

Small business policy - from Osborne, from the centre a...

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It's a day when people are going to try to claim a vision for small business.

According to the Guardian Osborne [has a vision for small business](#). He's going to:

- 1) Give small companies an extended holiday on business rates extended at an estimated cost to the Treasury of £210m.
- 2) Unveil a seed enterprise investment scheme for business start-ups. 'Business angels' — individuals who support start-ups — will be offered the carrot of 50% income tax relief on investments of up to £100,000 in new enterprises, with each company eligible for £150,000 of investment in total.
- 3) Help for slightly larger businesses operating in those regions of the UK particularly hard hit by government spending cuts will also be earmarked for assistance through a business angel co-investment fund. Small and medium-sized companies with turnovers of between £200,000 and £2m a year and seen as having high growth potential will be eligible for help using £50m from the regional growth fund.
- 4) Assist the cash flow of construction companies working on government projects by the setting up of bank account arrangements to pay companies within five days or less of the due date. At present some companies have to wait up to 100 days for payment.

It's a dismal package, bar the business rates relief, which is a useful short term relief.

Why? Because in the last case business should be paid on time anyway: doing what you should be doing and claiming it a new benefit is miserable policy making. And as for the middle two policies: sorry to say but the number of business who will benefit will be tiny, the sums involved are minuscule, and my experience of such schemes (and they have come and gone like yo-yos over my thirty plus years as an accountant) is that they're nightmarishly expensive for small business to use, provide incredibly costly capital, tend to have far too many strings attached and are anyway simply really another mechanism for the highest paid not to pay their tax.

The schemes fail utterly to do the three things small business needs. The first is to increase demand for what they make. The second is to provide them with reliable sources of low cost capital (that was once called banking) and third provide the proper structure in which they can really operate without the constraints that the 19th century designed limited company imposes on far too many of them in terms of red tape and tax obligations.

So what does Blairite think tank Labour Business suggest instead? It published a paper yesterday. I can only comment in the space available on its small business proposal here, any other comment on a generally disappointing document will have to wait. The fact that the small business section was written by a member of City Livery Company The Worshipful Company of Tax Advisers is not encouraging. Nick Shaxson investigated them and their dedication to promotion of [free market economics here](#). It's a relationship that sits uncomfortably with my view of Labour, but let's look at what's said in chapter on small business and tax reform. They suggested this:

- Free accounting for small business paid for by the state (a practicing accountant wrote this and said firms such as hers should supply this service)
- Tax simplification to the point where one person in HMRC could answer all the questions any small business person had on tax

and:

- better tax incentives for investments which remain constant, instead of changing each year;
- policies that allow for businesses under one year old to be exempted from HMRC late fines;
- reducing the present penalties on small businesses, which at up to £3,000 for incorrect records is onerous and prohibitive;
- a new system of tax credits for small businesses with fewer than six employees on a PAYE system;
- an extension of the flat rate VAT to firms with turnover of up to £250,000.

Or to put it another way:

- 1) scrap most taxes;
- 2) make compliance with what remains voluntary;
- 3) even then create special rules applying solely to the employees of small business;

4) give big handouts to accountants on the way.

Truly, you couldn't make up something as naive as that if it had not been published. It so lacks credibility it fundamentally undermines any claim to authentic understanding of the needs of small business Labour, if it was so unwise to adopt such thinking (that comes straight from the Taxpayer's Alliance of handy tips for undermining government by destroying its tax revenue) might ever have had.

So let me offer a real alternative, from someone who has been an entrepreneur. That's me.

First, small business needs there to be an economic stimulus put in place, now. Without demand there is no business. Demand is falling. It follows businesses will fail right now. You can't have a pro-small business policy without stimulating demand. It follows like night does day.

Second, let's get real: most small businesses employ just one person - and that's the owner. there's nothing wrong with that. But candidly it only suits some people, those not inclined to it should not try it, and those who are naturally tend to do it anyway. We don't need to encourage entrepreneurship. A minority in society have that skill. Let's not pretend it suits all: it does not and it's a gross mis-service to people who need employment and are suited to employment to suggest they are somehow second rate as a result.

Third, self employment is about creating a job for the owner and then for others. Let's not pretend it has some magical status. But jobs need to be taxed, fairly and properly so let's not ask for tax favours for small business. Indeed, far from that - I note Osborne's not choosing to tackle those who are abusing tax law and Labour Business want to make it easier to do so. I find that simply astonishing. Honest business is undermined and even destroyed by tax cheats. A government not committed to tax collection from small business fails honest small business, badly.

Fourth, let's move on from tinkering as these policies do. Minor supply side tweaks will solve nothing. Let's instead recognise that the limited company is a massive impediment to small business progress in this country. We have long ago agreed limited liability is a perverse thing that pays as it encourages risk. But in that case let's not make it so hard to use. We need to sweep away the limited company for small business and reserve it for medium sized entities and replace it with a modified limited liability partnership. That instantly says the owner is the controller of the business, they're not liable for loss unless they're fraudulent, and they pay tax on what they earn. There's no separate tax return for company and director, no PAYE, no dividend planning tricks to get round NIC, no benefit in kind rules on using a car you're paying for, no paranoia about when you can take money out: that's the real reform needed to cut the red tape out of small business and let it enjoy limited liability.

But the quid pro quo is full accounts on public record would have to be enforced.

And capital could come in then as a flexible profit and equity sharing arrangement with lenders - as is really needed, with much less complexity than now. Oddly, that's sharia compliant - and that's a mark of the credibility of the relationship in this case because both parties are then mutual risk takers.

And let's not pretend that banks and business angels are going to supply this new capital - a new state investment bank needs to do that - funded using 25% of all pension contributions paid in this country as a condition of the tax relief given on them. This would transform small business capital. We wouldn't be making a few million available as Osborne wants: we'd make all the capital needed available.

What next? A reduction in employer's NIC for now to make it easier to take people on.

And using LLPs it would also of course be easier - much easier - to promote people into ownership which can be massively difficult now - and which those in Tory and Labour Business ranks seem to ignore entirely as an issue, but which I think incredibly important.

After that? Three things: Make it an offence to not pay on time. Second, promote standard terms of trading and employment by default: what's the problem? Nudge people into them unless they opt out and that way admin is dealt with by default. And lastly as a matter of course make sure tax offices are open in all population centres of more than 30,000 people so people can go for HMRC advice whenever they need it - but not necessarily all from one person, because that's just daft.

Is all that possible? Yes it is. It will deliver a modern framework for small business and its regulation. It would really cut red tape. It would make dealing with tax vastly easier. It would open real avenues for promotion into ownership. It would make capital available in genuine partnership deals. It would create demand. It would make employment cheaper.

That's a deal for business.

The right wing aren't offering that.

Why not?

NB There's more on this in the [Courageous State](#)