



The Great Disconnect

Why too many small business owners feel let down

Tim Knox

CIVITAS

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Contents

Author	vi
Acknowledgements	vii
Summary	1
1. The false rhetoric	3
2. What do micro-businesses feel about government?	7
3. The business of business is no longer just business	14
4. Recommendations – how to reconnect	26
Appendix 1: Survey summary	30
Appendix 2: Verbatim quotations	31
Notes	46

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Summary

- In the UK, politicians of all political persuasions have, over the last 20 years, been vociferous in their praise of small businesses.
- At the same time, they have pursued politically popular policies which have incidentally imposed significant legal burdens on small businesses.
- This means politicians can often receive public acclaim for their initiatives while at the same time saving the Exchequer significant sums by transposing costs to small businesses.
- In order to comply with government rules, a small business owner must now either have the skills of, or pay for the advice of, a benefit clerk, a pensions administrator, a Student Loan administrator, a fraud officer, a data analyst, a social worker, a Health and Safety Officer, an Immigration Officer, a bereavement counsellor and a Chartered Accountant.
- These obligations are relatively new: twenty years ago, the small business owner would probably only have needed a Chartered Accountant.
- These obligations, when taken cumulatively, consume significant amounts of time and/or money for the small business. One survey has found that the average business owner now spends over a quarter of their work time on

regulatory compliance. In contrast, one in ten business owners has less than an hour a week earmarked for business growth, while 8 per cent say they struggle to find any time at all.

- In two separate surveys for this report, a clear sense of disconnect was expressed by many small business respondents.
 - A worrying proportion of respondents feel that ‘they [the government] constantly bend over backwards for the corporate world while ignoring small business and sole traders.’
 - Many others feel that ‘they do nothing to help small business.’
 - Many others feel that the tax and regulatory system is designed so that ‘they want us all to pay as much possible to them rather than make any profit.’
 - Above all, there is a feeling that ‘they only help big companies and this has got worse lately.’
- While it may be considered unremarkable that small business owners complain about the burden of tax and regulation, the interesting question for government is whether such complaints are becoming more or less frequent. To answer that question, the first step which government could take is to initiate regular surveys of small business attitudes to ensure that policies are not damaging those businesses which politicians claim to support.
- This paper includes a series of other practical, low cost steps which the government could take to reconnect with small businesses. The potential prize is immense: the enthusiasm and respect of 5 million voters and a reinvigoration of true entrepreneurship in the UK.

1

The false rhetoric

‘They not only provide zero support to small businesses, they actively give large amounts of support to big businesses.’¹

Over the last few decades, senior politicians, from across the spectrum, have been profuse in their praise for the small business community and bold in their statements of support for them.

For example in their 2019 manifesto, the Conservatives said that: ‘Small and family businesses are the backbone of the economy and Britain is immeasurably stronger for their contribution.’² Among many other pledges, they promised to launch a review to explore how to better support the self-employed including ‘improving their access to finance and credit (not least mortgages), making the tax system easier to navigate, and examining how better broadband can boost homeworking.’

Not to be outdone, the Labour Party also made clear its proposed support for small business, promising, inter alia, to ‘tackle late payments that leave small businesses and the self-employed waiting months to be paid’, to ‘ensure no quarterly reporting for businesses below the VAT threshold’, and providing loans to small businesses through the proposed new Post Bank.

This enthusiasm for small business has a long pedigree: in his first speech, setting out his priorities for government,

the Prime Minister promised to make Britain 'the greatest place to start a business.'³ Sajid Javid, former Chancellor of the Exchequer, was also clear about the importance of small business in a speech given during the Conservative Party leadership election: 'And it is absolutely right that we as the Conservative party do more to reclaim our position as the party of business but especially the party of small business because when you look after small business you look after Britain.'⁴

Before that, Theresa May also stated in one of her first speeches as Prime Minister that: 'From dynamic start-ups to established family firms, our small and medium sized businesses are the backbone of our country... Britain's 5.4 million small and medium sized businesses provide people with jobs, put food on families' tables and underpin the strength of our economy.'⁵ Her Chancellor Philip Hammond echoed those words when he declared that: 'We can't build an economy fit for the future without supporting its backbone: our 5.5 million small businesses who are responsible for nearly half of our private sector jobs... But I recognise that many are feeling under pressure right now. And I know what hard work it is to get a business off the ground; to get it to grow.'⁶

This is not new. David Cameron announced as Prime Minister that: 'If we want a recovery for all, and in every part of the country, small business is the lifeblood of the economy.'⁷ His Chancellor George Osborne was also clear: 'I want Britain to be the easiest place in the world to start a business. I want to do everything we can to support small companies.'⁸

Labour has been just as enthusiastic in its support. Jeremy Corbyn stated: 'We will support those striving to make a living through self-employment and in small businesses,

not just because it is the right and fair thing to do, but because millions of jobs and the future of our country depends on it.⁹ His predecessor, Ed Miliband, also made clear his support: ‘That is the way we win the race to the top. One Nation Labour. The party of small business.’¹⁰ And, to its credit, the Labour Party also has a membership group, SME4Labour, whose website states: ‘The Labour Party believes that small and medium-sized businesses are the backbone of the United Kingdom’s economy... Through SME4Labour, we want to provide a forum whereby SMEs can work in partnership with the Labour Party and continue to inform the debate around our economic policies.’¹¹

To some extent, the politicians appear to have some reason to think that they have helped to foster an extraordinary growth in micro-businesses. For it is true that the number of micro-businesses and those which have no employees¹² has shot up since the turn of the millennium. As the Department for Business Energy and Industrial Strategy (BEIS) has noted,¹³ there were a record 5.6 million non-employers and micro-businesses at the start of 2019, a number which has grown by 78% since 2000 (when there were just 3.3 million such businesses). These accounted for 96% of all private sector businesses. Equally, they are significant employers: their total employment was 9.0 million, 33% of all private sector employment in the UK, while their combined annual turnover was £900 billion, 22% of all private sector turnover in the UK.

