerns them in the whole range of our economic policies. There are, however, a number of issues which particularly effect them.

National Insurance Contributions and Benefits

Unlike an insurance company, the National Insurance scheme does not accumulate and invest contributions which are subsequently realised when benefits are paid out. On the contrary, the bulk of current contributions is used to pay current benefits; the largest of these is pensions, which accounts for well over two-thirds of all the money involved.

When in 1973 the Conservative Government introduced automatic increases in pensions in line with the rise in the cost of living, the "pay-as-you-go" principle obviously required an automatic system of increases in contribution from all at work. Special arrangements were made for the self-employed, to ensure that their share in the costs of National Insurance were commensurate with the benefits they stood to receive under the scheme. This led to the introduction of the 5 per cent contribution levied on profits (and other sources of income) within certain limits.

The Labour Government's prompt increase in the contribution rate by over half - from 5 per cent to 8 per cent - was totally unjustified. It was opposed by the Conservative Party and by a number of organisations whose very creation was provoked by the injustice of the increase. Subsequent adjustments have undoubtedly mitigated at least some of the worst effects of Labour's decision. But today the true position is obscure. We therefore believe that a thorough review of the contributions and the benefits of the self-employed is needed.

To ensure a fair distribution of the cost of the national insurance scheme, it will naturally be essential to take into account the benefits from which the self-employed are at present excluded (such as unemployment benefit, injury benefits and the earnings related element of sickness benefit), their lower level of claims for sickness benefit and the fact that the employers' national insurance contribution is allowable against tax, whereas that of the self-employed is not.

One solution might be to make the self-employed eligible for earnings related sickness benefit and the full range of injury benefits; provided the technical problems can be overcome, the manpower costs are acceptable and the self-employed feel that the extra cost to them would be worthwhile. We do not pretend that additional benefits can be offered without the level of contributions to be made by the self-employed being affected.

Another unsatisfactory feature of the present arrangements is that the self-employed and their families are not covered for medical benefit when they travel in EEC countries. Current negotiations within the EEC to put right this anomaly must be brought to an early and successful conclusion.

We shall ensure that the self-employed have a fair deal over national insurance benefits and contributions. We shall hold an open investigation at which we shall invite them and organisations representing them to give evidence so that their grievances can be squarely faced and fairly dealt with.

Pensions and the Self-Employed

The Labour Government has decided to exclude the self-employed from the new earnings related pension scheme starting in April 1978. This can only be acceptable if there are adequate opportunities for them to provide retirement annuities for themselves with contributions allowed against income tax. As the arrangements stand, the self-employed are at a disadvantage compared with other groups.

In making their own provision, the self-employed are allowed to contribute £3,000 per annum to a self-employed occupational scheme. This might be enough, if maximum payments could be made every year. The reality is that few self-employed can invest this sort of money until comparatively late in their career.

Our intention is that the treatment of their pension contributions should be as favourable in its overall effect as the pension provisions for company employees

714 Certificates for the Self-Employed

In 1971 we introduced legislation designed to prevent self-employed sub-contractors in the building industry evading their proper income tax payments. In April this year, the Labour Government introduced new and more stringent regulations. These require an individual to have a '714' tax certificate complete with photograph, or to suffer deductions which in many cases are far in excess of his income tax liability. The effect is to change a system for preventing tax evasion into a licence to work. These licences are not only being withheld on tax grounds. For example, a sub-contractor is also required to have employer's liability insurance cover for a quarter of a million pounds. If tax payments have been in arrears during the earlier years licences are also withheld without any right of appeal - and, in many cases without any reasons being given.

We deplore this situation and moved an amendment to the 1977 Finance Bill to delete the most offensive features of Labour's new legislation, which Ministers refused to accept. -

The next Conservative Government will therefore undertake a complete review of all the conditions which have now been attached to the system, and make whatever changes in the law are then seen to be necessary to ensure that contractors get a fair deal and make their proper tax payments.

PLANNING, RATING AND LOCAL GOVERNMENT

We are very concerned about the many ways in which the planning system inhibits the creation and obstructs the expansion of new businesses. Would the Morphy Richards electrical company now be able to start in a barn as it did in 1936? Or would Morris have been allowed to extend from bicycle repairs into the manufacture of the early motor car? We very much doubt it! Many of today's key firms would have been hamstrung from their inception if planning regulations as operated today, had been in existence at the time they were started. And who can tell how many promising ventures have never seen the light of day at all because of planning controls? In recent years our planning system has probably developed into as serious a problem for smaller firms as finance.

