 Britain’s exit from the European Union will understandably be the focus of the new Government – after all, the deal that’s struck will be critical for Britain’s businesses. But to capitalise on new trade opportunities, and gear our economy to support future generations without further increasing the public sector deficit, we must have an immediate plan to boost British businesses.
A culture of entrepreneurship needs hard policies behind it. If we can deliver growth for Small and Medium-Sized Enterprises (SMEs) – who make up 99 per cent of private sector businesses, employ 15m people across the UK and have a collective turnover in the region of £1.8tn – we can safeguard the future success of our economy.

We have spoken to entrepreneurs in our network of over 10,000 entrepreneurs, as well as experts in other organisations who work directly with many thousand more business owners to come up with some immediate wins for the next Government.

These proposals are all about supporting business owners who want to grow their businesses. We must take down the barriers and free up entrepreneurs to fulfil their ambitions by making the UK the best place to start and grow a business.

**Awareness of Business Support**

Over the past decade, successive Governments have done a great deal to bolster the UK’s start-up environment. However, in a 2015 survey, awareness of a range of tax reliefs, regulatory help and wider business support was less than 30 per cent among business leaders. Almost more alarming was the low awareness of the local help available to them. Understanding of Local Enterprise Partnerships (LEPs), for instance – which by all accounts are the Government’s main vehicle for promoting local growth and investment – fell well below the level that ministers would hope for.

In relation to access to finance by small businesses, there is evidence of deficiencies on the demand side. On equity finance, knowledge of specific equity providers, the propensity to take expert advice and actual take-up of equity finance is limited, while analysis of the 2015 UK Longitudinal Small Business Survey found that the top reason for discouragement among SMEs seeking all types of external finance was “fear of rejection”. Specialist advice and investor readiness programmes can help address such issues.

**Policy proposals**

- Whitehall departments should include information on Government schemes within HMRC correspondence with businesses.

- Stimulate the demand side to ensure quality propositions are put in front of investors and lenders, focusing on those parts of the UK where the market is underdeveloped.

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2 According to British Business Bank (2016) Small Business Finance Markets 2015/16, only 1 per cent of SMEs have sought equity finance in the last three years, and this has remained fairly static since 2012.

3 See: [https://www.enterpriseresearch.ac.uk/publications/exploring-success-barriers-sme-access-finance-potential-role-achieving-growth-research-paper-no53](https://www.enterpriseresearch.ac.uk/publications/exploring-success-barriers-sme-access-finance-potential-role-achieving-growth-research-paper-no53)
TALENT & SKILLS

Access to talent is becoming an increasingly important challenge for entrepreneurs. As PwC’s latest CEO Survey has found, 77 per cent of UK CEOs worry that skills shortages could impair their company’s growth, while the CBI recently revealed that over two-thirds of businesses, 69 per cent, are not confident about filling their high-skilled jobs in future – up from 55 per cent in 2015.

There is certainly no shortage of jobs. There were 1,126,376 open job positions at the end of February 2017, and 87 per cent of scale-ups claim they would be able to grow faster if university graduates had the skills needed to meet customer demand. It is estimated that Britain will need an extra 2.287m digitally skilled workers by 2020 to satisfy its growing tech economy, and The Royal Society has predicted that the UK will need 1m new science, engineering and technical professionals by 2020.

Talent and skills aren’t just domestic but can come through immigration too. Training our domestic workers and bringing in talent from abroad shouldn’t be seen as mutually exclusive. Clearly Brexit will result in a wide-ranging transformation of the immigration system, but there are immediate reforms that the Government could make to ensure that Britain is open for business.

Policy proposals:

– Provide higher level apprentices (Level 4+) with income-contingent loans for training.

– Move forward with Lord Young’s proposal to introduce an Enterprise Passport.

– Reform the entrepreneurs visas so we attract the most ambitious founders.

– Allow trusted organisations to sponsor employees on behalf of small companies.

4 See: http://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2017/gx/ceo.html


7 See: http://www.scaleupreport.org/scaleup-report.pdf

8 See: http://www.coadec.com/blog/uk-faces-triple-whammy-skills-shortfall-visa-restrictions-brexit-uncertainty


10 A digital record of all extra-curricular and enterprise-related activities that students take part in throughout their education – which would help gear young people towards entrepreneurship and more enterprising workplaces.

11 The Tier 1 Entrepreneur Visa and Tier 1 Graduate Entrepreneur Visa aren’t structured to attract the best and the brightest entrepreneurs. They should be reformed to allow a third-party sponsorship model, in which Home Office regulated venture capital firms, accelerators and other distinguished bodies are given sponsorship licences to endorse talented entrepreneurs.
– Continue to work to address the data skills gap\(^{12}\).

**TECHNOLOGY, OPEN DATA & E-GOVERNMENT**

Emerging technologies like machine learning and big data are going to be key to closing the UK’s productivity gap and boosting growth across the business community. Small businesses’ application of technology will be critical for net economic growth and improved standards of living.

With only 50 per cent of businesses embracing digital tools, we need a step change in ambition to embrace innovation and to put digital transformation at the heart of the government’s agenda. Key digital economy programmes like open banking data, digital skills, productivity, Making Tax Digital, data regulations and internet privacy sit across seven different government departments. A Secretary of State for Digital should be given oversight of all major digital programmes to put digital front and centre of the Government’s economic agenda.

