

A year ago when we published *The Right Approach*, we promised to follow it with detailed proposals for the revival of smaller businesses. Since then we have had the benefit of advice from many sources - not least from the very successful Small Business Conference held in London in February. We have reached important decisions on many policies that concern small firms.

During this year, the plight of many small businesses has worsened. Thousands have gone bankrupt, and many more are struggling. Small and large firms alike are finding survival difficult in an economy where they are over taxed, over controlled and under rewarded.

Government cannot create prosperity, but they can prevent other people from creating it. At present that is what the Labour Government is doing. Nothing less is needed for the revival of small businesses than a new economic climate, and we believe that our approach and our proposals will create the conditions in which firms both large and small can thrive and prosper. That is the aim of all our policies.

Our proposals for lower taxes and simpler taxes, more incentives fewer controls, lower public spending and more resources for the private sector will, we believe, go a long way towards re-building the right environment for industry and for businesses of all kinds.

Small firms are particularly important for two reasons. They have always been the source of new ideas. It has often been the pioneering of a small firm that has led to the transdation of new inventions ~~into~~ new products, and the opening up of new markets.. And they are the source of new employment. It is to them that we must look to provide the hundreds of thousands of new jobs we need.

Too many opportunities today are being lost because individuals with skill and enterprise are prevented from developing them, and small established firms are unable to expand.

Alternative Endings

1. This is why I am glad now to bring forward proposals for the revival of this vital sector. They are based on the work of a group of Members of Parliament under the chairmanship of Mr David Mitchell.

I very much hope that their proposals will generate wider debate that will produce further ideas. We shall welcome any and all that help towards forming our plans for action in Government.

2. We have already published, for discussion and advice, our proposals on VAT and on Profit Sharing.

I am particularly glad now to bring forward these proposals for Small Businesses. They are based on the work of a group of MPs under the Chairmanship of Mr. David Mitchell. →

The proposals include, besides those already put forward in The Right Approach which was published a year ago, a number of imaginative ideas produced by the Group. We shall welcome wide debate on them during the coming months. Comment and advice will be immensely valuable to us, both in drawing up our Manifesto and in forming our plans for action in Government.

Revival of small businesses is essential to our revival as a country: all our plans must be formed with their needs in mind. I believe that in this paper we are setting out a clear and sensible programme for bringing about that long overdue revival.

AB/ISA

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ALTERNATIVE DRAFT PROGRAMME FOR SMALL BUSINESSESConservative Party Policy for the Self-Employed and the
Smaller Business

Working for oneself has always been hard work. But it has been for centuries a source of great pride and satisfaction for hundreds of thousands of British people. Independent themselves they have been able, through the jobs they create, to make others prosperous in their turn while their taxes have helped to build the social services which support the weakest in our community.

Today the position is very different. It has rarely been as difficult to start or expand a business, or to hand it on to one's children as a going concern. For many, the pressure of bureaucracy and growth of controls have made their once-prized independence a burden too heavy to be worth carrying for much longer, while tax is destroying the incentives to do so. Hope is being strangled and as a result those indispensable qualities of imagination, enterprise and drive are being stifled. Businesses are dying too, faster than at any time since 1914 and with them not only jobs and tax revenues, but also the new ventures on which tomorrow's living standards will depend.

The Conservative Party must take steps to reverse this trend. The aim must be to change the atmosphere and environment for the business community, to create anew conditions in which men and women of independent spirit will see it as worth their while to use their skill and enthusiasm to start or expand profitable enterprises.

This must be the goal for all businesses of whatever size, and the whole of Conservative economic strategy should have that purpose. L But smaller businesses have their own needs and priorities which require appropriate policies - and the rewards to society for meeting these needs are potentially very great. More than one job in three outside the public sector is in smaller businesses. If they were encouraged to do so they could become the main source for new jobs.

Not only will a prosperous small business sector bring more jobs, but the success of any 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. All the evidence suggests that working relationships are easier and happier in small companies. Many of the problems that arise in large enterprises are unknown in firms where the owner-manager knows and is known to all of his employees.

It is clear that economic growth and success for Britain is going to be increasingly in the service sector, where small-scale business is especially prominent. While Britain slides as an exporter of manufactures, it has continued to be the second largest world exporter of services, after the USA. This is where the growth will come, where the skills are needed and where the employment will be.

Over one quarter of our gross national product is produced by small firms and the self-employed and without them large business could not function effectively. Yet the self-employed and the small firm have been the victims of so many recent laws and taxes and general government interference that it is easy to see why many feel that they have been the target of a special assault. One obvious result of their sufferings is the blight which annually spreads wider through many of our major cities. Shops are lost, factories close, jobs disappear, hope fades. These are the consequences of smashing the smaller business sector and harrassing the self-employed.

The last Conservative government appointed the first-ever Minister with special responsibility for small firms, introduced the lower rate of Corporation Tax, eased the restrictions on 'close' companies and brought in exemption for the smallest firms from Training Board Levies. All the major recommendations of the Bolton Committee on Small Firms had been implemented by the time the Government left office in 1974.