Rigid planning not only creates obstacles to individual enterprise. It also robs needy areas of new employment and new wealth. Many of our older cities and towns, as well as rural areas, have suffered gravely from its effects. As a result, some have not enjoyed the growing prosperity which was open to them, while in many others there has been no influx of new activities to offset a process of painful decline.

At the same time, comprehensive redevelopment schemes have done grave damage to many inner city areas, by squeezing out small firms. Valuable services have been swept away, impoverishing local facilities, destroying jobs and in some cases radically altering the character and age-balance of the community.

A complete "rethink" of planning practices is required. The aim must be fewer restrictions and less bureaucracy, more common sense, a speeding up of procedures and positive initiatives to favour the birth of new businesses.

Not enough thought goes into the effect of redevelopment plans on small businesses. Too often the grand new shopping parade results in the mass disappearance of numerous local traders, unable to compete for space against the multiples who can afford high rents for new premises. Another difficulty lies in obtaining freehold possession of industrial premises. To do so more easily would greatly help small firms, as a freehold provides collateral for loans for expansion. More sensitivity to small business needs should be a feature of future redevelopment schemes.

Equally important in some areas, is that it should not be too difficult to obtain planning permission for the redevelopment or conversion of old buildings for business purposes.

Planning delays are another special problem for the small firm with its limited resources. We are investigating ways in which they can be reduced. For example, we are examining the feasibility of setting a time limit between application and decision, with failure to meet the deadline resulting in consent being granted automatically.

For all their good intentions, many of today's controls are too restrictive and are proving damaging on balance. In particular, we intend to raise the limits for exemption from Industrial Development Certificates (IDCs) and to examine the justification for Office Development Permits (ODPs), the future role of London's Location of Offices Bureau (LOB), the distribution of regional subsidies and the network of regulations governing land use.

Our proposals on planning are then:

1. To encourage local authorities to make ample provision for small businesses in planning allocation. Small businesses should have high priority for planning permission.
2. To ensure that planning officials keep councillors fully informed over redevelopment proposals involving small businesses.
3. To put a limit on the amount of time allowed for councils to consider planning requests, possibly along the lines suggested in the Dobry Report.
4. We shall fully investigate the present national planning system including IDCs, the LOB, regional subsidies and zoning regulations.

Rates and Local Authority Responsibilities

The dramatic increase in rates over the past three years has had a particularly serious effect on small firms. In some cases, especially for small shopkeepers, it has been the last straw which has forced them out of business. In preparing our policies for reform of local government finance, we

shall ensure that the burden of local government costs will be more fairly shared, and that when this happens business interests are protected. We shall also give all small firms (below a defined rateable value) the automatic right to pay rates by instalments - something which is at present only allowed by some councils.

A special problem exists where living accommodation is combined with business premises, as often happens in shops. In many cases, this 'mixed hereditament' is rated in such a way that the residential part of the premises do not enjoy the domestic relief allowed to other ratepayers. We shall change this.

We are much concerned at the tendency in recent years for local authorities to extend their activities beyond those necessary to fulfill their legitimate duties. For example, the outrageous proposals of the Socialist controlled West Midlands County Council in 1976 would have allowed that Council to use ratepayers' money to set up in business as butcher, baker, market gardener, chemist, estate agent, garage or travel agent, (owing to some Socialist oversight the candlestick-maker was excluded). All of these are jobs which are perfectly adequately done by private firms, usually by smaller businesses. Competition of this sort is both unfair and inefficient. The normal commercial disciplines do not operate. Such Council activities often receive subsidies from the rates, sometimes concealed because they are given 'free' use of the services of other departments of the Council.

Therefore, we shall not permit local authorities to extend their trading activities and we shall insist that full and proper accounts are kept of those already in existence.

Similarly, the Direct Labour Departments of local authorities have in many cases taken work from local builders who, as ratepayers, may well be subsidising them. Because of unsatisfactory accounting methods, local councillors are frequently unaware of the extent of this subsidy or the true costs of contracts undertaken. Recent examples which have come to light include the Borough of Camden in London (where the National Building Agency found a record of 'inefficiency and mismanagement') and Glasgow (where the Direct Labour Organisation has been described as 'an inefficient and costly monster' and actually exceeded its price on one contract by £1 million).