The UK is joint third in the world for Open Data\(^{13}\), but we have the potential to lead the world. It might not be just a supply-side issue, as a third of available Government data available isn’t being downloaded\(^{14}\), which suggests a disconnect between the content of data that the Government is publishing and what is demanded by the consumers of the data. The Government also needs to make sure that where innovation and open data initiatives occur, such as in the banking sector, the right frameworks are in place to enable widespread uptake and innovation.

More broadly, we need to upgrade business owners’ interactions with Government. The model for this is Estonia, which offers unrivalled digital services, while safeguarding privacy. E-Residents can do everything legally required for a business by electronic means from afar, including registering a company (in just 18 minutes), signing contracts, opening bank accounts, making and receiving payments and paying taxes. This requires a supporting digital infrastructure underpinned by initiatives such as secure digital identity verification and seamless digital payment provision with and from government.

**Policy proposals**

– Put a Secretary of State at the heart of government dedicated to driving a positive digital agenda across the business community.

– Tackle the digital divide by experimenting\(^{15}\) with the efficacy of using tax credits as incentives for small businesses to invest in digital tools that enhance productivity.

\(^{12}\) This should build on the work of Analytic Britain through the Data Skills Taskforce.

\(^{13}\) See: [https://index.okfn.org/place/](https://index.okfn.org/place/)


\(^{15}\) Preferably through randomised control trials.
- Set the example for a data-driven economy by opening up more Government data, while focusing on the quality and usability of existing and new data release. Businesses must be able to use that data to fuel their own business growth.

- Improve the collaboration between central Government, local Government and private businesses by regularly inviting entrepreneurs into departments to interrogate data.

- Create an E-Government revolution to reduce bureaucracy for entrepreneurs – mapping out the journey for all business from starting up through to successfully running a growing business and taking advantage of all the stages where digital could be an enabler of a better service.

- Ensure key initiatives like the 2018 Open Banking data initiative to stay on track to deliver.

TAX

The United Kingdom’s tax system is attractive for entrepreneurs – corporation tax is at 19 per cent and set to go down to 17 per cent – but it’s not the best in the world. We rank sixteenth in the latest International Tax Competitiveness Index\(^{16}\), having dropped two places since 2015. We need a simpler, more efficient and fairer tax system. Wide-ranging reforms are possible – just consider the reforms of New Zealand in the 1980s\(^ {17} \) – but this will take time and may depend on the outcome of Brexit negotiations. However, there are a number of things we can do immediately to improve the tax system without damaging public finances.

Policy proposals

- Freeze the insurance premium tax, uprate the employment allowance and commit to an independent inquiry into business rates.

- Allow trading losses to be carried forward with an interest factor that compensates businesses for inflation and a real return on capital.

- Limit the damage of IR35\(^ {18} \) which threatens further holding back nascent entrepreneurs.

- Incentivise investment by allowing firms to immediately deduct capital expenses.

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\(^{16}\) See: [https://taxfoundation.org/2016-international-tax-competitiveness-index/](https://taxfoundation.org/2016-international-tax-competitiveness-index/)


\(^{18}\) IR35 is a poorly implemented tax law, designed to stop ‘disguised employment’, which allows HMRC to treat fees paid to a limited company as if they were an individual’s salary.
REGULATION & INFRASTRUCTURE

We still have some way to go to reduce the regulatory burden faced by businesses. Though we are a respectable seventh in the Ease of Doing Business ranking\(^\text{19}\), we lag in areas such as registering property, enforcing contracts and trading across borders. The Government needs to ensure that departments continue with recent efforts to cut unnecessary regulations. However, it shouldn’t simply focus on cutting but regulating in an innovative way. We need to embed the innovation principle into the ethos of every department across Government and replicate successful regulation in emerging technologies.

On broadband, the Government should look to work with smaller service providers adopting innovative ultrafast provision, such as Alt Nets like Bristol is Open, Hyperoptic and Broadband for the Rural North (B4RN). These could act as testbeds for the development of lower cost, locally-responsive provision.

Policy proposals

– Embed the Innovation Principle\(^\text{20}\) across Government and devise a set of standard principles for sandboxes to replicate the Financial Conduct Authority’s fintech Sandbox across emerging technologies\(^\text{21}\).

– Support experimentation with innovative models of ultra-fast broadband.

PROCUREMENT

The Government is one of the most influential and important customers in the UK economy, spending around £40bn per year on procuring goods and services\(^\text{22}\). All major parties have promised to increase procurement expenditure towards SMEs, but the process is hard to navigate, payment systems are complex and departments are not promoting their small customers enough (something all political parties have promised to rectify). Some innovative startups are stifled by the requirement to demonstrate 2,200 hours of “billable work” in the service they would be providing.

To further democratise procurement, the Government should expand the number of services it lists on the newly-created Crown Marketplace, taking the lead from America’s GSA Advantage! and South Korea’s KONEPS procurement system.