And it is of course true that there have been some measures put in place by successive governments which have done something to help the small business community.¹⁴ But the polling commissioned for this report¹⁵ shows that micro-business owners tend to be distrustful of government, to feel unsupported and appear distrustful of its claims to support

the micro-business community. Above all, the respondents' answers in our poll revealed a strong sense of perceived disconnect between what politicians say and what they do. It is certainly the case that, in our polling, barely a single respondent said that they had set up their business because of any government initiative.

To take one example of this disconnect: in late 2018, the then Prime Minister Theresa May announced the creation of five new Business Councils. They have since been reappointed by Boris Johnson. When these Councils were launched, the assumption that these were primarily a forum for big business to lobby government was clear: 'The formation of these councils follows a special audience with the prime minister and the Chancellor of the Exchequer Philip Hammond at the Guildhall in London last week and a dial in for 150 chief executives with Theresa May the week before.' Four of the five councils were composed of the usual list of big business leaders. One of these Councils was indeed the Small Business, Scale ups and Entrepreneurs Council. But very few of those sitting on the panel were micro-businessmen or women themselves.¹⁶

So there is consistent, eye-catching and cross-party support for small business. However, as will be seen in chapter 2, many microbusiness owners do not feel supported by government (although, to some degree, this may be symptomatic of a natural scepticism about politicians). The possible reasons for this disillusionment, such as the increasing burdens being imposed on small businesses are then considered in chapter 3. Chapter 4 suggests some ways in which politicians of any party could perhaps begin to re-engage with what politicians too frequently call the 'backbone of the British economy'.

2

What do micro-businesses feel about government?

In order to try to understand how small business owners feel about government and the impact of its policy on their business, two surveys were commissioned for this report.¹⁷

2.1 The government is not supportive

The results showed that micro-business owners (i.e., those with between nil and five employees) feel remarkably unenthusiastic about the support they get from government: the greatest proportion (36%) say that the current government is neither supportive nor unsupportive of the small business community; a further 32% say government is unsupportive ('broadly' or 'very' unsupportive), the same as say it is supportive (again, 'broadly, or 'very' supportive). With over two-thirds of respondents feeling that they receive no positive support from government, it is clear that the rhetoric of politicians claiming to support small businesses is not reflected on the ground.

Which of the following statements is closest to your view?

The current government is...

Neither supportive nor unsupportive of the small business community	36%
Broadly supportive of the small business community	23%
Broadly unsupportive of the small business community	20%
Very unsupportive of the small business community	12%
Very supportive of the small business community	9%

2.2 ...and they feel that it is getting worse

Worryingly for politicians, fewer than one in eight respondents feel that it has got better, compared to nearly one in three who said things had got worse. About half (47%) felt it had got neither better nor worse – which could be interpreted as another sign of a sense of neglect from government for the small business community. The level of disillusion with government was even greater among those respondents who said their business was growing (37% of this group said government support had got worse).

In your opinion, has government support of the small business community got worse, got better, or stayed the same in the last five years?

Neither worse nor better	47%
Got worse	31%
Got better	13%
Don't know	9%

2.3 And there is little awareness of government services designed to help small businesses

Another concern for government should be the extraordinary sense among micro-business owners that there are no business services provided by government which are intended to help small businesses.

To what extent, if at all, are you aware of any business services provided by government which are intended to help small businesses?

I am NOT aware of any business services provided by the government which are intended to help small businesses	60%
I am aware of business services provided by the government which are intended to help small businesses	25%
Don't know	14%

That 60% felt that there is no support available (compared to just one in four who said there were services to help) is remarkable when one considers the broad range of services which do actually exist. These include, but are by no means limited to:

- the GOV.UK website;
- the National Business Support Helpline;
- the 38 regional Growth Hubs;
- the Local Enterprise Zones;
- the Start Up Loans Company;
- the New Enterprise Allowance;
- the National Apprenticeship Service;
- the Annual investment allowance;
- various capital allowances;

- the Creative industry tax reliefs;
- the Employment allowance;
- Entrepreneurs’ relief;
- the Patent box;
- various R&D tax credits;
- the Seed Enterprise Investment Scheme;
- the Department for International Trade’s export hub;
- Innovate UK;
- Mentors ME.

2.4 But most small businesses do feel that they are coping

Finally, in terms of their practical interaction with government, most small businesses do feel that they are coping with tax and red tape: under a third (31%) of respondents said that they were not confident of complying with HMRC and tax requirements, the same proportion as those who said that they were not confident that they complied with all relevant regulations.¹⁸

When it comes to your business, when thinking about complying with [HMRC and tax requirements/regulations and rules], to what extent, if any at all, do you feel confident that you know what to do?