The Labour Government's plans to encourage the expansion of Direct Labour Departments; and to introduce legislation to give powers to local authorities to undertake work outside their own boundaries, are totally unacceptable. We have been fighting these proposals both inside and outside Parliament since they were announced. Fortunately, opposition in Parliament, and Labour's loss of its overall majority, made the Government shelve its plans. But if they are enacted we shall repeal them, and we shall seek ways in general, to reverse the advance of central and local government into activities better carried out by private enterprise.

Our proposals for local government finance include:

1. Ensuring that the interests of commercial and industrial ratepayers are safeguarded when the present rating system is changed.
2. Giving small firms the right to pay rates by instalment.
3. Allowing the residential parts of mixed hereditaments to have domestic relief.

We shall implement the recommendations of the Chartered Institute of Public Finance and Accountancy Committee for Direct Labour Departments, namely:

1. Direct Labour Departments should be established as separate trading services.
2. All contracts should be subject to competitive tender.
3. Final accounts, fully itemised and including overheads, should be submitted within a defined time limit.

FINANCE AND TAXATION

We are prepared for a general election at any time. But it does not have to be held until October 1979. We cannot therefore foresee what will be the precise state of the economy when we return to Government. So it would be quite wrong to enter now into detailed undertakings on the level of particular taxes. For this reason, much of what we have to say on taxation and the financing of small firms is necessarily less precise than it will be when the circumstances facing the next Conservative Chancellor are known.

Any review of taxation must take account of the balance between 'direct' taxes (on incomes and profits) and 'indirect' taxes (on spending). As we have argued before, we believe that the present balance is wrong, and that more of the tax burden should be shifted onto the pockets of those who spend and can afford to do so. This will not only enable us to provide greater incentives at work, but will also restore greater choice to the individual.

Direct Taxation

A person setting out to start or expand a business frequently has to find the necessary capital from his own resources. Unless he is relatively wealthy, he is unlikely to possess sufficient assets of the right kind to pledge as security against a loan from a bank or other lending institutions. The amount of money an individual can save for this purpose, and the balance of dangers and rewards involved

in so doing, are both greatly affected by income tax rates. As nearly everyone knows to his and her cost, the steep rise in income tax rates in recent years has made the accumulation of a reasonable amount of capital an increasingly difficult, if not impossible, enterprise.

To make matters worse, the number of people willing to back an enterprising individual in a new venture has dwindled fast. Nearly every aspect of our current tax system operates in a manner calculated to discourage potential backers. Taken together, the withdrawal of tax allowances on overdrafts for investment of this sort, penal rates of income tax, capital gains tax and investment income surcharge, have virtually eliminated this traditional source of risk capital. So we shall be specifically looking to see what reliefs are possible in all these areas.

Small businesses have always had to rely to a very large extent on retained profits to finance expansion. As a result of inflation, a growing share of these drinking and hard-won profits is needed simply to maintain the same volume of business. Their funds are still further reduced by the combination of Corporation Tax with the present shortfall provisions. The tax reliefs on stock appreciation introduced in 1975 and 1976 have served to mitigate the immediate crisis caused by the impact of inflation. However, the Government have insisted that this tax relief continue to be regarded as a postponement and not a final cancellation of liability to Corporation Tax, thus diminishing the capacity of many firms to show collateral for a bank loan. This problem is of particular significance to small businesses. It is for this reason that the Conservative Party intends to cancel industry's liability under the Stock Relief provisions. In the meantime, investigation into methods of improving accounting techniques to allow for inflation will continue.

Faced with all these problems it is no wonder that under-capitalisation is now one of the gravest problems afflicting industry. Recent evidence to the House of Commons Select Committee on Science and Technology showed that the greatest obstacle to technological innovation is neither a shortage of ideas nor lack of opportunity - but a shortage of capital.

With these points in mind,

We shall improve the provisions for the treatment of small firms under Corporation Tax to give more assistance to the large number of companies who are too small to go to the Stock Market for new capital.

The simplest way to do this would be raise the profit limits determining eligibility for the smaller company concessionary rate, which have been badly eroded by inflation.

We shall also examine two other possible courses of action. It has been suggested, first, that the rules governing the taxation of close companies should be eased, enabling them to accumulate funds for expansion providing they are spent within a given period. We shall examine whether the rules can be quickly eased while continuing to ensure proper guarantees

against abuse. With the sharp reductions in the top rates of income tax which we envisage it is to be hoped that in the longer run it will be possible to relax further the very restrictive rules which govern 'close' companies at present.

