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## PRESS ARTICLE

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### THE EUROPEAN SMALL BUSINESS ACT

This Labour Government seems unable to grasp the significant contribution small business makes to our economy. Perhaps it's because even Peter Mandelson, the new Labour spin doctor, can't overcome the fact that so few of them have any practical experience of the sector. Small and medium sized businesses (SMEs) comprise 99% of all UK businesses, employ 60% of the labour force and contribute 52% of private sector GDP. Yet Chancellor Darling's so-called rescue package will do very little to help SMEs weather the recession. The much publicised 2.5% VAT cut will make little difference, for many small businesses are below the threshold for VAT registration. In the event, any benefit arising from this measure will be cancelled out by the proposed increased in fuel and alcohol duty. The Chancellor may well claim that help for small business is at the top of his agenda but, so far, we have little evidence that his words are anything more than the usual Government spin.

New EU legislation currently being considered for Europe may however prompt the government to take further action to improve conditions for small business. The European Commission has consulted widely with trade and labour organisations throughout Europe and in June of this year adopted proposals for a Small Business Act. This proposed legislation is currently being assessed by the Industry, Trade, Research and Energy Committee of the European Parliament. In January, the Committee are expected to complete their deliberations and will forward the legislative proposals with possible amendments for a final vote in the Parliament's Plenary Session. The final text will then be sent to the Council of Ministers for consideration and implementation.

This Small Business Act for Europe is aimed at many of those issues which seriously hinder the development of small and medium sized businesses (SMEs). The Act will focus upon cutting bureaucracy and red tape, facilitating access to EU research and public procurement programmes, and improving access to finance and favourable tax rates.

The need to comply with a host of Government regulations as well as to provide data to numerous Government departments places an ever increasing administrative burden on small business. The time taken to satisfy these demands is affecting the competitiveness of companies. The Small Business Act contains measures which, it is anticipated, will reduce by 25% this administrative burden. Not before time, one may well say.

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*Conservatives in the European Parliament*

The Act will make recommendations to cut Government demands on companies for statistical data and also information which is already held in various forms within the system. As regards environmental legislation, for example, consideration is being given to introduce a more risk based regulatory approach where companies instead of following existing complicated procedures will be allowed to simply notify authorities of any environmental risks involved in their activity and the measures they will take to address them. It is also proposed that it be mandatory for all European Governments to carry out an impact assessment on small business for all new regulations and reduce existing regulatory and administrative burdens.

A significant barrier to the growth and development of SMEs are the current difficulties encountered in negotiating finance. The Act contains many recommendations to improve this situation, including the establishment by European Governments and the European Commission of credit guarantee schemes to underwrite high risk loans and the setting up of a European market for risk capital in order to increase SME access to venture capital. Additionally, it will be incumbent upon European Governments to work together to cap interest rates that banks charge to SMEs at an appropriate level and to encourage the increase of lending to small business by financial institutions that are not banks.

The European Union is not empowered to regulate the tax rules of its Member States. Nonetheless, within the Act are recommendations which could do much to reduce the tax burden on small business. This burden is not simply due to the level of direct and indirect taxes imposed by the Government but is a result of the complicated way in which they are administered. The time spent by SMEs in understanding the complicated business tax system and completing the paperwork is time that needs to be freed to carry out business.

The Small Business Act also identified the need for European Governments to introduce lower tax rates for SMEs for limited periods when they are warranted by unfavourable economic conditions, and the transferring of losses to future tax years. The Act considers that capitalisation rules need to be reformed so that equity financing is treated in the same way as debt financing. Above all, it recommends that European banks, business and industry work together to bring transparency and an open exchange of information to improve conditions for SME investment.

There is a limit to how far this Small Business Act will be able, in the short term, to influence changes in issues of tax and government procurement policies, for example, for their solution rests outside the legal remit of the European Union. Although currently small businesses in general do not trade across international boundaries, there is a need for them to exploit the opportunities of the single European Market. The Small Business Act should provide the necessary stimulus for change to make this happen.

It has to be recognised that the EU is strong on supportive rhetoric for SMEs but conspicuously backward in concrete measures. To be fair, there are practical reasons for this but I can only hope that this time, given the current economic outlook, something will happen. I remain of the view that the two most important priorities for small businesses are reductions in regulatory burdens and better access to information. Otherwise they do best getting on with their own thing.



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