



FSB Budget 2011 Reaction

Overview

The Budget outlook from the Chancellor received two early blows from higher than expected inflation figures and from the downgrading of growth from the Office of Budget Responsibility (OBR). The OBR stated that the cyclical deficit would be eliminated by the end of this parliamentary session but it forecast lower growth and reduced private sector employment for the coming financial year.

Taking account of the policy measures announced by the Government in this Budget, the OBR projects that:

- Public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009-10 to 7.9 per cent of GDP in 2011-12, still higher than its peak in the 1990s recession, and then to 1.5 per cent of GDP in 2015-1
- The cyclically-adjusted or 'structural' current deficit will be eliminated by 2014-15, with a projected surplus of 0.4 per cent of GDP in that year, rising to 0.8 per cent of GDP in 2015-16
- Public sector net debt will peak at 70.9 per cent of GDP in 2013-14, before declining to 70.5 per cent of GDP in 2014-15 and 69.1 per cent of GDP in 2015-16

Two key pieces of information within the budget shows Government expenditure and revenues. The chart below shows that, like previous spending charts, spending is heavy in social protection and health, but the level of debt interest is now just over £50 billion.

With the rise in VAT valued at roughly £13 billion per year for the next four years, and rises in other business and personal taxes, expenditure still outstrips spending. For the period of 2011-12, borrowing and further consolidation is needed to cover the £168 billion shortfall.

Government spending 2011-12		Government receipts 2011-12	
	£billions		£billions
Social protection	200	Income tax	158
Personal social services	32	NICs	101
Health	126	Corp tax	48
Transport	23	VAT	100
Education	89	Business rates	25
Defence	40	Council tax	26
Industry, agri, employment	20	Other	85
Housing + environment	24		
Public order + safety	33		
Debt interest	50		
Other	74		
TOTAL	711	TOTAL	543



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The other key piece of information from the OBR is the GDP growth forecasts. It states that the economy is to grow by 1.7 per cent in 2011, lower than forecast in the June Budget. This mainly reflects higher-than-expected inflation this year, because of recent global commodity price shocks, and the weak weather-affected final quarter of 2010. GDP growth is then forecast to strengthen, with growth peaking at 2.9 per cent in 2013. Growth within GDP will obviously influence debt projections, as stronger growth will reduce unemployment costs and extra tax revenues for the Treasury. The central economic forecasts from the OBR show that as the Government pulls away from GDP contributions, private sector and new trade (exporting) will take over the slack. Inflation will play a key role in how the deficit is curtailed as well as in growth, as index linked benefits and pay will need to be at the Government target level by 2013.

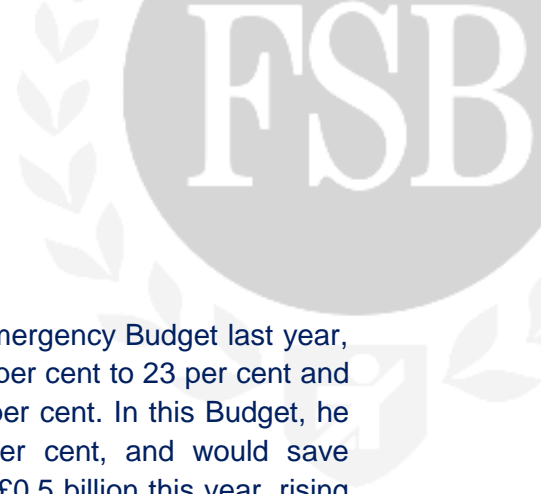
	per cent points	OBR Forecast including Budget announcements					
	Pre-crisis decade average contribution	2010	2011	2012	2013	2014	2015
GDP	2.9	1.3	1.7	2.5	2.9	2.9	2.8
Main Contributions							
Private consumption	2.1	0.5	0.4	0.8	1.2	1.3	1.4
Business investment	0.6	0.2	0.6	0.8	1.1	1.1	0.9
Dwellings investment	0.1	0.1	0.2	0.2	0.3	0.3	0.2
Government	0.6	0.4	-0.2	-0.5	-0.5	-0.5	-0.3
Change in inventories	0	1.4	0.2	0	0	0	0
New trade	-0.6	-0.9	0.7	1	0.7	0.7	0.5
CPI inflation (Q4)		3.4	3.9	2.2	2	2	2

Tax Policies

The FSB has been calling for Government to move from the 'cuts' agenda to the 'growth' agenda for some time. It is only through sustained private sector growth that the UK economy will become more competitive and entrepreneurial, and it is only through this growth that the public sector deficit will be reined in.