	HMRC and tax	Regulations and rules
Very confident	23%	21%
Quite confident	46%	48%
Neither	19%	25%
Not very confident	10%	5%
Not confident at all	2%	1%

2.5 Why do so many feel so dissatisfied?

When looking for the reasons for this feeling of dissatisfaction, it is useful to study the verbatim comments made in response to the surveys. Many of these are listed in Appendix 2. In some cases, but probably not all, the criticisms of government policy may not actually be justified. But these comments illustrate what many micro-business owners *feel*. Again, the main conclusion from these comments should not be to accept that things have actually improved or deteriorated but that there is a feeling that they have got worse; and that there is therefore a need to establish regular longitudinal surveys of micro-business opinion.

The criticisms of government fall into four broad categories:¹⁹

1. Government listens to big business

Many micro-business owners feel that government tends to listen to the voice of big business far more closely to that of small business (62 comments to this effect are listed in Appendix 2.1). This is a representative comment: *'they constantly bend over backwards for the corporate world while ignoring small business and sole traders.'* More worryingly for government, many micro-business owners have a strong sense that government is intentionally acting in bad faith. For example, one respondent commented: *'the government only seems to give tax breaks to huge corporations in which they have a vested interest.'* A consistent strand in the comments is the division between 'us' (the small business owners) and 'them' (the government acting in cahoots with big business), with a particularly vehement sense that some multi-national companies receive preferential treatment from government.²⁰

2. Government neglects small business

Many respondents feel a strong sense of neglect by government (30 comments to this effect are listed in

Appendix 2.2). *'Isn't it obvious? They do nothing to help small business.'* Most respondents are not aware of any business services provided by government, compared to 25% that do. The great majority (87%) of respondents are not a member of any business organisation. And other comments reveal a palpable frustration that government and politicians do not understand the day-to-day pressures felt by the small business owner when it is claimed, *'Politicians have no idea about the problems facing small business in the same way that they don't understand why there was a majority vote for Brexit.'*

3. Red tape and tax burdens too high

Unsurprisingly, many respondents commented on high tax rates, red tape and the complexity of the system which they have to deal with along with the fact that it changes too frequently. *'The demands for returns and accountability take up too much potentially valuable trading time.'* Many feel that they have little choice but to take on expensive professional advice: *'the rules and reliefs have become so much more complicated and I'd rather leave it to a third party like my accountant to deal with.'* Again, this is probably a perennial concern of small businesses and it would only be possible to judge whether things are getting worse or better by regular polling of micro-businesses. Appendix 2.3 lists 68 comments made by respondents to this effect.

4. Poor communication from government

Among the frustrations expressed by respondents is the feeling that the government does not do nearly enough to keep micro-businesses informed of the tax and regulatory changes that it expects micro-businesses to implement: *'They introduce new laws all the time with no help towards the cost of the process.'* Appendix 2.4 lists 16 comments along these lines.

2.6 The resilience of entrepreneurs

Despite all of the above, the resilience of entrepreneurs should not be in question. Not all microbusiness owners are unhappy with government. Some are, despite all the problems, remarkably optimistic and positive about their interaction with government.²¹

Praise for government fell into two main categories:

1. Praise for specific government schemes

Some respondents praised specific government initiatives to help finance and advise start-ups: *'I used the government start up loan to start my business.'* Other respondents – although they were far fewer in number than those expressing a contrary opinion – said they were happy with the way in which they received information from various government agencies. Appendix 2.5 lists 25 such comments.

2. Praise for general support from government

Others feel that the government does help small businesses thrive: *'They are helping me to thrive.'* Again, the optimists are far fewer in number than those who were critical of government. Appendix 2.6 lists (just) nine such comments.

However, the overall picture is clear: while politicians may repeatedly claim that small businesses are 'the backbone of the economy', small business owners themselves feel very differently. For the survey results show that the great majority of small businesses do not feel that government does enough to support them (particularly when they see how big business gets what they consider as preferential treatment); that tax and red tape are too high (again, particularly in comparison with big business); that this is getting worse; and that they do not know of the wide range of services that are provided by government. This is the great disconnect.

3

The business of business is no longer just business²²

A concern that was repeatedly stressed in interviews for this report with leaders of trade associations was that those who are running micro-businesses do so not because they wish to meet the demands of the taxman or bureaucrat but because they have a passionate interest in the product or service which they are providing to their customers. Every government initiative distracts from the founding reason of a small business.

The following sections look at a series of the compulsory measures which all businesses must now implement, irrespective of the size of the business. It is a far from exhaustive list. It will be repeated ad nauseam that none of the individual policies listed below are being criticised. Each one of them has merit. What is being illustrated is that, from the perspective of the micro-business owner, each one imposes costs and responsibilities on micro-business; that there appears to be a presumption in government that businesses exist to implement government policy; and that micro-business have all the necessary skills and capacity to implement these policies.

Furthermore, in many of these cases, the politicians reap the reward of implementing a policy which will be electorally

popular, *at no cost to HM Treasury*. Indeed, in many of the following cases – such as the Minimum Wage – the Treasury actually sees its revenue increase, and its expenditure fall, as a result of the policy being introduced.