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\(^{19}\) See: [http://www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings)

\(^{20}\) A transparent assessment of the workability, effectiveness, costs, benefits, and legitimacy of different policy options, as articulated by the European Risk Forum. See: [http://www.riskforum.eu/innovation-principle.html](http://www.riskforum.eu/innovation-principle.html)

\(^{21}\) The Financial Conduct Authority’s Sandbox fintech regulation shows we can lead the world in smart regulation. The new Government should devise a set of standard principles for ‘sandboxes’, to be replicated across emerging technologies such as drones, artificial intelligence (AI), driverless cars, 3D printing, as well as more established sectors that are undergoing disruption.

Policy proposals

– Revise the requirement to demonstrate 2,200 hours of billable work.

– Ramp up investment in creating an online platform to rival America’s GSA Advantage! and South Korea’s KONEPS procurement system.

EXPORTING

Exporting is a daunting prospect for many business owners. FSB research shows that currently only around one in five small businesses export\(^23\), however, they predict that this could double to 40 per cent, if the right tailored support was made available. There are also lessons to learn from other countries on creating hubs for businesses expanding into new markets.

Policy proposals

– Experiment with export vouchers\(^24\) to see if they accelerate small business exports alongside export tax credits.

– Replicate Australian Landing Pads and Swiss Market Entry Camps in key export hubs\(^25\).

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\(^{24}\) Preferably using randomised controlled trials.

\(^{25}\) The Australian ‘Landing Pads’ provide accommodation for up to 90 days, alongside peers, together with various mentoring and business development activities.
A BOOST FOR BRITISH BUSINESSES: POLICIES FOR A NEW GOVERNMENT

POLICY PROPOSALS

AWARENESS OF BUSINESS SUPPORT

Whitehall departments should include information on Government schemes within HMRC correspondence with businesses

Over the past decade, successive Governments have done a great deal to bolster the UK’s start-up environment; this has included developing a number of initiatives and tax reliefs aimed at driving investment towards small businesses and helping them grow. However, it’s clear that many founders – alongside even established business leaders – are unaware of many of the schemes that have been targeted directly at them.

In a 2015 survey, awareness of a range of tax reliefs, regulatory help and wider business support was less than 30 per cent among members of the Institute of Directors (IoD). Nearly half of IoD members were unclear about the functions and responsibilities of Local Enterprise Partnerships (LEP), while a full 60 per cent did not know which LEP their business even fell under in geographic terms.

Pushing the next Government to improve Whitehall’s marketing apparatus might seem like a prosaic proposal in the middle of a general election campaign. However, at a time when the legislative agenda will be dominated by Brexit, the next Government should be searching for straightforward ways to support business growth. Ensuring that all start-ups are aware of the schemes already in place to support them should be among the first pieces of low hanging fruit they go after.

As a first step, Whitehall departments should include information on some of these schemes within correspondence that goes out to businesses from HMRC. It’s rare that business leaders fail to open a message from the tax man, so they might as well try to soften the blow with some information about an attractive tax relief or two. At a local level, the next Government should also consider how to use high profile new initiatives like metro mayors to boost awareness of the options and advice available to start-ups across England.


JAMIE KERR
Institute of Directors
Stimulate the demand side to ensure quality propositions are put in front of investors and lenders, focusing on those parts of the UK where the market is underdeveloped

The UK Government, in common with Governments elsewhere, has focussed interventions on the supply side. However, there is evidence to highlight deficiencies on the demand side.

On equity finance, knowledge of specific equity providers, the propensity to take expert advice and actual take-up of equity finance is limited, while analysis of the 2015 UK Longitudinal Small Business Survey found that the top reason for discouragement among SMEs seeking all types of external finance was “fear of rejection”. The relative underperformance in the UK in the number of ‘scale-ups’ is also relevant. While the UK performs well on start rates compared to international comparators, it performs relatively poorly on the proportion of starts reaching 10 employees after three years.

Specialist advice on accessing finance has been shown to help. Those receiving finance advice of the now-closed GrowthAccelerator/Business Growth Service attracted over £100m of investment. While specialist advice is available from some sources, including private sector providers, the reduced availability of subsidised support means lower take-up, especially among SMEs with limited ability to pay.

There are three issues in relation to equity finance that investor readiness programmes need to address: equity aversion, investability and presentational failings. The spatial dimension is also important given regional disparities in accessing finance. Direct interventions on the supply side need to be complemented by actions and policies that help to create a supportive ecosystem. This is particularly important for those parts of the UK where the market is underdeveloped, e.g. outside of the Greater South East.

The Government should consider a mix of initiatives, such as: capacity development among business advisors; better join-up in the business support landscape and clarity on what this will look like going forward; provision of investor readiness support, awareness-raising and education for entrepreneurs; and actions that can help create more supportive ecosystems locally, especially in those areas where markets are less well-developed.

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27 According to British Business Bank (2016) Small Business Finance Markets 2015/16, only 1 per cent of SMEs have sought equity finance in the last three years, and this has remained fairly static since 2012.