It has also been suggested that there is a case for introducing "Certificates of Future Investment", enabling smaller firms to obtain concessions from Corporation Tax on condition that the money thus set aside is spent on fixed investment. There are serious risks of abuse in any such proposal; but we shall consider it carefully if a soundly based scheme can be devised.

Government assistance in raising capital

We are not in favour of the Government or its agencies playing a larger role in the direct provision of capital to small businesses. Quite apart from the banks, there are the Industrial and Commercial Finance Corporation (ICFC), the Council for Small Firms in Rural Areas (COSIRA) and the small business division of the Scottish Development Agency which are all active in the field. Taken in conjunction with the grants made available under the Industry Acts by the Department of Industry, it can be seen that most firms with a promising and properly researched proposal can approach a fair number of institutions which may be willing to back them - provided always that the proposal is a fairly substantial one.

There may, however be problems for firms with smaller proposals, costing £50,000 or less particularly in urban areas. In such cases there is a double problem. The preparation and presentation of the proposal to potential backers may be beyond the resources of the firm, and the time and effort involved for the backers in investigating it may well be disproportionate to its possible significance to them. This problem is already dealt with to some extent in rural areas by COSIRA. As well as being able to grant loans of up to £30,000 for 20 years on mortgage in country areas and small towns (with a population of up to 10,000), this body can also deal with the problem of presenting and appraising projects.

In view of the pressing need to revive the inner cities, there may be a case for applying some of the lessons of COSIRA in selected urban areas.

We are therefore examining the case for new arrangements to assist firms with possible ventures in decaying urban areas in preparing and presenting their proposals for submission to bodies such as ICFC. One way of doing this would be to work in conjunction with the Department of Industry's Small Firms Advisory Centres.

Finally, there is the possibility of following the example of the Small Business Administration (SBA) in the USA, whose major financial effort in recent years has been its Guarantee Bank Loan Programme. The essence of this programme is that the SBA guarantees loans by ordinary private banks to

small businesses which meet certain criteria. Such a system could well mobilise a substantially larger amount of loan finance for the smaller business. In the USA, where schemes of this kind have been in operation for some time, the programme generates an annual volume of loans of about \$2 billion.

Slavishly copying policies or institutions from other countries without proper consideration of their relevance to our own problems and conditions is a dangerous fashion of recent years to which we are determined not to fall prey. However, the success and scope of the SBA schemes is sufficient to suggest that we should examine them carefully.

INCOME TAX

Reduction of the burden of direct taxation will be given the highest priority in the early budgets of the next Conservative Government. Not only is our present starting rate of Income Tax, at 34p in the pound, the highest in the world; Britain's top rates of tax, at 83 per cent on earned income and 98 per cent on investment income stand out as a beacon of fiscal absurdity.

The next Conservative Government will aim to bring the top rate for earned income down to 60 per cent; it will aim to bring down the starting rate, and it will aim to raise the levels at which the intermediate higher rates begin to bite.

All this will be designed to leave a greater share of national income in the private sector, instead of syphoning it off through the Budget to be used in supporting a top heavy burden of administration and of state interference.

With a top rate of tax of 60 per cent, Britain would be in line with her main industrial competitors (Germany 56 per cent, France 54 per cent, USA 55½ per cent, Canada 61 per cent). This is not to say that, in the longer run, it would not be highly desirable to go further.

VALUE ADDED TAX

When Lord Barber introduced Value Added Tax in 1973, he wisely chose a single rate rather than a range of multiple rates such as had bedevilled Purchase Tax. That single rate was among the lowest in Europe, an easily handled 10 per cent. Regrettably Mr. Healey has since made the tax far more complicated by shifting to a dual rate system - eight per cent and 12½ per cent - which actually yields less than the original figure.

In order to exempt small traders and people with part-time businesses, the Conservative Government set an exemption limit for compulsory registration for VAT at an annual turnover of £5,000. Since that figure was fixed, price levels have doubled, and approximately a quarter of a million

enterprises have been dragged into the net. Conservatives have pressed hard for the £5,000 to be doubled; some progress was made in this year's Finance Bill proceedings, when a compromise £7,500 was forced out of the Government.

A specially appointed task-force has been reviewing the working of VAT and has recently reported to the Party. One of its recommendations involved introduction of a new optional basis of assessment for VAT which would relieve small firms from much of the administrative burden of the tax. The Committee has also been looking at the enforcement powers given to Customs and Excise, which have been called into question by a number of recent cases.

