

NORTH STAFFORDSHIRE CHAMBER OF COMMERCE & INDUSTRY BUDGET SUBMISSION 2008

The North Staffordshire Chamber of Commerce & Industry is an independent organisation, which represents over 1,000 member businesses in the manufacturing and service industries, retailing and the professions. The Chamber represents large, medium and small sized enterprises, with around 80% of our members employing less than 50 people. Members have considered measures the Government might include in its forthcoming Budget to improve the competitiveness of local firms and our recommendations are detailed below.

SUMMARY

Energy and Environment

- Address **urgently** the disparity in the European energy market to ensure that UK manufacturers are not disadvantaged vis-à-vis their European competitors and ensure there is security of supply.
- Consider the introduction of blue diesel carrying a lower rate of duty than DERV, for the exclusive use of vehicles in use under Operators' Licences.
- Reduce the cost of recycling, improve access to facilities and help firms to reduce their carbon footprint.

Promoting Innovation

- Clarify and simplify further the rules for firms claiming the R&D Tax Credit and adopt a commercial approach when assessing claims.

Design

- Encourage Regional Development Agencies to support the development of creativity and innovative design as a central strategic platform for a successful manufacturing sector.

Entrepreneurs

- Create a fairer taxation system to encourage entrepreneurs and the self employed.
- Introduce equivalent procedures and relief for disincorporation as those provided for incorporation.

Regulation

- Find ways of reducing the burden of regulation on the employer, particularly small firms.
- Align PAYE and NI and harmonise the systems.

Tax – Competitiveness, Enforcement, Simplification and Relationship Building

- Lower corporation tax to allow for greater competitiveness of UK firms.
- Re-introduce 19% small firms corporation tax rate.
- Simplify the tax system without increasing the burden on small businesses
- No retrospective taxation on business and no major changes without prior consultation
- Re-instate indexation allowance on Capital Gains Tax
- Safeguards for businesses regarding the Supplementary Business Rates
- Improve significantly the relationship with the small business tax payer to help boost co-operation and make the process of payment simpler.
- Eliminate unnecessary duplication, streamline procedures to make them more efficient and improve communication with small businesses.

Pensions

- Restore tax relief on equity dividends.
- Personal Accounts must not increase the burden of administration for businesses, compulsory employer contributions must be capped at 3% and costs should be offset by a decrease in employers' National Insurance contributions.

Transport

- Increase capacity on the M6 through Staffordshire by road widening.
- Invest in integrated local public transport systems.

Planning

- ❑ Encourage physical regeneration in North Staffordshire by removing delays in the planning process, and improving the quality of decision making.

Back To Work Benefits

- ❑ Incentivise people off benefits and into work
- ❑ Allow those on the New Deal for the Self Employed to retain their benefits for the length of the programme.

Skills

- ❑ Provide training and funding for all adults to up-skill and re-skill throughout their working lives, including managers, graduates and others with higher level skills.
- ❑ Introduce a revised Home Computer Initiative to improve ICT skills.

ENERGY TAXES

In recent years, North Staffordshire's manufacturing firms have been severely disadvantaged by the steep rise in energy prices, which has increased their costs and weakened their competitiveness.

High energy prices have already led to the closure of some manufacturing firms in North Staffordshire, whilst others have been forced to outsource production to other areas of the world and cut local jobs. Our firms are still faced with the highest gas and electricity prices in Europe.

The problem is compounded by the volatile and unpredictable nature of the energy market which makes it difficult for firms to maintain operating margins and to plan ahead. Our members are concerned that the UK continues to export gas into Europe when supply is limited in the home market, further increasing prices for manufacturers and risking interruption to energy supply, which can be extremely damaging to manufacturing processes.

The liberalisation of European energy markets and energy transportation remains a priority to ensure there is a fair and balanced pricing structure across Europe. At the same time, Government must address the lack of strategic storage of energy and ensure that we have the essential infrastructure in place to guarantee there is no interruption to supply.