28 See: https://www.enterpriseresearch.ac.uk/publications/exploring-success-barriers-sme-access-finance-potential-role-achieving-growth-research-paper-no53/


TALENT & SKILLS

Provide higher level apprentices with income-contingent loans for training

The UK needs sufficient numbers of people with the right skills to ensure businesses develop new products and services, navigate new markets and develop their structures. Yet 87 per cent of scale-ups claim they would be able to grow faster if university graduates had the skills needed to meet customer demand31.

The apprenticeships system is flawed. The recent ambition to boost the number of apprenticeships to 3m by 2020 has not focused enough on the priorities that benefit employers or the economy32. The apprenticeship levy is essentially a payroll tax on businesses, the cost of which will be borne by employees33. It should instead provide income-contingent loans to Level 4+ (Higher Apprenticeships), as we do for undergraduates, and allow young people to use this for training – including through short courses like Makers Academy and General Assembly – alongside their apprenticeships.

Move forward with Lord Young’s proposal to introduce an Enterprise Passport

Today’s work environment bears little resemblance to that of a quarter-century ago, with SMEs now accounting for 60 per cent of all private sector employment34 (a single high-growth UK SME creates around 83 jobs35). Not all schoolchildren will become entrepreneurs, but they do need to be equipped with the skills and knowledge to be future employees and potential employers at firms of all shapes and sizes.

The skill set sought by large companies was previously typified by team sports and conformity – and this is what the school system was previously encouraged to deliver36. The early-2010s saw a push towards enterprise education, yet a 2016 Ofsted report37 found that few secondary schools were adopting a coherent enterprise and employability strategy. They found that schools were often unsure about the support on offer from local and

31 See: http://www.scaleupreport.org/scaleup-report.pdf
34 See: https://www.fsb.org.uk/media-centre/small-business-statistics
There are a number of effective ways to prepare young people for the jobs of the future. First, careers information and guidance in schools needs to move away from opportunities at large incumbent firms, and scale-ups should be invited to speak at careers fairs. Second, Government should use its convening power effectively to highlight the range of services provided by third sector (such as Founders4Schools, NACUE or the YourLife Campaign). The efficacy of such initiatives was highlighted by Founders4Schools, which reported a trebling of children who state they will study STEM after just one, 1-hour session. Government should also promote the Careers and Enterprise Company, and ensure secondary schools develop stronger links with local businesses through Local Enterprise Partnerships and chambers of commerce. Finally, Lord Young's proposal to introduce an Enterprise Passport should be taken forward, which would accompany an individual throughout their education. Pupils would be encouraged to engage in extramural activities, with the Passport acting as another way for UCAS and employers to assess candidates.

Reform the entrepreneurs visas so we can attract the most ambitious founders

Currently, neither the Tier 1 Graduate Entrepreneur Visa nor the Tier 1 Entrepreneur Visa are fit for purpose. Immigrant entrepreneurs are beneficial to a country. On net, entrepreneurs are more likely to be innovators; increase competition; have positive employment effects in the short and long term; boost productivity; and encourage structural changes in the economy. This is why an increasing number of countries across the world are introducing specific visas to encourage entrepreneurs to emigrate.

The Tier 1 Graduate Entrepreneur Visa and the Tier 1 Entrepreneur Visa are failing to attract the very best and brightest and requires an intrinsically imperfect bureaucracy to filter applications. Instead, we should have third-party sponsorship. Replicating the successful Tier 5 Visa routes and the UKTI-initiated Sirius Programme, Government approved organisations should be permitted to endorse entrepreneurs for visas. These bodies could be trade organisations, accelerators, venture capital firms – in fact, any established organisation with an interest in ensuring they’re sponsoring the most talented entrepreneurs. As with Tier 5, these organisations would be audited by two Government departments, one of which would be the Home Office.

Third-party sponsorship would allow the Government to drop the £50,000/£200,000 investment requirement, which is a poor proxy for entrepreneurial promise. However, entrepreneurs would be required to meet certain thresholds – whether that’s turnover or employment – to maintain their visa or move to a new one.

Allow trusted organisations to sponsor employees on behalf of small companies

Some visas are obtained through registered third parties. For example, Tech City has the Tech Nation Visa Scheme and Aiesec UK has Access Tier 5. However, the tech visa and tier 5 are only suitable for a small percentage of immigrants.

If a company wants to bring in international employees the most obvious route is through Tier 2. But the process and bureaucracy of becoming a sponsored authority is high for small startups, as are the associated legal costs. By allowing other organisations – such as venture capital funds, or large companies – to become an overarching body to sponsor employees on behalf of startups, the burden on very small organisations would be radically reduced.

The Government should pilot this scheme with a small number of highly trusted tech companies from Tier 5 Youth Mobility Scheme countries (Australia, Canada, Japan, Monaco, New Zealand, Hong Kong, Republic of Korea and Taiwan), who would endorse migrants just as Tech City and Aiesec UK endorse applicants.

Continue to work with industry to address data skills gaps

The economy is being transformed by data, increasing efficiency and creating new opportunities for innovation. We are constantly generating data, from changes in how we shop, communicate and meet, whether through the gadgets we use or the clothes we wear, and businesses and government are becoming more adept at creating value from this. The UK is particularly well-placed to benefit. We know that Datavores – companies that drive decision making using data – are significantly more productive and profitable compared to the average. But if data is the new oil, logically, it won’t be useful to business until refined.