The next Conservative Government will implement the main recommendations of the Howell committee which are that:

1. We should revert to a single positive rate of VAT.
2. The threshold for registration should be increased in line with past inflation to £10,000.
3. There should be relief from tax in the case of genuine bad debts.
4. Simplified procedures should be introduced which would give small firms the option of paying tax quarterly on an estimated basis, with adjustment later on when audited accounts are available.
5. Powers of investigation and enquiry should be reviewed, in the context of a general review of Customs and Excise and Inland Revenue enforcement powers.

The VAT system has been the subject of extensive discussion in the EEC leading to the introduction of an important directive which came into force recently. The provisions of that directive, which touch on the question of registration thresholds, are to be implemented over a period of years. The next Conservative Government will need to ensure that the terms are not implemented inflexibly in a manner which lowers the threshold.

CAPITAL TAXES

There is nothing revolutionary in the idea of a tax at death on capital accumulated during a life-time. Indeed the Death Duty system ran for three or four generations before it was replaced. What is unacceptable about present capital taxation is that it undermines the whole process of wealth creation. For example, Capital Transfer Tax as currently levied reduces the possibility of passing on, from one generation to the next, any reasonable sized enterprise whether in industry, commerce or farming. In so doing, it raises doubts in peoples' minds as to whether it is worth while to create, sustain or expand their business. Capital Gains Tax is often an onerous and arbitrary tax on 'paper' increases in capital value caused by inflation and may in addition have to be paid on top of

Capital Transfer Tax. There is something very curious about the morality of a tax system which allows large sums to be won tax free on the pools but imposes enormous tax penalties on those who work hard and successfully to build up a business.

To make matters still worse, the Labour Party intends to go still further and introduce a Wealth Tax. The Liberal Party also seem to favour this idea. No convincing case has been made for such a tax within our present tax structure and in today's political climate. As well as being onerous, it is likely to be at the very least administratively complex. The uses to which it could be put by an extreme left-wing Labour Government scarcely need to be spelt out.

In some cases it might end up being paid out of a businessman's after-tax income. In the case of a successful firm built up by an individual, it could well take very large sums of money out of the business. The damage it threatens to cause is likely to be very serious, particularly if it is introduced in conditions like today's.

Even without a Wealth Tax, the demoralising effects of Capital Gains and Capital Transfer Tax are a very serious matter. We have direct evidence, as must many people throughout the country, of businesses where these two taxes have already deterred expansion.

The problems to be tackled therefore go beyond the character and effects of each capital tax taken separately. It is their joint effect which matters as much as anything. In order to work out the best solution, the Conservative Party has established an expert study group which will be reporting shortly on the ways in which the damaging features of these taxes can be eliminated.

On the basis of their recommendations and the public's reaction to them, the next Conservative Government will introduce early and substantial changes in both Capital Gains Tax and Capital Transfer Tax. Our objective will be to recreate once again the conditions in which the successful small business can survive prosperously between one generation and the next. At a later stage it is our intention to carry out a major rationalisation of the whole structure of capital taxation.

At all times we shall take great trouble to introduce any reforms after full consultation and adequate notice. With this as with other kinds of taxation we cannot afford yet again the disruption and uncertainty which have too often characterised fiscal legislation in this country.

EXPORTING

Small firms play an important part in Britain's international trade and finance, most notably in the services sector. Some are already major exporters in their field - particularly perhaps some specialised manufacturing businesses.

One of our major earners of foreign exchange (although not an exporting industry in the normal sense) is Tourism, which consists of countless small businesses throughout the country. Many firms, though not exporters themselves, are suppliers of key components and services to the bigger manufacturing firms which are in the front-line of the export trade.

With the growing opportunities in Europe and the Middle East, there are important and growing opportunities for small firms as direct exporters. It is significant that smaller firms are featuring prominently in the Queens Award Scheme. Between 1971 and 1974, firms exporting less than £1 million a year increased their share of awards from a seventh to over a third. In 1974 nearly half the awards were won by firms employing fewer than 200 people.

Some of the obstacles which at present prevent some small firms from exploiting the potential of overseas markets (as the best already do) are unfamiliarity with the assistance offered by Government, the complications of financing and the bureaucracy involved. Accordingly, we shall:

1. Ensure that the full range of facilities offered by the Export Credits Guarantee Department (ECGD), the Department of Trade and other organisations concerned with assisting exporters are properly publicised and explained to smaller businesses.
2. Consider carefully whether there is a case for improving ECGD facilities such as pre-shipment finance and performance bonds.

