

# Fairer and simpler taxes

- The annual cost of payroll administration is £288 per employee per year in a firm with 1–4 employees, compared to £5 per employee per year in businesses with more than 5,000 employees
- For a business with a turnover of £50,000, business rates represent 7.7 per cent of sales. For those with a turnover of £500,000 it is 1.4 per cent

The tax system is too complicated. The UK should adopt a fresh, 'bottom-up' approach to tax that recognises the differences between large and small businesses and delivers a simpler system for small firms. The tax system must be clear and specific, as well as easy for employers to comply with and administer.

To achieve a tax system that is fair for all, there should be a level playing field for all small businesses. The FSB believes that decisions about legal status should be made on commercial grounds and not on the basis of tax incentives.

The FSB firmly believes that the Government's social policies should not be delivered through the employer payroll. Administering various payments and benefits through the payroll is placing significant administrative burdens on employers.

There is a perception among business owners that environmental taxes such as the Climate Change Levy are stealth taxes. For environmental taxation to succeed in changing behaviour there is a need for those affected to understand the purpose of the tax and the mitigating action that can be taken.



# Six key FSB principles

## for a general election year



### Small businesses need...

- The Government to introduce a £10,000 tax-free allowance for all small firms, irrespective of their legal status
- All benefit payments to be administered by the experts, ie the relevant government departments. Paying benefits is not the role of the employer
- Full review of the Climate Change Levy
- The abolition of the IR35 legislation. It is an administrative burden for both HM Revenue and Customs and the self-employed, and brings in little revenue
- The Government to reduce the burden on business by facilitating a change in the VAT regime that would allow the VAT-free movement of goods and services between VAT-registered traders
- All business premises with a rateable value of less than £25,000 to benefit from small business rates relief
- Gross payment under the Construction Industry Scheme for small contractors meeting commercial tests
- The UK to resist further tax harmonisation across the EU and to remain outside the euro-zone.

1

freedom from red tape

2

combating crime

3

a sustained investment in skills to boost productivity

4

a better business environment

5

employment policies that are business-friendly as well as family-friendly

6

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# introduction

There are now four million small businesses in the UK. More than 99 per cent of British businesses are small. In each constituency there will be an average of 6,000 business owners eligible to vote at the forthcoming general election.

Small and medium sized businesses employ more than 58 per cent of the private sector workforce – almost 13 million people. FSB members alone employ close to one and a half million people. At the next general election around 20,000 voters in each constituency will be dependent on the success of small firms for their livelihoods.

Over half a million people start their own business each year and these new businesses are the engine driving the creation of jobs. In the five years to 2000 one and a half million jobs were lost in established businesses, but new small and medium sized firms created two million new jobs. Most new jobs are in firms that start small.

Small businesses are 'the seedbed of innovation', stimulating competition. Nine out of ten commercial innovations come from small firms.

Small businesses are also the large firms of tomorrow. Marks and Spencer, Rolls Royce and Boots are all small business success stories, as is Virgin, which was started by four people in a church crypt in the late 1960s.

In recognition of this enormous contribution to the economy and society, **the FSB is calling on the Government to:**

- Free business from red tape
- Combat crime
- Invest in skills to boost productivity
- Create a better business environment
- Ensure employment policies are business-friendly as well as family-friendly
- Make taxes fairer and simpler

These six policy principles aim to ensure that small businesses are at the core of the political agenda in the run-up to the general election and beyond, in recognition that it is small businesses that create wealth and jobs.



## Devolution statement

The FSB has Press and Parliamentary Offices in Cardiff, Glasgow and Belfast (details below). See [www.fsb.org.uk](http://www.fsb.org.uk) for a breakdown of the powers devolved to Scotland, Wales and Northern Ireland and those retained by Westminster.

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# freedom from red tape

- Administrative burdens for small businesses are five times more costly and five times more time consuming than for larger businesses
- Small firms spend almost five per cent of their annual turnover on compliance

Entrepreneurs cite the volume, complexity and rate of change of regulations as a barrier to growth.