To advance the growth agenda, stability, competitiveness and capital investment is needed. For some time the FSB has said the tax system in the UK hurts small businesses. This is not just through the complexity of reliefs, transitional arrangements, allowances and other micro-management tools, but also through the high burden of total cost.

Stability is paramount and all tax decisions, especially those that will increase, need thorough consultation and examination by businesses and technicians. In addition, small businesses need to see a road map that shows the route to a more competitive economy.



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The Chancellor set out his road map for corporation tax in the Emergency Budget last year, where he said that corporation tax would reduce from current 28 per cent to 23 per cent and the small profits rate would come down from 21 per cent to 20 per cent. In this Budget, he announced that the top rate would reduce by an extra 1 per cent, and would save businesses over £2 billion. The impact on the Exchequer will be £0.5 billion this year, rising to over £1 billion in the next four years (with the additional reductions in corporation tax).

This is welcomed and shows the country is open for foreign investments and greater investment from forecast profits. Currently, small profits rate stands at 21 per cent and this will be reduced to the pre-announced 20 per cent level, but should have been reduced further.

Within the announcements from the Budget, tax incentives in Entrepreneurs Relief and the Enterprise Investment Scheme were mentioned. Financing for business growth has been difficult for many small businesses during, and post, recession periods. Both of these will help.

Entrepreneurs Relief, over a lifetime, will double to £10 million. The Enterprise Investment Scheme will allow income tax relief at 30 per cent, an increase of 10 per cent. Both of these measures will allow for greater non-bank investment into small businesses, especially to those with low or no security.

The Chancellor has decided to reform the SME R&D tax credit system to push more firms to innovate. This measure increases the rate of the enhanced deduction against profits for R&D expenditure by SMEs. In 2011-12, the rate will increase from 175 per cent to 200 per cent and from 2012-13 it will increase further to 225 per cent. There are further reforms, due later, in the process, payment and applications for this scheme. In the last full year, this scheme benefited 6,500 businesses and paid out £230 million in reliefs (deductions and payable credits).

The chart below shows the total tax spending decisions in the budget, along with spending commitments specific to this budget over this Parliament.

	£million				
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Total tax policy decisions	625	85	295	115	335
Total spending policy decisions	-635	-350	-270	-230	
TOTAL POLICY DECISIONS	-10	-265	25	-115	335



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Unemployment Measures

Unemployment for younger people has been a concern for policy makers and the FSB during the recession, and now in the post-recession period. The inactivity rate for those aged from 16 to 24 for the three months to January 2011 was 23.3 per cent, up 0.1 on the quarter. The number of economically inactive people aged from 16 to 24 increased by 43,000 over the quarter to reach 9.33 million.

We therefore welcome that the Chancellor found extra revenue (£180 million) to fund an extra 50,000 apprenticeships. The FSB knows that the majority of apprenticeships happen in small businesses. 66 per cent of small businesses said that they would take on an apprentice with the right incentives, and with 69 per cent of all apprenticeships taking place in businesses with fewer than 50 employees, it is vital Government focus funding in this area.

Up to 40,000 places will provide additional capacity to support young unemployed people, in particular through progression from the work experience scheme. To address the specific barriers faced by SMEs in accessing apprenticeships, the Government will support business consortia to set up and maintain advanced and higher apprenticeships schemes, supported by grants, creating a further 10,000 apprenticeships.