FAIR COMPETITION

Challenge to an established business by a competitor is invigorating and beneficial to the consumer. It is the spur which most frequently leads to improvement of product or service. That is one of the reasons why Conservative Governments have been keen to prevent monopolies from developing and why we acted in 1973 to strengthen anti-monopoly legislation. That is why we have fought every socialist attempt to create state monopolies shielded from the need to improve their services and to raise their efficiency by the absence of competition.

However our commitment in favour of competition naturally involves opposition to unfair conditions of competition, whether from private, state-run or state-subsidised organisations. We are therefore concerned not only about the growing trading activities of local authorities, but also about extension of the activities of the Nationalised Industries into manufacturing and distribution. This provides growing opportunities for unfair competition.

We shall therefore make sure that the safeguards against unfair competition from Nationalised Industries are adequate and that they are properly enforced.

We are not satisfied that Government departments supply sufficient information to small firms on opportunities to tender.

We shall make sure that Government departments make the opportunities to tender widely available to small firms.

Sometimes small traders nostalgically ask for a return to Resale Price Maintenance (RPM). The system was already breaking down in many areas before legislation officially ended it. But, more to the point, small shops survive partly because each can offer its own pattern of service, tailored to the area and customers it serves - for example credit facilities, delivery, opening hours, specialised stock, and after-sales service. These extras cost money, and the size of the profit margins they dictate will and should vary from one shop to the next. It would therefore be wrong and damaging if small businesses were compelled to sell at fixed prices, reflecting a low and fixed mark-up appropriate to a cash and carry store which does not provide these additional advantages.

A more legitimate area of complaint is that some suppliers vary their discounts for orders of equal size, thus unfairly favouring certain customers. In the United States, this practice is unlawful under the Robinson Patman legislation.

This may not be the ideal method, but we are investigating this and other ways of making trading practices more fair.

THE PROPRIETARY COMPANY

The limited company has been with us since the mid-nineteenth century. Because of the protection it allows the investor, additional investment and risk capital have been forthcoming to the great benefit of the economy.

There are over 1.5 million limited companies in existence today. The same law applies to all: from the giant international concern to the village engineering works. Since the Socialists' Companies Act of 1967, even the smallest of these enterprises has been obliged to disclose information in virtually the same way as the large organisation. This is not as self-evidently desirable as it may seem.

No one disputes that companies in which the public are invited to invest should disclose the information required if outside investors are to be put in a position to make a proper appraisal of the way their money is being used. But small family businesses are not soliciting outside funds in this fashion. The need to comply with the requirements of the Companies Act is naturally the cause of a considerable amount of work. But, more important, it may actually be harmful in some circumstances. The compulsory disclosure of, for example, turnover and profit figures for a one-plant firm may be helpful to a larger competitor who, with several factories, may

legitimately be able to bury detailed information about any one of his plants in the overall totals for his firm. Another example is that of the one-product company, marketing in competition with continental or Japanese manufacturers. These are able to pick up clues about how to undercut its export trade while not having to disclose any useful information about themselves.

In addition to the requirements of the Companies Act, the small firm is engulfed in a growing mass of burdensome regulations, many of which are particularly onerous.

For taxation purposes, we already recognise that small companies are different. It is appropriate to extend this principle where possible.

It is for this reason that we propose careful examination of the idea of a new type of limited company, which we have called the Proprietary Company, which will reflect the different characteristics and needs of smaller firms.

Introduction of the 'Proprietary Company', or alternative changes in company law, could in due course provide a way of easing the burden of some regulations and make easier the introduction of a tax regime more suited to the needs of the genuinely independent small business. In considering this proposal, we in Britain will have lessons to learn from our colleagues in the EEC with their more versatile company law structure.

Naturally we shall now carefully consult experts and interested parties since this is a proposal on which outside advice and ideas will be of particular value. The key questions are how the new kind of company is to be defined, what kind of advantages it could be given and how generous they might be, both whether and how far they should go beyond fiscal matters and company law, for example to embrace the vexed problems of "Government over-heads" to which we now turn.

THE OVERHEADS OF GOVERNMENT

As the tentacles of Government have spread further into industry, bureaucracy has become a growing and more intolerable burden. Questionnaires, forms and regulations have all multiplied inordinately, absorbing more time and manpower and diverting management from more productive activities.