We also urge you to revise the tax take on fuel, which increases as prices rise, adding to the burden on the North Staffordshire economy. The high level of fuel duty increases the competitive disadvantage that UK hauliers face against their continental rivals. As a result, manufacturers in North Staffordshire are finding it increasingly difficult to use local hauliers for domestic and international transport. As well as affecting the haulage companies themselves, this loss of trade has a direct impact on many other local companies that provide support services to them.

1. The Chamber urges Government to address **urgently** the disparity in the European energy market to ensure that North Staffordshire manufacturers are not disadvantaged vis-à-vis their European competitors. Gas and electricity prices in the UK should be no higher than in the rest of Europe and strategic reserves must be adequate.
2. Government policies to reduce energy usage are impacting disproportionately on manufacturing firms and we urge you to address this imbalance by adjusting the tax-take on energy and shifting more of the burden on to domestic users.
3. To assist hauliers in North Staffordshire, we recommend you consider the introduction of blue diesel carrying a lower rate of duty than DERV, for the exclusive use of vehicles in use under Operators' Licences.
4. We also ask you to consider the introduction of more incentives for businesses to make environmental improvements, for example recognising and rewarding those who invest in new machinery, run cleaner vehicles or replace older vehicles. Encourage businesses to invest in renewable energy equipment (eg wind turbines) and to develop other energy-efficient measures. Reduce the cost of recycling and improve access to facilities.

PROMOTING INNOVATION, CREATIVITY AND DESIGN

Government should fund Regional Development Agencies to focus on innovation, creativity and design, as a combined package, central to regional economic strategies.

A great deal of local regeneration efforts in North Staffordshire are being founded on the traditional skills of the pottery industry, especially in the field of design. We have found that the principles of

good design can be applied to a whole range of manufactured products and services, both within and outside the ceramics sector.

The private and public sectors can demonstrate the success of various design initiatives in our local economy, yet the approach to design in innovation remains piecemeal rather than strategic.

The principal reason for this is that the encouragement of good design is not an acknowledged output for the Regional Development Agencies. Therefore it does not appear at the centre of any economic strategy nor is there more than token funding for design projects. Many in the private sector would like to see design at the very centre of our educational, marketing, enterprise and regeneration strategies. However, there is little or no financial support for our aspirations, as government does not recognise the encouragement of innovative design as a central strategic platform for a successful manufacturing sector.

Manufacturing firms in North Staffordshire would like to see more Government recognition of the vital role they play in the local and national economy and support for them in developing new products with which to compete in world markets. Government policies on promoting innovation are pivotal to their future success. Members would like to see the introduction of broader policies, in addition to tax incentives, to encourage innovation in firms, particularly those that currently do not have a culture of R&D.

At present, entrepreneurs are discouraged from applying for R&D tax credits because of the overly complicated application procedure, uncertainty as to what is qualifying R&D, and the non-commercial approach adopted by tax enforcement agencies. Whilst there has been some clarification and simplification of procedures, take up of the tax credit remains too low and the Chamber calls for further:

1. Greater government funding for the promotion of design and innovation within companies, directed through the RDAs;
2. clarification as to what is qualifying R&D and simplification of the calculation mechanism for claiming relief;
3. simplification of the rules regarding the ownership of relevant intellectual property which currently restrict the ability of firms to claim relief;
4. a commercial approach when assessing claims;
5. improved publicity of the R&D Tax Credit to businesses and their advisers.

ENCOURAGING THE ENTREPRENEUR

Government must create a fairer taxation system to encourage entrepreneurs and the self employed. A self employed person pays tax at the full Income Tax rate (up to 40%) on ALL profits, including those retained in the business for re-investment, rather than just on that drawn as a "wage". This has the effect of restricting the amount available for reinvestment in the business. For an incorporated business, the income tax rate only applies to monies drawn, and monies retained are taxed at Corporation Tax rates (20% /30%). The following example illustrates how taxing drawings instead of profits would lead to greater investment.