Legislation is very often drafted with big businesses in mind and small businesses are treated as an afterthought. The cumulative impact of regulations on small businesses is underestimated if considered at all.

The introduction of Regulatory Impact Assessments in the UK is an important commitment in the drive towards more intelligent regulation. But their use is still patchy, and estimates of cost implications for business are wildly inaccurate.

More than half of new regulations that affect business come from the EU. The process by which the EU consults stakeholders means that the views of small businesses are often ignored in Brussels. The UK also has a tendency to 'gold plate' EU legislation, working to the letter of the law rather than ensuring that it is workable in practice.

In 2000 Heads of Government of the EU Member States met in Lisbon to set the strategic goal for the EU 'to become the most competitive and dynamic knowledge-based economy in the world' by 2010. The FSB believes that this 'Lisbon' agenda will fail unless urgent action is taken to address regulatory burdens.

Small businesses have to be conversant with many different regulatory regimes but face specialist inspections. The sole source of advice is often the same body that is charged with enforcement, compromising the ability of business owners to seek guidance.

## Small businesses need...

- The application of Regulatory Impact Assessments (RIA) to all new regulation, including statutory instruments. All RIAs to consider an array of options including exemptions for small businesses and alternatives to regulation
- Sunset clauses so that if a regulation is not renewed it automatically 'withers on the vine'
- Regulatory Impact Post-Implementation Assessments (RIPIAs) to take place 12 to 18 months after a regulation comes into effect to formally evaluate its success
- Reform of the European Social Dialogue process so that the small business voice is heard in discussions on employment law
- Use of small business derogations available to the UK government within European Union Directives
- An annual report from the Small Business Service on the cost of regulation.

# 1



## combating crime

- More than half of Britain's businesses have been a victim of crime in the last year
- Over a third of business owners believe that reporting such crimes to the police 'will not achieve anything'

There is a perception among business owners that the UK is experiencing a crime epidemic.

Crimes against businesses are not given a high priority because they are often viewed as 'victimless'. The FSB believes that the distinction between business crime, which increasingly is tolerated, and crime against individuals, which in theory is not, is a false one.

Crime can be devastating for a small firm and its employees. Scarce financial resources are wasted through the after-effects of crime, limiting future growth.

Planning regulations often prevent businesses from installing crime prevention measures such as metal shutters and CCTV. Businesses that do invest in these measures can find that their business rate bill increases as a result.

Many businesses have effectively opted out of the criminal justice system and do not report crime. Only burglary and vehicle theft are consistently reported to the police, prompted in many cases by the need to do so for insurance purposes. Fraud goes widely unreported.

Small businesses are increasingly the victims of scams but lack the protection afforded to individuals under consumer law.

### Small businesses need...

- A more visible police presence and zero tolerance of anti-social behaviour such as graffiti, vandalism, robbery and burglary
- Crime against businesses to be made a Performance Standard Indicator (PSI), so that it is afforded the same priority as domestic crime
- Crime against businesses to be recorded separately from domestic crime to give a true picture of its extent
- 100-per-cent-first year tax relief for investment in security
- Easing of planning regulations relating to crime prevention measures and their disaggregation with regard to business rates
- A business crime compensation scheme – similar to the criminal injury compensation scheme – to compensate victims
- An extension of the definition of a consumer to include small unincorporated businesses so that they can be protected by consumer laws and Unfair Contract Terms Legislation.

## A sustained investment in skills to boost productivity

- A third of small businesses find it difficult to recruit skilled staff
- Although 40 per cent of business owners undertake regular staff training, 30 per cent do not

The FSB believes that Britain must invest in its workforce and the communities in which they live.

Problems in recruiting suitably qualified staff are acting as barriers to growth for small firms.

Education must equip people with the skills they need for work – literacy, numeracy, IT skills and softer skills such as teamwork. The FSB believes that there needs to be a better mix of vocational and academic learning at school to develop the full range of pupils' skills. Similarly, higher and further education should be held in equal esteem.