All leading economies are seeing a major increase in the demand not just for digital skills, but for a wide range of specialist data skills. Four out of five companies are struggling to find the talent they need and two thirds

41 See: [http://www.nesta.org.uk/sites/default/files/inside_the_datavores_briefing.pdf](http://www.nesta.org.uk/sites/default/files/inside_the_datavores_briefing.pdf)
of data-driven companies have experienced difficulty in filling at least one vacancy when they have tried to recruit data analysts. According to the UK Government, this shortage of data talent has direct and serious economic implications, and addressing this shortfall should therefore be a priority.

Government should continue to work with industry to address data skills gaps in the UK. Analytic Britain identified a fragmented landscape of organisations working on data skills. To provide direction, The Data Skills Taskforce, a cross-cutting group made up of UK businesses, Government and education providers, should be tasked and resourced with identifying the state of these gaps and mechanisms to address them, building on recommendations made in Analytic Britain.

TECHNOLOGY, OPEN DATA & E-GOVERNMENT

Create the Office of Secretary of State for Digital

Increasing uptake of digital technologies will be fundamental to raising UK productivity and supporting SMEs’ growth throughout the UK. Acquiring customers, managing finances and innovation are the most challenging priorities for small businesses as they look to grow, and it is rapid advances in digital technologies like machine learning, the Internet of Things and data science that create the tools to drastically improve the ability of businesses to tackle those priorities. Whether it’s automation of business processes, enabling access to new markets and improved decision making through data insights – digital supports growth.

When this happens, the impact is significant, with small businesses using digital twice as likely to report over 10 per cent growth. But right now the UK is a two-tier economy not achieving its potential – split between the digital-haves and have-nots – where only half of small businesses are adopting digital technologies: 56 per cent of small businesses have yet to adopt digital technologies. The Government Digital Strategy says only 20 per cent of UK enterprises use software to share information.

Digital needs to be embedded in the DNA of every business from the start to drive more growth across the UK. To this end, we need more action from Government to ensure all companies throughout the UK have the

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45 See: https://www.gov.uk/government/publications/uk-digital-strategy
47 See: Ibid.
best possible access to world class digital infrastructure and are incentivised to invest in digital tools.

We need a step change in ambition to embrace innovation and to put digital transformation at the heart of the Government’s agenda. Key digital economy programmes like open banking data, digital skills, productivity, Making Tax Digital, data regulations and internet privacy sit across 7 different government departments. A Secretary of State for Digital should be given oversight of all major digital programmes to put digital front and centre of the Government’s economic agenda.

Open up more Government data and regularly invite entrepreneurs into departments to interrogate their data

The UK is currently joint third in the world for Open Data49, but we should aspire to lead the world – particularly in Government spending data. As the recent response to the industrial strategy from the Open Data Institute suggests50, we have a lot to gain from opening up data.

The example of Citymapper demonstrates the value of open data, which started in the UK due the progressive attitude towards open data51 – however, there’s still room for improvement. A third of the data available isn’t being downloaded52, which suggests a disconnect between the content of data that the Government is publishing and the content demanded by the consumers of the data.

As such, besides further opening up data, Government departments and local Governments should hold quarterly roundtables and hackathons at which entrepreneurs are invited in to explain and interrogate the available data.

Create an E-Government revolution to reduce bureaucracy for entrepreneurs

In February, the Government released its Transformation Strategy 2017-202053. It makes the right noises – in particular around central Government acting as the infrastructure and platform to local Government and third parties – but its vision is not as transformational as we need. For starters,

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49 See: https://index.okfn.org/place/
50 See: https://theodi.org/odi-responds-to-uk-government-consultation-on-industrial-strategy
52 See: http://www.computerweekly.com/feature/There-is-no-shortage-of-open-data-The-question-is-is-anyone-using-it
the next Government must extend its timeframe – the Strategy only runs through to 2020-21, when the true work of digital transformation is likely to take a decade.

The example of Estonia shows what’s possible. Today, Estonians can elect their parliament online or get tax overpayments back within two days of filing their returns. In 2014 Estonia became the first country to offer e-Residency – a transnational digital identity available to anyone in the world interested in administering a location-independent business online. E-Residents can do everything legally required for a business by electronic means from afar, including registering a company (in just 18 minutes), signing contracts, opening bank accounts, making and receiving payments and paying all taxes.

Much of what Estonia has achieved was possible because they started with a clean slate. We don’t have that in the UK, but we can collate, document and publish details of the data the Government holds for each of its systems; publish an agreed set of open data and messaging standards and protocols to allow easier communication between systems; and provide a roadmap to the Making Tax Digital initiative, which will make it easier for small businesses and their accountants to manage and pay taxes.

**TAX**

**Freeze the Insurance Premium Tax, uprate the Employment Allowance and commit to an independent inquiry into business rates**

Access to affordable and adequate insurance products is vital to protect small businesses and the self-employed. Insurance Premium Tax (IPT) has doubled since 2015 and affects all motor, home, travel, flooding and health insurance policies, whether personal or commercial. If insurance premiums continue to increase, small business take-up of insurance will begin to dip, and it will be those most at risk that will be affected. The next Government should pledge to freeze IPT for the next parliament.