	Current Position (£)	Revised (£)	Company (£)
Profit	100,000	100,000	100,000
Tax (est. 30% av)	(30,000)		
Corp tax (20%)			(20,000)
Drawings	(30,000)	(30,000)	
Tax on drawings		(6,000)	
Dividends			(30,000)
Funds retained in business	40,000	64,000	50,000
Increase in business investment		24,000	10,000

DISINCORPORATION OF BUSINESS

The introduction of the nil rate tax band on profits up to £10,000 for incorporated businesses led to thousands of companies being created. The Government regarded this as an abuse of the rules, initially introduced a tax on distributed profits to counter this perceived abuse and subsequently did away with both the nil rate band and the tax on distribution legislation. This has resulted in many small companies wishing to disincorporate. Our members would like to see equivalent procedures and relief for disincorporation as those provided for incorporation

REGULATION

The cumulative effect of regulation is one of the main constraints on the competitiveness of our members and the burden falls disproportionately on the smaller firms who do not have dedicated staff to investigate, interpret and implement the requirements. Many firms risk the consequences of non-compliance or, conversely, spend many thousands of pounds on building and system alterations which appear unnecessary and excessive. For example, over prescription on health and safety legislation saw one manufacturing firm forced to spend £75,000 to have the front edge of steps in the factory painted a different colour when the steps had been used safely for many years. Another firm in a relatively new office block was told that the window ledges were too narrow and had to be replaced. Many small firms have found the new fire regulations yet another burden to be added to the extensive list they are expected to read and understand.

Poor interpretation of regulation also creates difficulties for small firms. For example, the banks' interpretation of money laundering rules means that even when individuals are well-known to a bank, they have to take passport and utility bills to open new accounts or register as signatories etc. As well as creating additional delay this is an anti-competitive measure which acts as a real disincentive for businesses to shop around amongst the banking community.

1. We urge Government to increase the urgency with which you look for ways of reducing the regulatory burden and avoid placing any further duties on the employer;
2. consider other options before introducing new legislation and address the practical consequences and costs of regulation before introducing new laws;
3. issue clear, step-by-step guidance to all firms on existing and proposed requirements and ensure that this is available well in advance of the date of implementation.

TAX – COMPETITIVENESS, ENFORCEMENT, SIMPLIFICATION AND RELATIONSHIP BUILDING

To increase the competitiveness of UK manufacturers in world markets, corporation tax must be lowered to bring it into line with the EU Member State average.

The withdrawal of Industrial Buildings Allowances will impact severely on the international competitiveness of many exporting manufacturers in North Staffordshire. Investment decisions which have been taken in good faith will now have a significantly lower rate of return imposed upon them. The Chamber objects strongly to any form **retrospective taxation** that jeopardises the ability of our member firms to invest in their business in North Staffordshire.

Our members are also concerned that Government is prepared to announce major changes to the tax system without prior consultation with the business community. For example, changes to **Capital Gains Taper Relief**, which were announced in the Pre-Budget Report, would have impacted severely on levels of entrepreneurship. While members welcome the recent announcement of the Entrepreneur Relief, Government must reconsider the decision to withdraw indexation allowance.

Our members have also expressed concern that local authorities will be able to levy a **supplementary business rate**. With a proposed 4% increase in the national business rate this year, together with the cumulative effect of other rising costs, such as energy prices, businesses are unable to absorb any additional taxes. We urge Government to maintain safeguards for business so that local authorities are unable to levy a supplementary business rate without the overwhelming support and involvement of the business community.

There remains a widely held belief that regulations are driven by the need to raise revenue from taxes and that Government is unaware of the extent to which **the enforcement of these regulations is damaging businesses**.

Historically HMRC and Professional Advisors have enjoyed a very well grounded and practical relationship based upon common trust and courtesy. However, we believe this relationship is under threat and recent experiences have led to a number of instances in which the affairs of taxpayers have been subjected to some very unusual outcomes.

The following example, brought to our attention by a business tax adviser, illustrates the problem.