The FSB asked the Government to look at a current policy to help incentivise job creation. The NICs holiday scheme, which can give up to £5,000 tax relief on new jobs, should have been extended to micro-businesses (those currently employing between zero and four staff). It is disappointing that the scheme has not been extended, as this would have sent a clear message to small businesses that Government is helping when employment strategies are being decided.

The in fullness of the budget proposals, some of which will be covered later, there is a lack of job creation incentives. Payroll is the factor most important when small businesses think about job creation; 40 per cent of small firms said that a cut in payroll taxes would encourage them to employ more staff.

Fuel and a stabiliser

The Chancellor announced he is to cancel the fuel duty escalator, introduce a 1p reduction in fuel duty and introduce a form of fuel stabiliser whereby fuel duty will only increase by inflation when oil prices are high. Fuel duty will only increase above the rate of inflation when oil prices are low – Treasury is consulting on a \$75 per barrel floor. While this will give much needed help to small businesses and motorists this is not the fuel stabiliser many have been calling for whereby high oil prices would trigger an actual reduction in fuel duty; something the Conservative mooted in opposition and that the FSB has been calling for.

Taxation makes up 63 per cent of the price of fuel at the pump (as of Jan 2011) – one of the highest levels in the EU – this form of stabiliser does not offer any relief from this high level



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of taxation but merely acts to ensure there are no further increases but never any reduction in fuel duty.

The fuel duty escalator duty increases have been cancelled but small businesses will still be hit by indexed increases in both January and August 2012, which will add roughly 6p per litre.

It is also worth noting that less than a year ago oil prices were below \$75 a barrel so this is not the last we have seen of above inflation fuel duty increases. The fuel stabiliser has been announced during a time when oil prices are unusually high.

While the FSB appreciates the Treasury is operating within severe financial constraints, there is a way to introduce a true fuel duty stabiliser that would see actual reductions in the level of fuel duty when oil prices are high and remain fiscally neutral. A fuel duty stabiliser should be based on official forecasts for the oil price cycle as advocated by the economist Andrew Lilico. This is the long-term prediction economists give for patterns in fluctuations in the price of oil over a period. Using the oil price cycle as a basis for a FDS, the level of fuel duty would be calculated against a trend price for oil. This would then be adjusted following changes to the official view of the oil price cycle. This means that any given time, setting the level of the stabiliser would be straightforward – fuel duty is X pence per litre minus a proportion of the difference between the current oil price and trend oil price.

For more information on FSB proposals for a true fuel duty stabiliser please see http://www.fsb.org.uk/policy/rpu/ni/images/fuel_per_cent20duty_per_cent20stabiliser.pdf

In relation to hauliers, the Chancellor announced a freezing of Vehicle Excise Duty (VED) for Heavy Goods Vehicles (HGV). However, VED for HGVs has been frozen since 2001; there were plans to introduce exceptional rates of VED for types of HGVs this year announced by the Chancellor in the last year's Emergency Budget. Therefore, while FSB welcomes this move to give relief to hauliers this is merely undoing the Chancellor's own proposals.

Enterprise Zones

The Chancellor announced the creation of 21 Enterprise Zones – this is welcomed and will help micro-businesses and start-ups. Tax cuts and reduced business rates will help, but investment in infrastructure is also vital. The NICs holiday scheme, along with the FSB extension for micro-firms, should be considered as part of the package of assistance.

The zones themselves are only going to be small (the Government estimates there will be 200 properties per Enterprise Zone, with an average composition of 20 large industrial properties, 100 medium sized industrial properties and 80 offices). In selecting appropriate geographical areas to locate the zones it is vital that careful consideration is given to the potential impact on surrounding businesses that do not have access to the assistance available to those in a neighbouring zone (eg a 'drain' of existing businesses into the zones and/or an unwelcome competitive effect on neighbouring businesses).



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A full impact assessment on the surrounding area is therefore needed before the specific boundaries of future zones are designated. The Budget book also has a lack of recognition of the need for specific small business and start-up properties in those zones. Small business have the capacity to provide quick growth, including in industrial sectors (on which the EZ's appear to be focussed) where they are often among the most innovative and high-tech businesses.