3.1 The disproportionate impact of regulation on micro-businesses

It is also important to stress that the burden of each particular policy is not in itself necessarily excessive. Rather, it is the cumulative impact of regulations that now weigh down so heavily on the small business community. This happens in four distinct ways as two American academics, Nicole and Mark Crain, have spelled out:²³

1. Regulatory compliance exerts a disproportionately large burden on small companies: the fixed costs of adhering to rules can be spread out over more revenue in larger firms than in small ones. It is estimated that the per employee cost of complying with Federal regulations was \$10,585 for businesses with fewer than 20 employees but only \$7,755 for businesses with more than 499 workers.
2. Government regulations make small businesses less competitive against foreign competition. Crain and Crain explain that government regulations diminish ‘the international competitiveness of domestically produced American products and services’ which can lead to ‘the relocation of production facilities to less regulated countries.’
3. Imposing more and more regulations creates uncertainty, which discourages small business owners from investing and hiring. Because few business owners can predict the scope or impact of new regulations, they often delay buying capital equipment or adding workers as they wait to see the impact of new regulations.

4. New regulations often have unintended consequences. Obamacare unwittingly imposed heavy compliance costs on small business owners, an outcome that even surprised many in Congress who voted to pass the law.

And there are important reasons to believe that the burdens imposed on small businesses are causing their productivity to wither. According to recent polling of small businesses,²⁴ the average business owner now spends over a quarter of their work time on regulatory compliance, such as dealing with human resources compliance forms, pension paperwork and health and safety regulations. Collectively, the survey found that these take an average of ten hours of the working week, instead of growing their enterprise. In contrast, one in ten business owners has less than an hour a week earmarked for business growth, while 8 per cent say they struggle to find any time at all.

It is also revealing that in the UK (and elsewhere) many larger businesses actively support greater regulation: for example, in late 2018 a group of major employers, including Royal Mail, WH Smith, Mace, Channel 4 and Ford, called for all companies to have compulsory mental health treatment available for their employees.²⁵ While it is of course a good thing for companies to care for the well-being of their employees, it is questionable whether a very small business can afford such a measure as easily as a company as large as Ford.

Another way of considering the cumulative impact of regulations on small businesses is to consider the professional skills which every micro-business owner now needs, either personally or through access to paid advice. Just for the policies looked at in this section, these professional skills include those of:

- Benefit clerk
- Pensions administrator
- Student Loan administrator
- Fraud officer
- Data analyst
- Social worker
- Health and Safety Officer
- Immigration Officer
- Bereavement Counsellor
- Chartered Accountant

3.2 The Minimum Wage and the Living Wage

The National Minimum Wage was introduced by Labour in April 1999 and set a minimum wage of £3.60 an hour (or £3.00 an hour for those aged 18-21).²⁶ It has gradually been increased by Labour, Coalition and Conservative Governments: from April 2020, the National Living Wage (i.e., for those aged 25 years and older) will be £8.72 an hour, with the rates of the Minimum Wage increased to £8.20 an hour for workers aged 21 to 24, and £6.45 an hour for workers aged 18 to 20.²⁷ The Minimum Wage will have risen for adults by 142% since 1999, significantly above the rate of inflation for that period (74%).

The Minimum Wage now enjoys broad cross-party support with both the Conservative Party and the Labour Party pledging to increase the National Living Wage in their 2019 General Election manifestos: the Conservatives now aim to increase it to £10.50 by 2024, while also extending it to 21-year-olds, while Labour pledged that 'we will rapidly introduce a Real Living Wage of at least £10 per hour for all workers aged 16 and over'.²⁸ The Institute for Fiscal

Studies (IFS) commented that the ‘increases proposed by both parties would give the UK one of the highest minimum wages among developed countries.’ It concluded that ‘We should not be setting minimum wages via a political bidding war. If due consideration is not given to the balancing act involved, the risks to the very people the policy is intended to help may be quite severe.’²⁹

So why do politicians engage in this ‘bidding war’? There are three significant benefits from proposing increases to the Minimum Wage:

- It is understandably popular with the electorate, particularly those on lower earnings (or those with close relatives in that position);³⁰
- It can increase the amount of Income Tax paid by those in receipt of the Minimum Wage;³¹
- It can reduce the benefits paid to low earners.³²

Higher and higher minimum wages affect micro-businesses particularly severely – as even the Regulatory Policy Committee’s own assessment shows: ‘Small and micro-businesses are estimated to employ 22 per cent of those covered by the NMW/NLW and incur approximately 31 per cent of the total direct cost to business of the uprating’. The RPC concluded that ‘small and micro-businesses are thereby disproportionately affected by the proposal’; but it then assumes that this would be acceptable as long as the government implemented ‘employer-targeted communications activity/guidance to ensure small and micro-businesses are aware of the NMW/NLW changes.’³³ This reliance on better ‘communications’ – which the surveys reported here already shown to be a weak aspect of government relations with SMEs – might strike some as over-optimistic, not least as a higher Minimum Wage also

particularly affects those businesses which have relatively low margins and which are heavily labour dependent, such as those in the retail or hospitality sectors (sectors where SMEs are particularly strong).³⁴

3.3 Other regulations and their disproportionate impact on micro-businesses

Statutory Sick Pay

Employers are legally obliged to pay Statutory Sick Pay (SSP) to all employees who have been sick for 4 or more days in a row. Employers must pay SSP from the fourth day of absence. The weekly rate for Statutory Sick Pay (SSP) is £94.25 for up to 28 weeks.³⁵

Since April 2014, when the Conservative Government abolished the Percentage Threshold Scheme (PTS), employers have not been able to claim back the costs of SSP. The burden now falls on employers, not the government.³⁶ The advantages to government of SSP are exactly the same as those for the Minimum Wage in that increases in the rate paid are both popular and save the government money.