Training is the obvious response to skills shortages, but many formal courses are not relevant to businesses' needs. Small employers would invest more in training if courses were short, bite-sized and directed at solving specific business problems.

### Small businesses need...

- A demand-led overhaul of vocational qualifications
- Apprenticeship schemes that are responsive to employer demands
- Enhanced funding for private learning providers that deliver the bespoke, work-based packages that small businesses need
- A portable 'skills passport' for employees, which recognises all achievements and skills development that are not qualification based.

# A better business environment

## 4

- In the UK the public sector spends around £117bn each year, but only 3 per cent of small firms' main customers are public authorities
- Fewer than one in five businesses use government funded business support, such as Business Links

Small firms play a vital role in society but they can only support their communities if their communities support them with access to the vital banking and postal services they need. The Government must safeguard these vital services.

Small businesses suffer from an under-resourced transport infrastructure. Businesses are heavily dependent on the transport that enables them to get their goods and services to market quickly, easily and cheaply. They are especially vulnerable to any problems generated by its failings. For small businesses a car or van is not a luxury but an essential tool of the trade.

Although more businesses than ever have access to the Internet, only a small minority engage in on-line selling or procurement. The Government must address the inconsistency of 'always on' broadband access.

Independent traders make a huge contribution to the vitality of our high streets but city centres are increasingly dominated by chain stores and charity shops. The widespread use of upwards-only rent-review clauses means that for most businesses rents can never go down and will only ever go up. Small retailers also trade at a disadvantage compared to supermarkets and their massive buying power, and to charity shops which are given generous tax and business rate discounts.

### Small businesses need...

- Increased investment in transport infrastructure to put right the under-funding of the past 40 years
- Demand-led business support which signposts businesses to sources of advice and the funding streams available
- Public sector contracts to be more widely advertised and broken down into bite-sized chunks
- The reinstatement of the 100-per-cent-First Year Allowance for IT investment
- The abolition of upwards-only rent-review clauses
- The collective provision of basic banking facilities in locations where banks consider individual branches unviable
- A redefinition of Royal Mail's licence to incorporate rural needs
- Charities to be subject to the same business rates as local retailers if they buy in new goods for sale
- The current voluntary code for supermarkets to be made legally binding.

# Employment policies that are business-friendly as well as family-friendly

- There are now 26 Acts of employment legislation
- More than 5,000 members call the FSB's employment law helpline each month
- Applications to employment tribunals have trebled in the last ten years
- 44 per cent of small employers have settled out of court rather than go through a system that is increasingly complex and costly

A healthy work-life balance makes a positive contribution to productivity. But there has been such a seismic shift in employment law that many small-business owners are bewildered by the changes.

Employment legislation is geared to large, international businesses. The majority of small businesses do not have a Human Resources Department, so the direct responsibility for employment law falls squarely on the shoulders of the owner-manager. All unpaid leave comes at a cost and the administration of parental leave, maternity pay and flexible working can be a particular headache for small employers.

The numbers employed by small businesses will not grow unless the enforcement of employment law achieves a better balance between the interests of employers and employees. Sole traders are often reluctant to take on their first member of staff for fear of – even unintentionally – falling foul of complex laws.

Small businesses experience peaks and troughs of demand throughout the year, and flexibility in working hours allows small firms to satisfy a full order book. The FSB believes in the principle that individuals should be at liberty to decide for themselves how many hours they work.

## 5

### Small businesses need...

- Workers to retain the right to choose for themselves the hours they work
- Measures to address the administrative headache posed by parental leave, including a requirement for mothers to keep employers informed of when they expect to return to work and the payment of Statutory Maternity Pay direct from the state to the recipient
- The introduction of a small charge, levied on applicants, when they file employment claims
- Employment tribunals to make realistic costs awards against vexatious applicants
- The UK Government to resist turning increases in the National Minimum Wage into an annual, 'rubber-stamping' exercise and to consider the case for a regional minimum wage.