The recognition of the role of LEPs in identifying and working with Government on the zones is welcome because it is vital that the local business community is involved in this type of localised action. However, given the small size of the zones in comparison to LEP areas they must not become preoccupied by bidding for and promoting enterprise zones at the expense of a strategic approach to the local economy as a whole.

Planning response

The FSB is positive about the overall proposals on planning in Wednesday's Budget, although it has some concerns on the detail. It is encouraging that the Government is setting clear expectations on local planning authorities and other bodies involved in granting development consents to prioritise growth and jobs.

The FSB is pleased that the Government will introduce a number of measures to streamline the planning applications and related consents regimes, removing bureaucracy from the system and speeding it up. In a recent survey of 1,700 small businesses, responses suggested that:

- 53 per cent of small businesses find the rules and processes of the planning application overly complex
- 46 per cent said the planning process is overly protracted
- 38 per cent says the planning process had higher than expected costs

FSB is pleased that the Government has responded to its concerns about enabling businesses to bring forward neighbourhood plans and neighbourhood development orders. This will give local businesses real opportunity to prosper and drive local economies. The FSB also believes that the Government's proposal to localise choice about the use of previously developed land, removing nationally imposed targets, is an acknowledgment of pragmatism and common sense.

The Government has introduced a new presumption in favour of sustainable development, so that the default answer to development is 'yes'. The FSB is not yet clear what exactly this means but does not think it should mean automatic concession for developers.

The presumption should only be towards development that is sustainable in environmental, social and particularly economic terms. In this context, the FSB is also pleased that the Government in previous statements has prioritised a 'town centre first' policy that puts the



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focus on sustainable town centres at a time when traders in Britain's high streets are struggling to survive.

The FSB is also worried about the proposals for relaxation of planning controls in Enterprise Zones. Several of the biggest out of town shopping centres in the country, such as Metro centre Gateshead, Meadowhall Sheffield, Trafford Centre, Merry Hill Dudley were built in Enterprise Zones and these types of shopping centres are detrimental to local high street trade.

The Budget also stipulated that the Government would consult on proposals to make it easier to convert commercial premises to residential. The FSB approves of this proposal in principle, provided it does not threaten the supply of second hand business premises so vital to start-ups.

The Government has also proposed to pilot a land auctions model, starting with public sector land. This is another area where the FSB is slightly cautious about the actual benefits, particularly to small businesses.

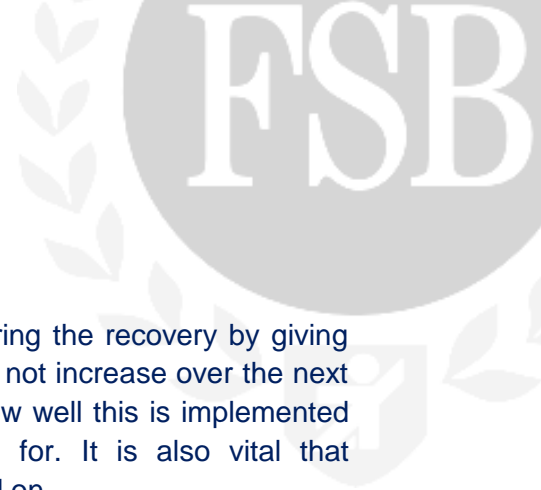
Regulation

The FSB believes that it is crucial that a package of measures is introduced that tackles the fundamental culture problem within Whitehall that in the past relied too heavily on regulation as the solution to society's problems. Policy makers in Whitehall need incentives to consider alternatives but also to receive a strong focus from above on deregulation. These measures begin to do this.