GPDR

The General Data Protection Regulation ('GDPR') was an EU regulation concerning data protection and privacy for individuals within the EU. It was adopted in April 2016, and became enforceable on 25 May 2018.³⁷

Micro-businesses have to adhere to the same rules that apply to medium and large businesses. Small businesses faced a number of unique challenges, not least as in many cases they did not have detailed privacy programs in place before GPDR was enacted and then, with limited resources, had to put a detailed security programme into place.

Larger businesses – particularly the techno giants – have benefited indirectly from the introduction of GDPR, as it has led to further market concentration in the online advertising market: there are reports that Google also seems to have successfully taken advantage of the uncertainty around GDPR to further solidify its leading market position.³⁸

Making Tax Digital

Recent plans to encourage all businesses to report their tax liabilities electronically have caused many small business owners concern.³⁹

Millions of businesses – particularly landlords and the self-employed – will be drawn into the Making Tax Digital programme from April 2020, with the result that some small businesses will now be making as many as nine VAT and tax returns per tax year in addition to meeting six payment deadlines (although this will not be immediately mandatory). The Government insists the cost to individuals will be low and that the process will assist in orderly record-keeping. Small businesses, landlords and self-employed individuals, have attacked the plans as ‘absurdly burdensome’ and ‘damaging to business and growth’. While HMRC has estimated that the average one-off cost would be £280 per business, this figure is disputed by numerous representatives of industry and small businesses including the National Farmers’ Union and the Residential Landlords Association. It is reckoned that some small businesses will have to pay £2,000 extra per year.⁴⁰

Anti-Money Laundering Directives

Successive (EU-driven) Anti-Money Laundering Directives mean that art dealers and other businesses now have to verify the identity of clients who are buying goods costing €10,000

or more. While previous anti-money laundering provisions pertained only to cash payments, the new regulations extend to all payment methods. As most art market businesses have turnovers of well under €1 million,⁴¹ this adds a disproportionate burden to their time and expenses in administrative terms, while potentially losing them business. Most antique dealers and auction houses are SMEs which do not have the resources to fund the same compliance services of larger organisations such as international banks (which are reported to have had a far greater exposure to criminal money-laundering activity).⁴²

NEST pensions

The introduction of the Pensions Act in 2008 introduced 'auto-enrolment', making it compulsory for every small employer to offer a contributory scheme to staff.⁴³ From 1 October 2017 new businesses with staff had to offer a workplace pension, with both employer and employee paying in 1 per cent of salary, and those that failed to comply facing fines from the Pensions Regulator. The minimum contribution levels for both employers and employees now stand at 8 per cent of salary, with 3 per cent coming from the employer and 5 per cent from employees. Employees can choose to opt out but employers cannot press them to do so. So far, opt-out rates have been less than 10 per cent.

For small businesses, this represents another administrative cost. Small businesses in labour-intensive industries such as retail, construction and childcare are reported to have felt the impact of this rise most acutely.

Maternity and paternity benefits

In 1999, the Labour Government granted all employees a minimum of three months' unpaid parental leave, while

mothers were entitled to 18 weeks' paid leave.⁴⁴ In 2001, this was extended to men's right to paternity leave; from 2003, male employees received paid statutory paternity leave for the first time. In January 2010, fathers were given the right to take six months statutory paternity leave while their partners returned to work, in effect taking the place of the mother at home. In 2010, the European Parliament decided that all companies should pay maternity leave at full pay for 20 weeks and paternity leave for two weeks. Currently women receive 90 per cent of their salary for the first six weeks of leave, followed by the statutory rate of £125 per week for the remaining 46 weeks.⁴⁵ These regulations apply to micro-businesses as well as larger companies.

Equal Opportunity Regulations

The Equality Act 2010 imposed a number of new requirements on employers, to make it more difficult for them to discriminate on a number of different grounds by tightening provisions for nine 'protected characteristics': pregnancy and maternity; marriage and civil partnership; sexual orientation; sex; religion or belief; race; gender reassignment; disability; and age. Furthermore, it set out seven types of discrimination: direct discrimination; discrimination by association; discrimination by perception; indirect discrimination; harassment; harassment by a third party; and victimisation.⁴⁶

Again, the impact on small businesses is disproportionate: the rules are so complex and wide-ranging that they are generally advised to consult an employment lawyer of their obligations if they are in any doubt of being in breach of the Act.⁴⁷

Employment Regulations

Taking on their first member of staff is a significant step for all micro-businesses. Yet it comes with significant legal obligations, many of which carry severe penalties if breached.⁴⁸ Among the obligations are:

- The requirement to have employers liability (EL) insurance for at least £5 million as soon as they become an employer.
- The requirement that a new employee has the legal right to work and live in the UK. (Businesses who employ an illegal worker can receive a civil fine of up to £20,000 per employee – and this includes workers who have forged their own documents, whose visa has expired or doesn't cover the sector you operate in). It is the responsibility of the new employer to ensure the candidate documents are genuine.
- If the micro-business works in healthcare or with children, it has to request a background check on the candidate to ensure they don't have any previous criminal convictions.
- It is the responsibility of the new employer to make the necessary deductions from their salary for income tax, National Insurance, NEST pensions and child maintenance. All employee salaries plus deductions must be reported to HMRC before or on pay day.
- The new employer must offer the new employees a contract of employment (detailing their employment rights, responsibilities and duties), as well as a statement of employment (setting out the main roles and responsibilities the employee will be expected to complete, as well as specific details about the business). This must include: the business's name; the employee's

name, job title and start date; their salary and their pay-date; the hours and days they will/may be required to work; their holiday entitlements; notice periods; collective agreements; details about a pension; who to contact if they have a grievance; how the employee can complain if they are dismissed.