There have been significant increases in both the cost of doing business and cost of employment following the ongoing roll-out of auto-enrolment of pensions, the National Living Wage and the resulting National Insurance Contributions. To support firms to continue to hire and to increase wages the Government should uprate the Employment Allowance for smaller firms from £3,000 to £4,000. In addition, the Government should commit to an independent inquiry to reform the business rates system for 2022.

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54 See: [https://e-estonia.com/e-residents/about/](https://e-estonia.com/e-residents/about/)

MARTIN MCTAGUE
Federation of Small Businesses
Allow trading losses to be carried forward with an interest factor that compensates businesses for inflation and a real return on capital

Startups often run substantial losses for years before eventually turning a profit. Access to finance is essential to entrepreneurs, but entrepreneurial ventures are fundamentally risky to outside investors due to the high failure rate of start-ups. It is particularly important then that the tax system does not impede access to finance for entrepreneurs by imposing excessive tax burdens on young firms compared to established incumbents. Unfortunately, the UK’s tax treatment of trading losses creates a substantial disincentive to investing in startups by penalising firms that run large, up-front trading losses.

Under the status quo, companies running trading losses are able to carry forward their taxable losses and deduct them from their taxable income in future profitable years. This tax treatment ensures that firms with volatile profits are not faced with an excessive burden when compared to firms running steady, stable profits. However, this treatment isn’t perfect. It fails to adequately compensate firms running sizable losses in their first few years of trading. While profitable firms face an immediate tax liability, firms running trading losses may have to wait years before receiving an offsetting tax benefit.

Significantly, the longer a startup has to wait to deduct its trading loss, the smaller the tax benefit it receives is. For example, a firm running a £1m trading loss in its first year and not turning over a profit until its tenth year, will have to wait nine years before realising that tax benefit. During that time the value of the tax benefit to the firm will have been eroded by inflation and opportunity cost. This insufficient tax benefit creates a bias in the tax system against start-ups and creates an incentive for investors to prefer funding established profitable businesses.

Furthermore, recent reforms imposed a 50 per cent cap on the share of profits that can be offset through carry-forward losses. The Institute for Fiscal Studies described this reform as having “no economic rationale”.

The Government ought to correct this bias in the tax system by allowing firms to fully carry forward losses with an interest factor that compensates firms for inflation and a real return on capital. This proposal has been suggested by the House Ways and Means Committee in the US and is effectively in place under Estonia’s tax on distributed profits.

See: https://taxfoundation.org/tax-code-barrier-entrepreneurship/#_ftn2
See: https://www.ifs.org.uk/publications/9207
Limit the damage of IR35 from further holding back nascent entrepreneurs

Our tax system is based on the traditional employer/employee model, and as self-employment continues to grow the problems with this model become clearer. The Government’s attempts to address this question have not been joined-up, and have resulted in misjudged and ill-conceived policies around IR35.

The Government needs a more strategic approach to considering how modern working practices can be addressed in the tax system. This should include a comprehensive review chaired by an independent expert.

By shifting the IR35 burden up the chain to the agency and end client in the public sector, the Government has made working on public sector contracts significantly less attractive for genuine freelancers. Many have terminated their contracts early and moved to the private sector. Public sector projects are stalling as a direct result of this measure.

To ease the damage, Government should: review the impact of the change and not consider rolling out a similar measure in the private sector; ensure public sector clients have an internal appeals process; ensure hirers understand the new legislation does not impose a requirement to curb the use of contractors; and issue guidance to the public sector that if a public sector body determines in advance a role is inside IR35, they should offer the role as employment.

Incentivise investment by allowing firms to immediately deduct capital expenses

Entrepreneurs that develop viable business models will want to expand rapidly and invest in equipment, machinery and factories. Our tax system should support firms making the transition from start-up to scale-up, but frequently excessive tax burdens are imposed on companies making productivity boosting investments.

The UK may have one of the lowest statutory Corporate Tax rates in the OECD, but the rate which affects investment at the margin – marginal effective tax rate on new investment (METR) – is high by international standards. As Paul Johnson, Director of The Institute for Fiscal Studies notes: “The British system is rather less generous in the way it treats investment”. As the UK’s statutory rate fell, asset lives for capital investment were lengthened and the deduction for new buildings was eliminated entirely. As a result, despite the statutory rate falling from 28
to 19 per cent, Britain’s METR is relatively unchanged since 2008\textsuperscript{64}. In contrast, over the same period Canada modestly cut its corporate tax rate to 26 per cent but substantially shortened asset lives for new equipment and nonresidential buildings, dramatically lowering its METR to below the UK’s. As Canada’s METR has fallen, increased investment stimulated productivity with wage growth outpacing the OECD average for nine of the last ten years.

The Government should stimulate investment and aim to reduce its METR to zero by allowing businesses to immediately deduct capital expenditures from their taxable incomes. Economic data\textsuperscript{65} suggests this move would have powerful pro-investment effects. This is consistent with economic modelling by leading tax economists Auerbach, Kotlikoff and Altig which suggested a 9 per cent long term GDP boost from a shift towards full expensing\textsuperscript{66}. The Government should consider replacing planned Corporation Tax cuts with a move towards full expensing of capital expenditure, US Treasury modelling\textsuperscript{67} found that full immediate expensing would have four times the pro-growth effects per dollar of revenue lost as traditional rate cuts\textsuperscript{68}.