While the effects are increasingly being felt throughout industry (the cry 'get off our backs' is universal now), the smaller the company the bigger the problems. Unlike the large firm with its many specialist departments, the small company lacks the staff and skills to carry out the extra tasks demanded of it. So responsibility for dealing with this growing burden of work falls mainly on the 'boss'.

To give just a few examples, complex regulations on these topics exist:

Employment, Shops, Factories, Offices and Railways Premises; Price and Profit Controls; Training Boards; Labelling Regulations; Consumer Protection; Hire Purchase and Credit Trading Licences and Regulations; the Trade Descriptions Act; Wages Councils; the Factory Acts; Fire Regulations; Contracts of Employment; Redundancy Payments; Health and Safety at Work; Equal Pay; Compulsory Insurance legislation; Race Relations and Sex Discrimination legislation; Multi-Rate VAT; Trade Unions and Labour Relations.

In addition, in 1975 the Department of Industry sent out 780,000 forms to businesses and the Department of Trade sent out 344,000 to distributive and service industries.

Legislation and regulation of such matters are indispensable in any civilised society. But that does not mean that every such law or rule must necessarily be accepted unquestioningly, however complex it may be in its own right and regardless of the costs to the economy involved in its implementation. The cumulative effect of the scale of issues covered, the complexity of the legislation and the burdens and costs it involves have grown recently to critical levels which divert and blunt the energies of small firms and rob them of time which should be devoted to running the business.

The Conservative Party is already investigating ways of reducing the burden of legislation and regulation, which apart from the damage it causes industry, is costing growing sums of public money.

We believe that our investigations - which we shall continue when we are in Government - will make it possible for the first time to reduce significantly the impact of Government on industry, particularly where small firms are concerned.

We shall ensure that forms and notices sent out by Government Departments and agencies state clearly at the front to whom they apply and whether they are compulsory. Apart from keeping a watchful eye on requests from the Common Market Commission, we shall keep a close check on the gathering of new statistics by Government Departments.

To cut down on existing paperwork, we shall carefully examine situations in which almost identical questionnaires are sent out by different agencies. We shall also look into the feasibility of using more sampling techniques, and the possibility of streamlining returns by using multi-purpose forms. Our proposals on VAT simplification will also lead to major reductions in paper-work.

EMPLOYMENT

With every day that the Labour Government stays in power, the prospects for employment grow dimmer. The need for new sources of jobs becomes ever more urgent. But little or nothing is done to create secure and well-paid opportunities on the scale needed to offset the manpower reductions in declining

sectors and areas, let alone to absorb our steadily growing labour force. With the Government almost exclusively preoccupied with short-term palliative schemes designed to keep people off the unemployment register, it is high time that attention was shifted back to the fundamental issues which really decide whether employment will grow or contract.

For a variety of reasons we believe that most larger firms are unlikely to be large recruiters of manpower in the foreseeable future. It is almost certainly going to be easier to encourage smaller firms to take on more people.

A major deterrent to the expansion of jobs in smaller firms is the number and complexity of recent regulations governing terms and conditions of employment and employee rights. No one would wish to restrict the rights of employees, whether in small or large firms. But it is possible that the cost of some rights underwritten by legislation is proving so prohibitive to employers that the most fundamental right of all is jeopardised, namely the right to work. The consequence of this could well be much more important than is generally realised. For if every smaller business in the country recruited just one extra employee, the dole queues would be dramatically cut, perhaps by a half.

The Labour Government appears to understand neither how a small firm operates, nor the potential contribution to employment that small firms collectively could make. Time and again during the passage of the Employment Protection Act, we sought special consideration for small firms - for example, over the provisions for maternity leave, and 'time off' for trade union or public service duties. This was not because we wanted to penalise employees, but because we feared that otherwise jobs would be lost and pay packets would be smaller.

We are now monitoring the effect of this legislation and, if our fears prove justified, we shall on our return to Government amend it wherever necessary after proper consultation with interested bodies.

Another issue of considerable importance centres on the growing number of appeals to industrial tribunals, particularly of unfair dismissal cases. While we fully support the basic right of all employees in this respect, many small firms, particularly in the contracting industry, are anxious about the way the system currently operates.

We are seeking as much evidence as possible on the practical operation of this legislation to see if a review is necessary.

We have also been disturbed by examples brought to our attention of apparently frivolous and vexatious cases which find their way to Tribunals. The proliferation of such cases harms both the employers and the employee. Time is wasted, the course of justice is obstructed, and unnecessary expense is caused.