The FSB is pleased to see £350 million worth of planned regulatory burden removed. The FSB has long been calling for the removal of the extension of the right to request time off to train. Other key announcements include:

- Scrapping the existing proposals for specific regulations that would have cost business over £350 million a year to implement. This includes not extending the right to request time to train to businesses with less than 250 employees and not bringing forward the dual discrimination rules
- The introduction of a moratorium exempting micro-businesses and start-ups from new domestic regulation for three years from 1 April 2011
- The launch of a public thematic review to reduce the stock of regulation. The presumption will be that all regulations identified as burdensome would be removed unless good reasons are given for them to stay

The FSB welcomes the three-year moratorium on all new domestic regulation for new firms and those with fewer than 10 employees and looks forward to working with the Government on the details of this measure. It is disappointing that this will not apply to all small businesses and the Government will retain the power to introduce new regulations if it see's fit.



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A moratorium on regulation tries to create certainty for firms during the recovery by giving them the knowledge that the regulatory burden that they face will not increase over the next three years. Whether this is the case or not will depend upon how well this is implemented and how well the transition from the moratorium is planned for. It is also vital that transparency is at the heart of this and all moves at fully consulted on.

Firms need to have it made clear as soon as possible which regulations will still come into force on the Common Commencement dates in April and October this year and whether they will have micro-firm exemptions. This needs to be done immediately as small businesses need to start planning.

The FSB will work with Government to ensure that when the moratorium ends, micro-firms do not face with a raft of measures that they need to introduce at once. Working out a strategy for this is vital. There is also a need for further clarity about how the moratorium will be implemented for firms that change size during the three years and whether this includes part-time staff as well.

The FSB welcomes the announcement of the thematic reviews with the aim of reducing regulations. We look forward to working with Government on this exercise both in highlighting the places where cuts are needed but also on the methodology. Businesses need to know what factors will be considered when justifying the need to retain a regulation as well as what level of independent oversight there will be. Working out a strategy of engagement with businesses is important.

Other policy announcements

Small Business Rates Relief

The previous Government announced that businesses with a rateable value (RV) of below £6,000 would receive 100 per cent relief from their rates liability. The Chancellor has decided to continue to this policy, meaning all businesses below £6,000 RV will pay no business rates. The tapered relief will also be continued. This is a welcomed move and will help the smallest property residing businesses with cash-flow. This holiday will be extended to October 2012, and has lost the Exchequer £370 million of the covering period.

Approved Mileage Allowance Payments (AMAPs)

From 6 April 2011, the AMAPs rates will rise to 45p per mile for the first 10,000 miles and 25p per mile thereafter. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for business employees, at 5p per passenger per mile, will be extended to volunteers. This is a welcomed move, as the rise has not occurred for some years.



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Green Investment Bank

The FSB welcomes the announcement of the Green Investment Bank (GIB), but is concerned about how effective an institution it will prove to be under the announced arrangements. We welcome the additional £2 billion of capitalisation announced at the Budget but for the GIB to be effective, it needs to have the ability to borrow money. The Chancellor's announcement that the bank will only be able to borrow money from 2015-16, subject to the public finances meeting the Government's deficit reduction targets, is a disappointment. The GIB has the potential to kick-start the transition to a low carbon economy and stimulate growth for the economy, yet it will only be able to contribute to growth once the economy has recovered.

Air Passenger Duty

The FSB welcomes the Government's announcement to consult on the future of Air Passenger Duty (APD). The FSB believes APD seriously damages the UK's competitiveness as an international tourism destination with the tax adding as much as £170 to the cost of flight to the UK. The UK's tourism sector has a huge potential to generate growth for the UK economy by increasing inbound tourism and the FSB therefore supports the Chancellor's announcement to work with other countries to explore switching from a per-passenger to a per-plane duty. The FSB supports the decision to postpone the indexed increase of APD next April. In 2008 APD was restructured given the rationale to help reduce CO₂ emissions, however, with the inclusion of the aviation sector into the European Emissions Trading Scheme in 2011 a strong case can be made for a significant reduction in or the removal of APD altogether. This has a lost the Exchequer roughly £150 million.

Carbon price

The FSB welcomes any moves to drive investment in the low carbon sector but is concerned that power generators will pass on the levy to small business consumers. The FSB backs Government plans for a new generation of nuclear power stations in the UK in order to deal with future predicted energy shortages but small businesses already have to contend with high energy prices and so the FSB urge the Government to take steps to ensure power generators do not pass on the carbon price to their customers. This measure will bring in £3.7 billion to the Exchequer.