### REGULATION & INFRASTRUCTURE

**Embed the Innovation Principle across Government and devise a set of standard principles for sandboxes to replicate the Financial Conduct Authority’s fintech Sandbox across emerging technologies**

Over half, 51 per cent, of businesses think the level of regulation in the UK is an obstacle to success\textsuperscript{69}; however, it’s not just a matter of cutting regulation. There are tradeoffs – regulation doesn’t just protect consumers and the environment, at it’s best, it also helps promote competition and support economic growth.

However, in too many areas of Government, regulation is either too burdensome or unclear. To combat over-regulation, the Government should adopt an Innovation Principle – a transparent assessment of the

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\textsuperscript{64} See: [https://taxfoundation.org/economic-growth-corporate-tax-rate/](https://taxfoundation.org/economic-growth-corporate-tax-rate/)


\textsuperscript{66} See: [http://eml.berkeley.edu/~auerbach/ftp/taxreform/flatfinal.pdf](http://eml.berkeley.edu/~auerbach/ftp/taxreform/flatfinal.pdf)


workability, effectiveness, costs, benefits, and legitimacy of different policy options – to encourage entrepreneurs currently inhibited by regulation that does more harm than good.\(^{70}\) And to help guide entrepreneurs in emerging technologies, regulators across all relevant industries should have break-out zones where entrepreneurs can test new technologies.

The Financial Conduct Authority’s (FCA) Sandbox is an exemplar of this. It’s a safe space in which fintech companies can innovate by testing products, services, business models and delivery mechanisms in a live environment, while ensuring that consumers are appropriately protected. It is widely believed to be effective at revealing and balancing the opportunities and risks of emerging technologies, and the access and open dialogue has been hugely valuable in reducing regulatory uncertainty.\(^ {71}\)

Along these lines, Ofgem is inviting expressions of interest for a potential regulatory sandbox.\(^ {72}\) As well as established industries that are undergoing disruption, sandboxes could be created in all emerging technologies – including drones, artificial intelligence (AI), driverless cars, 3-D printing etc. Relevant regulators and/or Government departments would manage the Sandbox – for example, the UK Civil Aviation authority should create a Sandbox for drones – allowing entrepreneurs and regulators to work together in allowing innovation.

Support experimentation with innovative models of ultra-fast connectivity

If the Government is serious about supporting digital entrepreneurship and the UK’s many fast-growing creative and tech clusters, it needs to be ready to support the rollout of ultrafast broadband around the country – supporting speeds that reach beyond hundreds of megabits and into the tens of gigabits.

The UK needs a flexible and responsive system to enhance infrastructure investment decisions and call for a commitment of £100m of the £740m announced in the Autumn Statement for Fibre and 5G investment, to be used to set up an Ultrafast Digital Infrastructure Demonstrator Fund. Tasked with testing the efficacy of new technologies and applications, as well as measuring customer demand, the Demonstrator Fund would greatly reduce the risks for private investors and drive much needed innovation in this space.

It would demand a strong partnership between the state and commercial providers. Crucially, however, Government should look to work with

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\(^{70}\) See: http://www.riskforum.eu/uploads/2/5/7/1/25710097/innovation_principle_one_pager_5_march_2015.pdf

\(^{71}\) See: http://blog.thisisbud.com/inside-the-fca-sandbox-part-one-application-and-acceptance/

\(^{72}\) See: https://www.ofgem.gov.uk/publications-and-updates/regulatory-sandbox-calling-expressions-interest
smaller service providers – not hinge on driving private sector investment as mentioned in the Budget, and Alt Nets like Bristol is Open, Hyperoptic and Broadband for the Rural North (B4RN) who are adopting innovative models of ultrafast provision. These projects not only have great impacts on the local places they serve, but – supported appropriately – could act as testbeds for the development of lower cost, locally-responsive provision in other parts of the country too.

The £740m of investment in digital infrastructure announced during the Autumn Statement is a step in the right direction. It is essential that the incoming UK Government confirms its long-term commitment to upgrading the UK’s digital infrastructure. A core component of this commitment from Government must be to support experimentation with innovative models of ultra-fast connectivity. Government should focus on the capacity of connectivity over arbitrary targets for broadband speed. The challenge for government moving forward will be to nurture a fleet of foot relationship with industry that will facilitate development of dynamic new tech solutions, moving beyond exclusively exploiting the existing copper infrastructure. Getting this right now in areas like 5G and fibre-broadband means that we can secure the UK’s digital future and ensure UK industries can continue to innovate and compete effectively on the world stage.

PROCUREMENT

Revise the requirement to demonstrate 2,200 hours of billable work and ramp up investment in creating an online platform to rival America’s GSA Advantage! and South Korea’s KONEPS procurement system

The Government is one of the most influential and important customers in the UK economy, spending around £40bn per year on procuring goods and services. While public procurement’s primary purpose is to enable Government to achieve greater efficiency in public sector spending, it need not be limited to an administrative operation, but can instead be used as a vehicle to boost economic growth and innovation.