Health and safety

Under the Health and Safety at Work Act, every employer has a duty to ensure that the health, safety and welfare of employees are protected. A breach of this duty of care, by either the employer or the employee could result in a civil case, or a criminal prosecution by the HSE inspector.

All business owners therefore – including very small businesses – are in effect responsible for the health and safety of everyone affected by their business and are legally responsible for health and safety breaches committed by their staff. This includes anyone who is on or around their business premises and anyone affected by the goods or services they sell.⁴⁹

A health and safety inspector may visit any workplace without giving notice. For a routine inspection, he or she will usually phone ahead to ensure the relevant staff are available. In interviews with many trade associations, these visits feel like a confrontation, not a consultation. If the inspectors find something remiss, the employer has to pay to put it right; and then has to pay for a second visit to check that it has been put right.

Statutory Bereavement Leave

From April 2020, working parents who suffer the loss of a child will be entitled to two weeks of statutory paid leave. It will cover all working parents who lose a child under

the age of 18 or have a stillbirth irrespective of how long an individual has been with their employer. The new legal right, known as Jack's Law, will be the most generous parental bereavement pay offer in the world. This will apply to all micro-businesses as well as larger companies.

This is not intended as an exhaustive list of all the various regulations which have been introduced over the last two decades with which micro-businesses have to comply. It is merely intended to illustrate the wide range of activities which all micro-businesses now have to perform to meet government requirements. And if one considers that a furniture restorer set up in business because of his or her passion for restoring furniture; or a haberdasher set up because of his or her love of buttons, ribbons, and zips; or a video games designer set up because of his or her enthusiasm for playing and making video games; or a cheese monger set up because of his or her taste for cheese – then every single government regulation on their business (such as those above) is time and energy consuming; and takes them away from their core business. This leads to a final 'known unknown': how many would-be entrepreneurs are there who might have set up in business (to their benefit and to society at large) if they had looked at the burdens which face them and decided not to take the leap?

4

Recommendations – how to reconnect

The enormous diversity of the 5 million plus companies in the micro-business sector makes any generalisation difficult. Equally, policy targeted specifically at this sector is dangerous as it inevitably creates complexity and potential barriers to later growth.

The following proposals are all designed to help government – of any political orientation – to reconnect with the small business sector.

But there are some things that small businesses can do for themselves:

- Many of them could harness the growing public antipathy to large corporations as an effective promotional tool: while customers will tend to choose any supplier primarily on the combination of price and quality, it is probable that appealing to the local and the sustainable are advantages which only the smaller business can use, at least plausibly. The growth of the farmers' market in the UK is one example of how consumer tastes are moving in favour of the smaller business.
- The specialist trade associations could explore how to develop low-cost mass membership schemes which use simple digital communications to inform their members

of new government initiatives and other relevant news to their members. Government could fund a small number of trials to see what works best in practice, perhaps by asking a few organisations to tender for trials, with the most successful being promoted as a template to other trade associations.

And there are some relatively straightforward, low cost, moves that government could make:

- The government should understand that small businesses are in general far more sensitive to changes in the tax and regulatory regime. Yet as the former Chancellor of the Exchequer has stated: ‘I can certainly think of at least a few times when businesses came to me when I was business secretary, big businesses and what they propose to you is some exciting new bold pro-business idea, it was actually a pro big business idea, often set out in a way to try and stop small businesses from competing with them and taking away some of their customers.’⁵⁰ Government could reverse the natural, if sloppy, inclination to listen to big business as if it were the voice of *all* business. One practical way of ensuring this is by revising the Impact Assessment framework; and for the SaMBa (Small and Micro-business Assessment) to be more rigorously monitored.
- Policy makers should understand that the *perception* of small business owners to government policy is important. If a substantial proportion of small business owners feel that they are neglected (or worse) by government, then the government is losing the willing participation of a sector which politicians of all parties claim to support. The government should therefore undertake regular polling of small business owners to ensure that it has an accurate register of small business opinion; and of how that

opinion changes; and of the reason for any such changes. It should also develop communication strategies to ensure that initiatives intended to support small businesses are having the desired effect; and that they are understood by micro-businesses; and then adjust policy accordingly.