The Party has demonstrated its continuing commitment by setting up the Small Business Bureau, through which small firms are keeping the Party in touch with their problems, their ideas and enabling it to defend their interests more effectively.

In collaboration with the Bureau, the Conservative Party policy group on smaller businesses now offers this programme for the revival of the small business sector.

Finance and Taxation

1. No action by the Labour Government during the past three years has been more damaging to self employed people and to small businesses than the increase in the tax burden that it has imposed upon them. Higher direct taxes have crippled many firms and individuals and prevented their investment. Capital Transfer Tax is already destroying small companies and farms. Small retailers have suffered repeatedly from the changes and complexities introduced into VAT, and the increasingly onerous enforcement activities of Inland Revenue and Customs and Excise.
2. Tax on small businesses and those who run them is too high and must be reduced. Those who start a small firm need to be able to save before starting, to find private backers, to be able to plough back their profits so as to keep pace with inflation, keep themselves up to date and then to invest in expansion. Invariably they will also need to borrow, but above all there must be incentive.
3. All these necessary steps in the birth and growth of a business have been made more difficult or impossible by the actions of the Labour Government.
4. We must therefore cut the basic and higher rates of income tax, raise the thresholds, and aim at an early stage to reduce the upper rates to European levels, which do not generally exceed 60 per cent.

The Party has made this its first priority and we believe they are entirely right to do so. Ideally we would like to see still lower top marginal rates and the phasing out of the investment income surcharge which acts as a further discouragement to personal savings and the building up of capital necessary to a business.

5. We wish to see the definition of a small firm for Corporation Tax purposes extended. *Threshold*

6. We must also diminish the burdens borne by firms upon which Corporation Tax is imposed on paper profits arising solely from inflation. As a first step we believe that reserves built up under the scheme introduced in 1975 for deferment of tax on stock appreciation should be released from the contingency of repayment to the Revenue. ~~in all cases~~
~~exceptional circumstances~~ We also believe that there is a case for providing for depreciation at replacement rather than historic cost. *2* We are examining ways in which small firms might be able to put money aside free of Corporation Tax to enable them to expand, provided the money is invested in expansion, development or re-equipment of the business within, say, five years. This fits in with the closely related ideas for easing 'close' company distribution requirements. *7**

Why? 7. We are considering further ideas as to ways in which it can be made worthwhile for private individuals to back a small firm. ~~The return on risk is not small.~~

8. Companies which require longer term loans of sums of £50,000 or less often encounter difficulties in presenting their case properly. We have noted the valuable work done by CoSIRA in rural areas, and we are considering whether a comparable consultancy service, able to guarantee loans might be a help in urban areas. We shall actively encourage initiative by independent organisations like private pension funds to invest in smaller firms. *How?*

9. The Conservative aim must be to bring about a partial switch from taxing people when they earn, to taxing people as they spend. There should be no hesitation about this. After

* Doubts have been expressed over the inclusion of this proposal.

all it is income tax which falls on low wages and hits the very smallest family budgets. By contrast VAT falls neither on food nor transport *fuel or housing*.

VAT

10. The Party ~~is pledged to~~ *should* return to a single positive rate of VAT.

11. We wish to see the threshold for compulsory VAT registration raised in line with inflation (£5,000 in 1972 is equivalent to approximately £10,000 in Summer of 1977); we want to ensure that relief is given from VAT on bad debts; and to introduce simplified procedures enabling traders to pay VAT on an estimated quarterly basis. Party proposals on how this might be done have already been put forward.

12. The Party is committed to a thorough review of enforcement provisions of both Customs and Excise and the Inland Revenue.

Capital Taxes

13. Many businesses require more than one generation to reach their optimum size. Capital Transfer Tax (CTT) and Capital Gains Tax (CGT) combine to make their growth and survival much more difficult. If the Labour Party enact a Wealth Tax, as they still intend at some point, the position will become even more difficult.

14. The Conservative Party has made it clear that it rejects an annual Wealth Tax and it is committed to an early reduction in the rates of CTT and substantial changes in Capital Gains tax so that liability tapers off with the passage to time. That is a good start. Our purpose will be to enable the successful small firm to survive from one generation to the next. We would therefore wish to see special reliefs for businesses passed on within the family.

15. ~~Later~~ *Finally* ~~We must carry out a major rationalisation of the~~ *Overhaul the* whole structure of capital taxation. Our purpose must be to assist the spread of wealth throughout the community and reverse its transfer away from the citizen to the state.

Reddy

23. We welcome the Party's proposal to raise the industrial development certificate threshold and to end the system of office development permits.

