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SPEECH BY THE FINANCIAL SECRETARY TO THE TREASURY

Attached is the text of a speech to be given at lunchtime today by the Financial Secretary to the Treasury, the Rt Hon Nigel Lawson MP, to the Leicestershire Institute of Directors, in Leicester.

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A NEW TAX DEAL FOR ENTERPRISE

Extract from a speech made by the Rt Hon Nigel Lawson MP, Financial Secretary to the Treasury, to the Annual Conference of the Leicestershire Institute of Directors at Leicester on Friday 3 April 1981:

In our election manifesto two years ago we pointed out that the creation of new jobs depends to a great extent on the success of small businesses, and pledged ourselves to reducing the burdens small businesses have to face; in particular, the twin burdens of income and capital taxation.

Since then, the measures we have taken have gone a considerable way to fulfilling that pledge. Further, indeed, than is widely recognised. So since to-day sees the publication of the 1981 Finance Bill, this seems an appropriate occasion to remind you of the changes we have made in this context on the fiscal front since we took office.

First, income tax. In our first Budget, in June 1979, we made cuts in income tax at all levels. The basic rate of tax was reduced by a full three points to 30 per cent. At the upper end of the range, we abolished the absurdly high top rates. The top rate of tax on earned income is now 60 per cent, compared with 83 per cent when we took office, while for investment income it is 75 per cent instead of the penal 98 per cent rate which we inherited. All those reductions remain in force. Moreover, despite the fact that we sadly could not afford to increase allowances and thresholds this year, the thresholds for both the investment income surcharge and most of the higher rate bands are still higher in real terms than when we took office.

Second, capital taxation. So far as capital gains tax is concerned, the exemption we introduced last year for the first £3,000 of an individual's gains in a year should be of significant help to small

businessmen. Furthermore, the rollover relief we introduced, also last year, for gifts between individuals should make it easier to pass on a business from one generation to the next. We intend to make further reductions in the burden of capital gains tax as soon as circumstances permit.

Similarly the measures we have taken on capital transfer tax have been designed to encourage the family business. Last year we doubled the threshold from £25,000 to £50,000, making a significant reduction in the overall burden of capital transfer tax. This year we have proposed a new scale of rates on lifetime transfers with a maximum rate of 50 per cent, compared with the present 75 per cent. We have also - and this is a most important reform - limited to 10 years the period during which chargeable transfers are cumulated and have increased the annual exemption from £2,000 to £3,000. These changes, together with extension of the interest-free instalment facility, will make it very much easier for people to pass their businesses on intact to their children. Again, as with capital gains tax, we intend to do more when we can.

Third, we have built on this general boost to incentives and to wealth creation by some carefully designed specific measures to help small businesses and new businesses. These enterprise packages are designed to assist small businesses and their proprietors by improving the fiscal climate in which they operate, and reducing administrative burdens.

The profits limit for the small companies rate of corporation tax has been increased, since we took office, from £50,000 to £80,000. At the same time the marginal relief limit has been increased still more substantially from £85,000 to £200,000; while the small companies corporation tax rate itself has been cut from 42 to 40 per cent.

In the 1980 Budget we introduced three specific measures to help close companies. One was the removal of a long-running source of irritation by ending the apportionment of the trading income of close companies. We also removed the limit on the amount of interest paid to directors

which could be deducted for corporation tax purposes. And in addition, we relaxed the rules which govern the allowance for relief for interest on a loan to acquire shares or on-lend to a close company - or, since this year's Budget, to industrial co-operatives and partnerships. Perhaps this needs a little explanation. The borrower must still have a material interest in that company - ie he must own more than 5 per cent of the ordinary share capital - but he is no longer required to work for the greater part of his time in the management or conduct of the company's business. This relaxation should encourage the flow of funds into small businesses from individual investors known personally to the proprietors, but not actively engaged in the conduct of the business.

The provisions for retirement annuity relief were made more generous, and, for the first time, businesses were allowed to deduct certain items of business expenditure, including the costs of raising loan finance.

Many of these changes were a response to long-standing requests from small businesses, but there were also major innovations. We announced a new system of Enterprise Zones in some of the most run-down parts of the country, with special planning and tax advantages, including complete exemption from development land tax and rates for industrial and commercial property. New capital allowances for small industrial buildings (those with an external floor space not exceeding 2500 sq ft), which allow the total cost to be set against tax in the first year, have resulted in a rapid growth of private finance for small factory units. In order to encourage the provision of venture capital, we now allow certain losses on equity investment by individuals in unquoted trading companies to be set against income - and this concession has now been extended in this year's Finance Bill to cover investment of this kind made by investment companies as well as by individuals.

This year's Budget has again shown the importance we attach to small businesses. The new scheme for stock relief will mean that the number of small businesses able to claim stock relief will increase substantially. Clawback will disappear for the normal continuing business, enabling it to determine its stock levels on normal commercial criteria without

fear of a heavy tax burden if stocks are reduced. In addition, our decision not to proceed with the credit restriction will remove many of the anxieties expressed about our original proposals.

The other major change this year has been the announcement of an entirely new tax relief - the business start-up scheme - to encourage the private investor to contribute risk capital on favourable terms and thus help fill a possible equity gap for small businesses in their crucial early years. I would particularly commend this proposal to this audience, since many of you will be able to provide not only the necessary funds, but also the essential business experience to guide a fledgling company to maturity. In brief, the relief will be available against income tax at the full marginal rate (up to 75 per cent) for investment of up to £10,000 in any of the next 3 years of assessment, where an outside investor subscribes for shares in new trading companies.

I trust I have not wearied you with this catalogue. Taken together, these measures constitute a formidable array of incentives and show that the Government takes seriously the need to encourage small businesses in general and new businesses in particular.

Finally, let me reassure you that we do not intend to sit back and simply hope that the message gets across. Within the next few weeks we shall be launching a widely publicised and continuing Business Opportunities Programme, designed to help anyone considering starting a business to take advantage of all the benefits and incentives which are now available.