- The government could do much to improve its communication with microbusiness owners (see section 2.3 above for the extraordinary lack of knowledge among many micro-business owners of all the various government initiatives for SMEs). One way in which government services could be better communicated is to use the Charity Commission advice it sends to all charities as a template.⁵¹ This could be attempted in a number of ways, perhaps on a sectoral or regional basis.
- The government could consider establishing a body comparable to the Small Business Administration in the US. While many of its pro-business services are controversial (such as the grants, advice, training and management advice it offers to small companies), its lead in ensuring that 23 per cent of prime federal contracts go to small businesses is more generally appreciated.
- Recent attempts by the European Union to clamp down on multinationals' perceived tax and regulatory advantages were not commented upon by respondents to our survey. However, it will be important post-Brexit for the UK government to ensure that the strong sense of unfairness felt by micro-business owners is not exacerbated once the EU attempts to regulate multi-nationals better no longer apply to the UK.
- Political parties should be far more wary of introducing any further uncostered burdens which could be particularly detrimental to micro-businesses.⁵² Such an initiative

would benefit from two of the same attractions which have made regulatory impositions so attractive: it would have no immediate direct cost to the Treasury; and it would be popular with the 5.4 million people who are either self-employed or who own a micro-businesses.

- There would of course be a significant political advantage in being the first party to make such a pledge, not least as it could be combined with a challenge to the other parties that they should match that pledge. This could be expected to ensure the electoral gratitude of a significant part of the electorate (and one which is perhaps disproportionately likely to vote) for many years.
- Finally, the government could focus any attempt to support SMEs in those areas which have a relatively low number of businesses per head of population. The regional disparities are significant: for example, the North East of England has just 694 businesses per 10,000 people compared to 1,544 in London.⁵³

This paper has attempted to highlight how many micro-businesses owners feel resentful at the way in which governments now expect business to become agents of the state. This ought to be a cause for concern, particularly given the high regard that politicians claim to have for small businesses. Of course, this is not to say that businesses, large or small, should be completely freed from government rules or regulations. Rather, it is a question of balancing the legal obligations of business with their desire to get on with making a living by providing what their customers want. At the moment, that balance, in the eyes of many small businesses, is weighted too far in favour of ever-growing, centrally-imposed obligations.

Appendix 1

Survey summary

The first, scoping, online survey was conducted by D-CYFOR in May and June 2018 and consisted of a sample of 529 UK adults who were either thinking about setting up their own business (94 sample); or were self-employed with no ambition to grow (120 sample); or an owner of an SME with no intention to grow (100 sample); or were an owner of an SME looking to grow (120 sample); or were an owner of an SME that has just grown (95 sample). The second online survey of 506 UK small business owners (with between nil and five employees) was conducted online in September and October 2018, again by D-CYFOR. Northern Ireland was excluded from the study.

Appendix 2

Verbatim quotations

The following quotations are remarks made in the surveys commissioned for this report which detail the feelings summarised in chapter 2. While they are not statistically significant in themselves, they do indicate a degree of dissatisfaction with government policy which in future the government would be wise to monitor on a rigorous and regular manner.

2.1 Feelings that the government is more interested in big business (62 comments)

'The government seem only interested in big business.'

'They continue to use high level of taxation and regulations to penalise small businesses and continually increase the cost of being a small business.'

'We don't provide them with enough income for them to worry about trying to help us.'

'They allow major businesses to avoid tax.'

'There is not any way where small business can get help from the government. It is all big businesses.'

'Not a lot of support available – saved for larger businesses'.

'They only support the rich.'

'They not only provide zero support to small businesses, they actively give large amounts of support to big businesses. They then make everything difficult for small businesses whilst allowing larger businesses to do pretty well whatever they want.'

'They don't seem interested in small business.'

'They continue to use high level of taxation and regulations to penalise small businesses and continually increase the cost of being a small business.'

'Seems to be the burden of all tax/NI changes are aimed at small businesses while large corporations get away with murder.'

'[There is] not a lot of support available – saved for larger businesses.'

'Too focused on the big companies.'

'Hitting hard with taxation whilst letting multinationals off with relatively low tax.'

'Is easier for big companies to get away with not paying tax.'

'They are more interested in large corporations.'

'They make it very difficult to make a living with a small firm.'

'They are backed by big business so focus on their well-being before smaller companies.'

'They allow larger business with a higher turnover to pay lower taxes than those small businesses with a low turnover who can ill afford the tax rates thus putting more pressure on the business.'

'Finance rules make it hard for small businesses to get funding.'

'They raised taxes for small business whilst allowing big business like Amazon and Google to not pay tax at all.'

'They only want to help big business.'

VERBATIM QUOTATIONS

'They are only supportive of large corporations, often the same as the ones they have investments in.'

'Taxing smaller businesses more than large corporations.'

'All the tax breaks are for big business but nothing for small and micro-businesses.'

'They'd clamp down on giant tax dodgers if they truly supported British SMEs.'

'They are only interested in the very big companies.'

'They allow big companies to avoid tax/ pay less tax, which means they can price small businesses out of the market.'

'The current Government is only really supportive of very large businesses and large donors to the Conservative Party.'

'There isn't a level playing field between small businesses and giants like Amazon, and the current Government are making things worse.'

'The Tories only care about big businesses that can make them money not the little people.'

'I think the government favours big business by letting certain companies getting away with not paying tax whilst penalizing small businesses.'

'The government only seems to give tax breaks to huge corporations, in which they have a vested interest.'

'This government is more concerned with helping big companies and people.'

'Only interested in big business.'

'Everything is set up to help multi nationals make money & pay no taxes. Small business owners have to navigate everything alone.'

'Too many big businesses, they get a huge tax break and smaller business just can't compete with the bigger brands.'