A business intended to offer to its UK based workforce a number of shares in an employee management incentive arrangement. A number of steps were involved in this exercise;

- * Explaining to the workforce (they were based throughout the UK in London, Birmingham and Manchester to name but three key locations) the objective of the proposal and its benefits to the company, its business, its customers and the employees themselves.
- * Seeking from HMRC a tax valuation of the shares to be offered to the employees
- * Issuing the paperwork to the staff and the certificates to represent the opportunity for the employees

This process took place over a 6 week period and was completed without a hitch save but for the fact that the company forgot to tell HMRC that they had issued the paperwork to all of their employees within the prescribed 92 day time limit in which HMRC are to be notified.

There was no tax at stake either in relation to the issue of the share proposals or by failing to comply with the 92 day time limit.

The company brought the oversight to HMRC's attention by way of its professional advisors. HMRC has discretion to overlook such matters within reasonable excuse. The company claimed it was an oversight but that the scheme was so important to the business from a commercial and employee perspective that they sought the discretion of to allow it to stand. Professional advisors supported the claim for leniency but after almost 12 months of correspondence the matter was listed for a Tax Commissioner hearing.

Such was the reasonableness of the case the company successfully persuaded the Tax commissioners to allow the scheme to take effect but it took 18 months and several thousands of pounds to convince HMRC of simple reasonableness rather than the more logical approach which would involve exploiting the relationship between professional advisor and HMRC official.

The case simply went to a “court/tribunal” to do what was otherwise the norm only a few years ago.

The Civil Service appears to be target and procedure driven and frequently fails to exercise any commercial appreciation. For example, whilst members appreciate that the Inland Revenue and Customs is entitled to review cases on a random basis, there is a perception that inspections are now targeted. Similarly, administrators who seek to rescue businesses in difficulty are frequently obstructed by officials who look for reasons as to why the voluntary arrangement should be rejected or amended. The Chamber urges Government to reverse this insidious culture within the Civil Service and to ensure that the way in which regulations are enforced is sympathetic to the needs of industry, commerce and employment.

The Government must continue its efforts to simplify and improve the tax system, without increasing the tax burden on the small business. The complexity of taxation means that small businesses have to purchase expensive advice from external consultants to ensure that they comply with requirements.

In summary, we urge you to:

1. Lower corporation tax to allow for greater competitiveness of UK firms and refrain from introducing further retrospective taxation.
2. avoid retrospective taxation on business and consult with business before announcing major changes to the tax system.
3. maintain safeguards for business under the Supplementary Business Rate
4. ensure that HMRC:
 - a. simplifies the way in which it deals with small businesses and improves significantly its relationship with the small business tax payer to help boost co-operation and make the process of payment simpler;
 - b. eliminates unnecessary duplication, streamlines procedures to make them more efficient and improves communication with small businesses;
 - c. undertakes a radical review of the tax system, including an overhaul of the tax code with its various levies on the employer (PAYE/NIC), on business (Stamp Duty, Land Tax, Corporation Tax) and on business owners (Capital Gains, and Inheritance Tax);
 - d. facilitates more flexible payment methods, especially with VAT, for example by allowing small firms to spread quarterly payments over three months and enabling different methods of payment such as Direct Debit or credit card;
 - e. ensures that it is willing to make itself and its inspections available in the least disruptive moments, particularly as many small businesses now have to work longer and more unsociable hours.

PAYE AND NI

In previous years, the Chamber has urged Government to align PAYE and NIC and to harmonise the systems. We now believe it is time to abolish employee NI contributions and to replace them with an increased income tax rate. This would reduce the volume and cost of administration for Government

and employers, a win-win situation for all. To avoid any adverse effect on pensioners who currently do not pay NIC, we suggest Government increases personal allowances for income tax, making it cost neutral for the individual.