Though the Government has set a portion of procurement expenditure towards SMEs, there is little evidence that the target has provided a boon to small business. Many still find it difficult to win public sector contracts, due to a lack of awareness of opportunities and issues around late payment. Some innovative startups are stifled by the requirement to demonstrate 2,200 hours of “billable work” in the service they would be

75 See: https://www.fsb.org.uk/media-centre/latest-news/2017/05/05/election-manifesto-2017-small-business-big-ambition
providing.

To democratise procurement, the Government should expand the number of services it lists on the newly-created Crown Marketplace, taking the lead from America’s GSA Advantage! and South Korea’s KONEPS procurement systems. Providing an online marketplace has been shown to make a greater difference to SME involvement than targets76.

Indeed, the benefits of online procurement cannot be overstated. Current UK Government procurement through online channels is less than 1 per cent. The US public sector has historically spent around 20 times as much as Europe on procuring R&D77. In Estonia, more than 50 per cent of goods and services are procured through digital channels. In South Korea, the digitisation of procurement has reduced procurement durations 15-fold78. Efficiencies are supplemented by gains for private-sector firms equivalent to 8 per cent of procurement spend thanks to reduced bureaucracy79.

But Government can and should go further. There is much to learn from around the world. For example, Barcelona guaranteed public service contracts to companies looking to: reduce bicycle thefts in the city, increase potholes reporting and better monitor pedestrian flows through the Barcelona Open Challenge80. In addition, all Government departments should open up space within their departments for accelerators working on issues impacted by the Government. These should be led by a full-time entrepreneur-in-residence, who would also help advise the department on improving entrepreneurial engagement for procurement.

EXPERIMENTING

Experiment with export vouchers to see if they accelerate small business exports alongside export tax credits

The UK underperforms our global and European competitors. Currently around one in five small businesses export81, however, this could double to 40 per cent if the right tailored support was made available. The relationships that are necessary to facilitate exports or imports can take a long time to develop, and may include upfront investment in resources and bespoke product development. Small businesses will also have to

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77 See: [https://www.nesta.org.uk/sites/default/files/buying_power_report.pdf](https://www.nesta.org.uk/sites/default/files/buying_power_report.pdf)
consider the intrinsic risks involved when exporting to a new market. This is particularly the case in regards to more unfamiliar markets, such as emerging markets. The uncertainty of Brexit only exacerbates the existing risks associated with new exporting activity, and is a deterrent for many potential exporters, who may adopt a wait-and-see approach.

Small business exporters need to be encouraged to continue or start exporting through targeted help, such as export vouchers (potentially using randomised controlled trials) to accelerate small business exports, alongside tax incentives such as export tax credits that incentivise strategic exporting. This could help small firms to accelerate this exporting process or mitigate some of the risks or costs involved.

Similar to the principles behind the Growth Voucher Programme and Innovation vouchers, export vouchers would enable small firms to access the support most beneficial to them. For example, using the vouchers towards translation services, agents or small business trade missions. The latter would be particularly useful as the cost of attending trade missions is prohibitive for most small firms.

Replicate Australian Landing Pads and Swiss Market Entry Camps in key export hubs

Exporting can be a hugely important route to growth – and for businesses which depend on network effects (especially in the digital sector), it is often necessary in order to compete. However, exporting is often daunting, and usually requires building a new network of contacts (distributors, partners, lawyers, advertisers) overseas. Very often, it requires multiple physical visits to the country in question.

To help this process, some national governments have established locations which can serve as short-term, operational bases for startups overseas. For example, the Australian Landing Pads provide accommodation for up to 90 days, alongside peers, together with various mentoring and business development activities. The Swiss Government’s CTI Market Entry Camps have a similar role. The Department for International Trade should fund a similar scheme.
OPEN LETTER TO THE NEXT PRIME MINISTER

In our view, there should have been immediate plans to boost British businesses in the manifestos.

The next Government, regardless of its political persuasion, must prioritise support of the millions of start-ups, scale-ups and entrepreneurs around the UK. These are the job creators that will continue to fuel the economy, improve productivity, exploit trade opportunities, increase the Government’s future tax take and pay for the vital education and healthcare that our country needs.

This is why we support a set of actionable policies set out in a detailed report released today, which could be implemented immediately to create a culture of entrepreneurship and boost the prospects of businesses across the UK. These policies would:

– Deliver more targeted business support.

– Encourage young people to gain the necessary skills for entrepreneurship or to find enterprising work opportunities.

– Put digital transformation at the heart of the Government’s agenda to help close our productivity gap.

– Reform the visa system to improve access to talent.

– Simplify tax for the smallest businesses.

– Apply an Innovation Principle to regulation and ‘sandbox’ environment to enable regulation of disruptive technologies without stifling innovation.

– Provide an innovative digital marketplace to drive up SMB procurement.

– Equip small businesses and scale-ups to embrace export opportunities.

These policies are not reliant on the vagaries of Brexit negotiations or major public spending commitments, but will give a clear signal that the UK is the best place to start and grow a business. We call on the next Prime Minister to put them into action.
SIGNATORIES

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