Low value supplies

This relief allows goods imported by post from non-EU countries to be relieved from VAT where their value is less than £18.00. The Government has announced a token reduction in the amount to £15.00 and will consult with the EU Commission to see if it can be further limited in the 2012 Budget. The FSB waits to see how discussions will progress but has sent communications to the Commission describing how this loophole is damaging small businesses (especially those in the music trade).



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IR35 – contractor's legislation

Following the publication of the OTS review of small business tax, the Government commits to making clear improvements in the way IR35 is administered. These improvements will include setting up a dedicated helpline staffed by specialists, publishing Budget 2011 guidance on those types of cases HMRC view as outside the scope of IR35, targeting compliance activity by restricting reviews to high-risk cases and setting up an IR35 Forum that will monitor HMRC's new approach. The Government has decided to retain IR35, as abolition would put substantial revenue at risk.

Employer supported childcare

The Government will amend the qualifying condition for availability of employer-supported childcare schemes in respect of employees with earnings at or near the National Minimum Wage. The amended condition will apply from 6 April 2005. From April 2011, the weekly amount that parents joining an employer-supported childcare scheme will be able to claim exempt of income tax and disregarded of NICs will remain at £55 for basic rate taxpayers, but will be reduced to £28 and £22 per week for higher and additional rate taxpayers respectively. All current users will continue to enjoy the same exemption and disregards beyond April 2011.

Employer asset-backed pension contributions

The Government will consult on changing tax rules to limit the amount of tax relief available to employers when they make asset-backed contributions to their defined benefit pension schemes so that the tax relief accurately reflects the increase in fair value of pension plan assets, while maintaining flexibility for employers and schemes.

Alcohol duty rates

As first announced at Budget 2008, alcohol duty rates would increase by two per cent above the RPI on 28 March 2011. This will add 4p to the price of a pint of beer, 15p to the price of a bottle of wine, and 54p to the price of a bottle of spirits.

Conclusions

In an era of public expenditure constraint and the likelihood of tax give-aways unexpected, there was little room for the Chancellor to move. The FSB understands that these constraints to realign public spending with tax revenues but encourages the Government not to stop searching for growth measures outside the Budget period.

Overall, the FSB welcomes the move from the Government from the 'cuts' agenda to the 'growth' agenda and in some areas there are some radical proposals. But, on the whole, instead of being a Budget with a large amount of schemes, initiatives and thresholds, it was



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a budget which was more workmanlike than radical. However, the major positive from this was there were no sudden shocks, nor new barriers for small businesses.

On the fuel debate, the FSB welcomes moves to reduce the duty by 1p, but urges the Chancellor to implement a full fuel duty stabiliser. As the majority of fuel price is from taxes, the Chancellor must look again at his options. What has been announced is a partial stabiliser that protects Treasury earnings but could lead to higher duty and pump-prices for small businesses when the price of a barrel of oil drops below \$75.

The move to merge Income Tax and PAYE (NICs) has been discussed by Treasury before but for political and practical reasons been scrapped. This will help reduce the payroll burden, but the FSB encourages the Chancellor to lock in reductions in payroll taxes as well as the reductions in bureaucratic burdens. The FSB also welcomes the move to remove nearly 400 other tax reliefs and complexities.

However, the Chancellor has not moved to incentivise job creation with the NICs holiday as recommended. The FSB awaits a radical approach that recognises a person working is better for the country, and cheaper for the Chancellor, than out of work.

On the regulation front, the Government has created stability and certainty through the moratorium of new domestic regulations for firms below 10 staff. Plenty of work still needs to be completed by the Government on this and the FSB will continue to urge for less onerous regulations on job and wealth creators.

The FSB urges the Government to continue on the growth agenda. It is paramount that jobs and small businesses remain his focus, along with simplification and competitiveness. Small firms need to see clearer a road map for a lower tax economy and the incentives for business investment and growth.

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