PENSIONS

Government must introduce further incentives for employers to operate pension schemes and for employees to save. The Chamber calls for:-

1. Restore the tax relief on equity dividends;
2. employer contributions to Personal Accounts must be capped at no more than 3% and should be offset by a reduction in employers' national insurance contributions;
3. the compulsory employer contribution should only apply when an equal contribution is made by the employee;
4. personal Accounts must not add to the complexity of the current payroll system, and training and financial support must be made available to businesses.
5. the abolition of Pension Credit which acts as a disincentive for individuals to save for retirement;
6. the cost to firms of the Pension Protection Fund must be reduced to safeguard the remaining private sector final salary schemes.
7. end the disparity between pension entitlement in the public and private sectors by increasing the retirement age for public sector employees, increasing employee contributions and replacing final salary packages with less expensive arrangements

LAND USE PLANNING

The planning system must support and facilitate local economic development. This requires local authority members to demonstrate consistency and quality in the decision-making process and to have an understanding of the impact of their decisions on the local economy. Additional training and guidance for local planning authorities would be welcomed.

The introduction of the Local Development Framework process has created additional delays and uncertainty in the local planning process. There is a perception among businesses that government has not yet decided upon the required form and content of the LDF and is continuously 'moving the goalposts' for local authorities. Delays and uncertainty damage business confidence. They impact adversely on our ability to attract and retain potential investors and to regenerate North Staffordshire.

To encourage physical regeneration and quality in building design,

1. Clarify the requirements and remove delays in the Local Development Framework process;
2. improve the quality of decision making at the local planning authority level.

TRANSPORT

Action is needed to relieve the problems caused by traffic congestion on the M6 through Staffordshire. Delays on the M6, caused by volume of traffic, accidents or incidents, cost the North Staffordshire economy dearly in terms of lost time and opportunities. Local roads are often reduced to gridlock

affecting not only businesses but also impacting on schools and other local services. As the project to widen the M6 will not be completed until at least 2017, it is vital the Government begins the process as soon as possible and ensures that there is no slippage in the programme. Our members do not believe that sufficient additional capacity will be made available simply by utilising active traffic management systems, including use of the hard shoulder.

The Chamber remains very concerned about the Government's proposal to introduce a **workplace parking levy**. We recognise the need to reduce road traffic congestion, but there is a fear that the levy will become just another tax on business, without bringing about the desired change in individuals' travel habits. We urge Government to consider major investments to public transport systems, alternative measures for changing travel habits and to ensure that any such measures have no financial impact on business.

EMPLOYMENT

There is evidence that the health and integration of communities is much improved if people are in long-term employment. The Chamber is concerned that many people who are able to enter the workforce, or into self-employment, are caught in a 'benefit trap' whereby the additional income from employment is less than, or only marginally exceeds, the income from benefits. We urge Government to incentivise people back into work perhaps, for example, with a 'Back To Work Benefit'.

The New Deal for the Self Employed was one of the most successful New Deal initiatives in North Staffordshire, helping 70% of lone parents and people on incapacity benefit who sought advice to make the transition into self employment. However, changes to this New Deal programme, which now requires people to sign on to the Job Seekers Allowance and to forego their right to other benefits, has led to a sharp decrease in the numbers seeking help and advice in our sub-region. As North Staffordshire has a high number of economically inactive people, particularly those on incapacity benefit, we urge Government to encourage more people into self employment by allowing them to retain their benefits for the duration of the New Deal programme.

SKILLS

In North Staffordshire, businesses have difficulty in filling skilled job vacancies and some managerial and professional roles. Too few employers are undertaking staff training, our management skills are undeveloped compared to other areas in the UK and there is a lack of funding to develop higher level vocational skills in our workforce. We urge government to ensure there is training provision and funding for all adults to up-skill and re-skill throughout their working lives, including managers, graduates and others with higher level skills.

Before the Treasury suddenly ended the Home Computer Initiative, SMEs in North Staffordshire were poised to roll out the scheme to their staff with a view to increasing the level of ICT skills within the local workforce. The Chamber would like to see a revised HCI scheme introduced which would support industry by encouraging everyone in the workforce to improve their ICT skills and have full access to information and services.

For further information, contact:

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