Training Boards

24. High standards of training are essential. But the smallest businesses cannot avail themselves of Training Board schemes and should not therefore have to pay levies to the Training Boards. We shall ensure that exemptions based upon pay-roll keep pace with inflation. ~~(We shall allow the smaller firms subject to the levy to offset against it expenditure on management consultancy and advisory services.)~~

Planning, Rating and Local Government

Planning

25. Unless new businesses can get small inexpensive sites many will not start. We have to make it easier for them to find premisses. All-pervasive planning controls, comprehensive redevelopment schemes, rigid separation of business from residential areas, the tidy planning which tries to fit people to the planners' blue print, all these have wrought havoc with small firms, the service they give to their local community and the jobs they create. Nowhere is this more apparent than in the desolate centres of many of our older towns and cities.

26. Local authorities should have a ^{need} duty to make ample provision for small businesses in planning allocations and to encourage them.

The handling of planning applications for small firms must be speeded up and consent encouraged for the unobtrusive small business which departs from the primary zoning laid down by planners? Obviously this can only be effected if the legal and administrative consequences are acceptable, and if such ventures are not unsightly, noisy or causes of obstruction.

Rates

27. The dramatic increase in rates over the past three years has had a particularly serious impact on small firms. In some

* Mr. Rossi's proposed re-draft:

However, in pursuing policy continuing regard must be had to environmental and amenity factors and permission should not be given where the project would have detrimental effects because it is unsightly, noisy or the cause of obstruction.

cases it has been the final straw which has broken them, particularly small shopkeepers. Where business and living accommodation are combined in many cases this 'mixed hereditament' loses out on domestic rate relief.

28. Residential parts of a mixed usage should have domestic rate relief, and small firms should have the right to pay rates by instalments.

Local Government

29. Some local authorities have extended their trading activities and direct labour building departments far beyond the scale needed to fulfill their legitimate duties. They have done so using rate-payers' money, often very wastefully, and to the grave detriment of many small firms, particularly in the hard pressed building industry. The accounts they keep and publish are notoriously inadequate. We are alarmed by Labour Party proposals to extend such local authority activities even further.

30. The Conservative Party has undertaken to repeal any powers enabling direct labour organisations to extend their work outside the areas in which they are currently entitled to operate.

31. Where direct labour departments exist the Party is committed to their being established as separate trading services, with their contracts subject to competitive tender. Final accounts on each contract must be fully itemised, including overheads and be submitted within a defined period.

32. *The Party must*
roll back the advance of local government into activities carried out more effectively by private enterprise.

Justice for the Self-Employed National Insurance Contributions and Benefits

33. The concept of a percentage contribution to National Insurance is here to stay. It is ~~unavoidable~~ ^{necessary} because retirement pensions are increased annually in line with prices.

However, it is difficult to assess what would be a fair level of contributions from the self employed. For example they are excluded from certain benefits and make less claim on others to which they are entitled such as sickness benefit. None of their contribution is allowed against tax unlike the employer's payment.

34. It is essential that the self-employed have a fair deal over National Insurance benefits and contributions. We welcome the Party commitment to hold an open inquiry to which the self-employed and organisations representing them will be invited to give evidence so that justice can be done for this important section of the community and be seen to be done.

35. It is not fair that the self-employed and their families are not eligible for medical benefits when they travel in EEC countries. Current negotiations should be brought to an early and successful conclusion.

Pensions and the Self-Employed

36. The new earnings-related pension scheme which starts in April 1978 excludes the self-employed. Instead, they are allowed to contribute to a scheme of their choice up to a maximum of 15 per cent of earnings with a top limit of £3,000. But few can afford to take full advantage of this until late in their working life, so this scheme is too inflexible and far less generous in its effect than it appears to be.

37. Greater flexibility must be introduced into these arrangements.

Our aim must be to see that the opportunities for them to provide for their own pensions should be as good as those for the equivalent company employee.

The Voice of Small Firms and Self-Employed

38. Having a Minister with responsibility for small firms has not prevented the disastrous policies of this Socialist Government. What is needed is a government whose whole

philosophy and policies have the interests of small firms at heart.

39. But it is not enough for small firms and the self-employed to have a powerful influence within government - they must create for themselves a much more effective and co-ordinated voice from outside. If such a representation can be set up separately or in association with an existing organisation on a valid basis the next Conservative Government would wish to consult it on a wide range of issues of concern to the smaller business.

40. All the measures suggested here would help to restore the self-employed and small business sector to the greater degree of prosperity which the whole country so desperately needs. But much more important than any law or regulation is a general change in attitude towards those who work on their own account. For too long civil servants, local authority officers, politicians and appointees to public boards have viewed the entrepreneur with growing suspicion or contempt.

41. Self-interest when put forward in terms of job security, good pension arrangements and safe working conditions has been regarded as wholly superior to the self-interest which leads men and women to work for themselves, take risks, seek new opportunities and build the future of themselves and their families on their own judgement, ingenuity and willingness to work.

42. This we are determined to change. Our security, our social services, our ability to survive as a trading nation in a harshly competitive world depend very heavily on making it profitable and praiseworthy again to work for oneself and to run a successful business. Legislation can help but attitudes of mind matter much more. The Conservative Party is pledged to do all in its power to recreate the climate in which businesses are able and expected to flourish. Without such a climate we shall not be able to restore vitality to the smaller business world or prosperity to the country as a whole.