

Article for Chamber News May 2009 and Echo 23 April 2009

2009 Budget disappoints businesses

The Southampton and Fareham Chamber of Commerce's 2009 Budget submission included measures to support small businesses as the driving force for recovery from the recession, which is now seen as much deeper than previously envisaged. Commenting on the Chancellor's Budget speech, Jimmy Chestnutt, Director General of the Chamber said that:

"This was a sparse budget for business, but the top up scheme for trade credit insurance will help those Hampshire firms struggling to stay in business, as will the three years in which to pay the up-rating on business rates this year. However, the increase in the top rate of income tax to 50% will mean the UK will lose its competitive edge to attract highly skilled workers to Southampton for the knowledge based economy it hopes to achieve."

Credit insurance costs have been rising due to the insurance companies perceiving higher risk and the reduction of cover has also meant a barrier to trading for many small companies. The government top up scheme will help those already trading with insurance to continue doing so with the same level of cover and to continue in business.

Chamber member Andy Edwards, Director of Rossborough Insurance Brokers said that:

"This appears to be good news for those businesses that already arrange cover and have been concerned that their protection might be reduced or removed at renewal, but it does not appear to offer any help to those who are looking for new assurances when trading with new companies, or if they do not have cover already place."

Below is the Chamber of Commerce's submission to the Chancellor ahead of the Budget

SOUTHAMPTON & FAREHAM CHAMBER OF COMMERCE & INDUSTRY

SUBMISSION TO THE CHANCELLOR FOR 2009 BUDGET 22 APRIL 2009

The Tax Finance and Legal Committee of the Southampton and Fareham Chamber of Commerce asks the Treasury to consider its revised Budget Submission:-

Research and Consultation

First and foremost, the common theme to views expressed by our Chamber members is that the government must think through any proposals, then consult, before introducing any changes in the law. The quality of new tax law is all too often very poor due to a lack of research and consultation. For instance, the VAT reduction last autumn is due to go back up to 17.5 % in September. The Chamber of Commerce proposes that VAT should be kept at 15%. Either way an early announcement should be made about VAT now to avoid the extra administration burden on businesses.

Financial support for small businesses (re-instatement)

We propose reinstatement of 40% income tax allowance by value for investments made by Business Angels to encourage provision of capital for small businesses.

Business Rates – empty rates relief (re-instatement)

The British Property Association has evidence of a drop in business premises available, rather than an increase, which was the government's intended outcome of removing the empty rates relief. The government failed to consult on the impact of the removal of "empty rate relief" in April 2008, which amounts to a tax on prudent businesses and this is not in keeping with the current economic climate. The business rates relief on empty property should be re-instated while proper consultation and research is carried out.

Small Business Rate Relief

A business has to be eligible to receive this support which is even more valuable in the present economic conditions when businesses are operating with tight cash flows. Unfortunately, this much needed support is actually received by fewer than half of eligible businesses. The Southampton & Fareham Chamber of Commerce would like to see the decision in this Budget for Small Business Rate Relief to apply automatically, especially since a Private Members' Bill earlier this year was withdrawn at the request of a Minister on the basis that such a change should happen in the Budget. Increasing the rate of relief and threshold would support more SMEs in current difficult times.

Corporation Tax burden on small businesses (back track)

One of the major concerns of small firms is the increasing tax burden they have suffered in recent budgets and how to continue in business through the current economic downturn. The Chamber of Commerce would like to see a cut in the lower rate of corporation tax on small businesses to 20%, instead of the planned increase to 2% in April 2009. The revenue to do this could be gained from the dividends on bank shares in which the government has recently invested on behalf of taxpayers.

SMEs and National Insurance - Cost of employing people (rebalance)

The costs to small businesses of employing someone are no different than for large businesses that have the special staff paid to deal with this work. Small businesses are the lifeblood of our economy and it has been estimated that the small business owner spends the equivalent of one day a week on "red tape." We propose reducing National Insurance costs on small businesses to compensate for their comparatively higher employment costs burden.

At the same time, we propose introducing a National Insurance subsidy linked to a new employee's cost for the first twelve months of that person's employment. This short term subsidy for National Insurance Contributions will encourage employment ready for the upturn in the economy. It will also pay for itself by higher government revenue from income tax and a reduction in unemployment benefit cost.

"Greening" the Economy

Financial incentives are as critical as people and skills to achieve a green economy. The current Enhanced Capital Allowance Scheme does not benefit the thousands of small businesses that are not companies. If we are to reach the 2010 target set by government for energy produced from renewable sources, then the scope for ECAs must be extended to all tax payers and further complemented with improved government grants to help more small businesses afford to insulate their property and install micro-generation equipment. Furthermore, these measures should be extended to the new build and existing residential market linked to Energy Performance Certificates whereby the rate of relief rewards investment in the most efficient assets.

“Greying” the Economy

Increasing numbers of senior citizens are forced to continue working because of pension income failure or inadequacy. They do not pay National Insurance contributions while still working, but their employer does. We suggest reducing the level of employer national insurance contributions from age 65, so as to enable senior citizens to compete more fairly in an economy with growing unemployment.

Brownfield Tax Incentives

The Landfill Tax exemption for reclamation of contaminated land is being phased out (no new applications accepted since 30 November 2008) and new Brownfield Tax Incentives are aimed at compensating for this. Changes due to start from 1st April 2009 have only recently been published and appear to be scheduled for legislation in August 2009 and applying retrospectively. Whilst we welcome the extension of Remediation Tax Relief to include long term derelict land, these reliefs, as with the Enhanced Capital Allowances (ECAs) are restricted to corporation tax payers only. This unduly limits the scope and benefit of these measures to thus engaging in regeneration of such contaminated or derelict sites. Furthermore the published legislation is considerably briefer than previous draft legislation (issued with Pre

Budget Report 2008) although there is not narrative that explains if HMRC has changed its mind in respect to the wider proposed changes, or simply taken more time to complete the full drafting of appropriate clauses. Clarity and certainty are two critical factors for tax payers to be able to plan and organise their business affairs and with these delays, part publication and retrospective legislation, we are concern about the impact on businesses and their advisers in understanding this complex area.

We would urge that HMRC consider broadening the range of these tax incentives to include non corporate entities, so that the sites (and surrounding communities) targeted for such relief can benefit irrespective of the legal form of the developer. In addition we would encourage that HMRC/HM Treasury provide comprehensive narratives to all publications including explanations of any subsequent omissions or delays to wording issued in earlier draft legislation releases.

Stamp Duty Land Tax

The twelve month holiday on stamp duty for the lowest band should be made permanent, so as not to skew the housing market and we suggest that the other thresholds should be raised to reflect the regional variation in house prices.

Community Infrastructure Levy CIL

The Chamber of Commerce would also like to express concern about the potential impact on the housing sector of the planned Community Infrastructure Levy CIL – previously referred to as the Planning Gain Supplement. As the government is now equally concerned about increasing house building starts as about funding regional infrastructure projects, we request that the timing for introducing CIL is delayed, so that both the economy and the housing sector can recover from the present downturn.

Jimmy Chestnutt

Director General, Southampton & Fareham Chamber of Commerce