

Economic Reconstruction Group

Minutes of the meeting held at 10.00 a.m. on
Friday 4th February 1977 at the House of
Commons to discuss proposals for small businesses.

Present: Sir Geoffrey Howe MP (Chairman)
Mr David Howell MP
Mr Norman Lamont MP
Mr David Mitchell MP
Mr Cecil Parkinson MP

Mr Adam Ridley (Secretaries)
Miss Anne Bulloch
Mr Peter Cropper (C.R.E.)
Mr Evelyn McDermott

Apologies: Sir Keith Joseph MP, Sir Ian Gilmour MP;
Mr John Nott MP; Mr John Biffen MP; Mrs Sally Oppenheim MP
Mr Michael Heseltine MP; Sir Leonard Neale; Mr Brian Griffiths
Mr Charles Bell.

Mr Mitchell said that he had hoped to be able to present at that meeting the full report of the Small Businesses Policy Group after individual Shadow Ministers had seen and approved the sections with which they were concerned. This had unfortunately not proved possible; but the full report should be available the following week. In the meantime, Evelyn McDermott's note, which had been circulated, summarised the recommendations on which the Group had reached agreement. It had never been intended that the policy document should be published before the Small Business Conference on 2nd March; that had been advertised as a consultative meeting, at which opinions and suggestions would be sought before the Party published its own recommendations. The summary of proposals was, however, needed as guidance for Shadow Ministers who would be speaking at the Conference.

Sir Geoffrey Howe said that the commitment in The Right Approach to publish proposals for small businesses meant that the documents would have the status of a statement of Party policy, and a supplement to TRA. It would necessarily have to contain many proposals that were 'green' for further consideration as well as those that were 'white' on which firm commitments could be made. He should avoid giving a long list of the latter, with the risk that we might subsequently want to make changes in it. The summary of proposals set out in PG/10/77/27 was then discussed.

Taxation

A number of the proposals in this field had been, or would this year be, the subject of Finance Bill amendments - for example, changes to GTT that would in effect convert it into a low-rate gifts tax; withdrawing the periodic charge on trusts, and raising the small firms' profit limit for Corporation Tax purposes. We could not however, make any firm commitment on indexing the limit, nor on raising it to a specified figure. It was by no means certain that this was the best means of relief for small firms - a lower rate of tax, or exemption of the first £5,000 of profits from tax were alternatives.

It was suggested that the difficulty faced by small firms in raising funds was often exaggerated. The risk element could never be eliminated, but in reality small firms were usually able to raise the funds they needed for a viable project. Tax relief was available for investment. Small businesses were not concerned with specific reliefs or assistance so much as with the whole economic environment in which they had to operate, and with the reduction of bureaucracy.

The case for an investment reserve was that a small firm often had insufficient profits to be able to set off the cost of investment in one year. Some pump-priming reliefs or assistance might be needed for small firms in the interim period before a more favourable economic climate could be created. Some small firms were not eligible for the reliefs that were at present available.

There had been pressure from agriculturalists for the three year rolling average proposal, and this could be put forward for discussion, not least because there was a chance that the present Government might introduce something of the kind. But there should be no firm commitment to introduce it.

Proposals 2 (a), (b), (c) and (d) on CTT, COT rationalisation of capital taxes, and ending of liability to both COT and CTT on one transfer were in line with amendments already moved or commitments already made. 2(d), on a cumulative right to transfer £2,000 a year free of CTT would drive a coach and horses through the present tax. This and 2(b) on stock relief on back salaries would need further consideration.

VAT

The study group report would be published in a month or six weeks, and its recommendations should be co-ordinated with the proposals for small businesses.

Pension Rights

These proposals would have to be approved by Mr Patrick Jenkin as well as by the IRC; there was a strong case for ensuring that the self employed were able to make provisions comparable to that made by the state for employees.

Price Controls

It was noted that the TUC regarded small shops as evaders of price control. To exempt them from control would make them a target for union attack. It might be preferable to keep the Price Commission as a police force.

Rates

Proposals (a) and (b) on payment by instalments and relaxation of requirements for mixed hereditaments were already commitments. We should make clear that we would not bring agricultural land within the rating system. Rating of agricultural buildings needed further consideration. The direct labour and planning proposals fell outside the ERC field of responsibility.

Self Employed

It was important not to raise undue expectations among this group; but a major attack should be made on the threat posed by the present use of Fox 714 machinery against sub-contractors. A way should be found of making the views of the self-employed heard, perhaps through an expanded NEDO. This might be preferable to a select committee or other enquiry.

Government Machinery

The proposal to give a senior Cabinet minister specific responsibility for small firms was discussed. It was suggested that without such an appointment the needs of small firms would not be treated with sufficient urgency in the early stages of the new Government. The advancement of small businesses was, however, so central to the recovery of the economy that it should be the concern of every member of the Cabinet rather than of one particular Minister to root out policies that inhibited their growth. A Cabinet Committee might be preferable.

Proprietary Company

A paper by John Cope on this proposal would be ready shortly. There was a danger that false expectations would be aroused of the relief that this definition could make possible. It should be a means of lifting the pressure of bureaucracy rather than of exempting small firms from regulations such as those on health and safety.

Preparation of the document for publication.

Sir Geoffrey Howe suggested that Rosemary Brown might be asked to collaborate on this, as she had on the tax credit proposals in 1974. This was agreed. We should do everything possible to remind small business owners how much had already been done by the previous Conservative Government that was of benefit to them.

AB/ISA

16th March 1977

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