If experience shows abuse to be widespread, we shall seek to take steps to protect those penalised by unreasonable claims.

Training Boards

We reassert our belief in the importance of training and the Training Board System, but we recognise too that the very small firm is generally unable to benefit much from it. We shall therefore continue the existing exemptions from levy established under the Industrial Training Act.

Many working proprietors whose firms do come within the scope of the levy system cannot afford the time off to benefit from Training Board activities. Moreover, frequently their prime need is not so much trade skills as assistance in such areas as administration, accounting or marketing which are unlikely to be covered by their Training Board.

We shall therefore allow smaller firms subject to the levy to reclaim a portion of their contribution for management, advisory and consultancy services.

Most Boards assess the basis for exemption according to the payroll of the firm. It seems likely that the effect of inflation on wages and salaries has swept some firms that are really too small to benefit into the levy/grant system. Between 1974 and 1975, levy exemptions went up on average by 17.3 per cent whereas in the same period wages rose by 25.5 per cent.

We believe therefore, that applications from training boards for levy orders should take into account the effect of inflation on exemption levels.

THE VOICE OF THE SMALL FIRM AND THE SELF-EMPLOYED

* We therefore believe that these organisations which represent small firms and the self-employed should consider whether it might not pay to establish some kind of liaison committee. If it can be set up on a stable and representative basis, the next Conservative Government would wish to consult the new/ on a wide range of issues of legitimate concern to the smaller business. If a soundly based relationship can be thus developed, we would wish to consider whether the new organisation should be given a part to play in the affairs of the National Economic Development Office and Council.

In almost all matters in which British Governments seek to consult worker and employer interests, the important contacts are largely or wholly with the Trades Union Congress or the Confederation of British Industry. Neither organisation would claim to speak for the interests of the self-employed and the very small business, who are represented by a number of competing organisations which both are unlikely to unite and would probably lose by doing so. But for purposes of contacts with Government or Parliament such unbridled diversity is undoubtedly a major

(* This paragraph should be read after line 6, ending "smaller business community" on the following page)

handicap. Without some kind of umbrella organisation or liaison committee, the task of making united representations to Parliament or Government is impossible, and it is very difficult for the authorities to obtain coherent guidance when for their part they wish to seek advice from representatives of the smaller business community.

The need for small firms to have a voice within government led to the Bolton Committee's recommendation for the creation of a Division within the Department of Trade and Industry, and the designation of a new Minister. The Conservative Government appointed the first ever Minister with special responsibility for small firms and the Labour Government has continued the appointment.

This new arrangement has not, however, prevented the Labour Government from introducing a whole range of damaging measures: Multi-Rate VAT, Capital Transfer Tax, the new National Insurance Surcharge, complex legislation such as the Employment Protection Act, the activities of the Price Commission, growing form-filling and more bureaucracy.

It is therefore tempting to conclude that present arrangements are unsatisfactory and that there may be a case for up-grading the Minister's status, perhaps creating a separate department with responsibility for small businesses, or even doing both. We believe this to be a false diagnosis, for two reasons. The spate of undesirable regulation and legislation imposed by the Labour Government is doctrinaire in inspiration, and much of it was dictated by a few trade union leaders under the terms of various stages of the Social Contract. It is the natural and inevitable product of the philosophy of the Labour Party and its constituent power groups. No institutional arrangements of the kind proposed could have made any significant difference to what has been done.

The other factor concerns bureaucracy. Small firms are in most respects a microcosm of our economy, indeed of our society. Once their interests are institutionalised in Government beyond a certain point, one creates circumstances in which a vast range of Government activity has to be analysed and "second-guessed" from the small-business point of view. This would be a prescription for frustration, expense, delay and inefficiency. No one would gain from it, not even the small businesses themselves.

What is needed rather is a Government whose whole philosophy and whose policies have the interest of smaller enterprises at heart. Concern for the small business sector and the self-employed should not be an occasional apologetic after-thought. It should take its place naturally at the heart of our economic and industrial strategy.

A VITAL PART OF OUR STRATEGY

Concern for small businesses is not, as we have argued our exclusive concern in economic management. But it is a vital part of our total strategy for putting Britain back on the road to recovery. The purpose of this document is to put forward for discussion some proposals which make up part of that strategy. We hope they will provoke debate and that the response to these ideas will help us to improve them, so that they can in time form part of that stable, workable and humane framework in which enterprise can flourish.

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22.7.77