'I feel they are only supporting big businesses as they can provide jobs and recognisable names for consumers.'

'I believe that big business, with its paid lobbyists, has the biggest influence on many non-impartial MPs, and elected political parties than should be allowed.'

'Corporation tax is a burden. There is little concession for small businesses which are trying to compete with large companies.'

'The present government is out of touch with small business and in the pocket of big business as well as being hopelessly sidetracked by Brexit.'

'This government I perceive to be focused on large multi-national businesses that individually provide big numbers into the mix. They can't quantify communities and small businesses contribution to them beyond the obvious.'

'Larger companies are let off taxes owed or pay smaller percentages and register their companies in other countries to get around this even though they employ in the UK.'

'Big companies pay a tiny amount of tax c/w us.'

'Cuts in tax for big business, crumbs for us.'

'They only seem to care about large corporations.'

'They don't care about small companies enough they concentrate on big companies.'

'Chases small business for tax but leaves the multi nationals alone.'

'Too helpful to larger businesses.'

'They are just looking to starve us while giving their pals in big business advantages.'

'Rises in costs, the government lets big multi-national companies pay less.'

'Too focused on big businesses.'

'Rises in costs, the government lets big multi-national companies pay less.'

'More interested in baling out larger companies from debt.'

'They are more focused on large scale businesses. Small businesses like myself get very little, to no help from the government.'

*'They are full of s**t as they say they are helping small businesses but their policies are doing the opposite.'*

'The government lets big multi-national companies pay less.'

'They show more support to big business rather than smaller ones.'

'They are only really thinking about big businesses.'

'They're tangling us up with too many regulations and too many changes in tax legislation that puts us into the same bracket as companies with greater resources to deal with complex processes.'

'There is so much inequality between large and small businesses and large businesses paying far less tax proportionately.'

'Plans to increase taxes.'

2.2 Feelings of neglect by government (30 comments)

'They offer no help to businesses like mine.'

'Self-employed people find it much harder to receive support from the government.'

'They do not help or value small businesses.'

'I feel they've failed to follow through on many of their promises'

about incentives and 'taskforces'.

'They don't care.'

'There is no help.'

'The government has become more greedy and self-serving.'

'Your left on your own to deal with violence and crime is up but no help from the government.'

'I have not had any support from the government.'

'A few years ago there was more help for small business people.'

'They don't put enough effort to support small companies.'

'Have received no help or advice.'

'As long as you pay tax they'll do the bare minimum for you.'

'They don't understand the pressure on a small business'.

'Where is the support for startups? There isn't any.'

'They don't understand how we barely survive, turnover is NOT profit.'

'There is not enough help on business rates or policing. Life is different enough without all the level of crap I have to take.'

'They have no interest in helping to develop small businesses. I couldn't get any help whatsoever.'

'Small businesses are penalised by high business rates. The government doesn't understand the freelance market at all, or how valuable it is.'

'No help whatsoever.'

'IR35 needs to be scrapped.'

'Tax demands online using HMRC compatible software which costs money.'

'They do not consider how difficult it is to keep going or give any benefits in terms of tax etc or help cut down on red tape.'

'No focus at all on small companies.'

'The tax burden is unfairly weighted towards smaller turnovers.'

'I think the economic crash of 2008 has a lasting effect, as well as government cuts across all departments under Cameron and Osborne (austerity did a lot of damage).'

'The interference of government started with Gordon Brown on pensions and the Tories have not remedied anything but extended in additional directions.'

'My communication with HMRC is more of a hassle than supportive.'

'Politicians have no idea about the problems facing small businesses in the same way that they don't understand why there was a majority vote for Brexit.'

'There are not as many grants or support options available now as there used to be.'

2.3 Feelings that the tax rates and red tape are too high; change too frequently; and are too complex (68 comments)

'There are very high business rates for any existing shop office premises and car parking has just continued to increase.'

'High VAT rates.'

'There is increased regulation putting a burden on businesses'.

'Business tax rates too high.'

'Taxes too high for small business.'

'IR35.'

'Their current rules are leaving me with nothing to live on.'

'9% NI/Tax on profits over £7K is unfair to tiny business owners like myself.'

'Too much red tape and politically correct laws.'

'Too much red tape.'

'Taxes have increased too much on small businesses and the tax rates on dividends.'

'They are killing small businesses with business rates.'

'Massive unfair council tax bills.'

'The demands for returns and accountability take up too much potentially valuable trading time and grants/affordable loans are extremely hard to access.'

'Too much red tape, not enough tax cuts.'

'They continue to increase taxation and regulations whilst also increase staff costs.'

'It would be difficult for me to employ anyone because of the onerous requirements eg pension schemes. I also think that the new universal credit system is directly stopping small businesses.'

'They have increased the minimum wage and pension contributions as well as paternity and maternity leave and sick pay. It costs more to have a staff member who doesn't work than one who does.'

'More and more bureaucracy and needless regulation.'

'Increases in the tax reporting systems and increased regulation.'

'We are being required to alter systems to submit taxes, which is expensive in time and money.'

VERBATIM QUOTATIONS

'Further the GDPR regs took away significant revenues that could have been generated by staff who had to take time to ensure compliance instead.'

'Costs are up - especially business rates as a result of government austerity reducing the grants to local authorities.'

'Increased taxation.'

'More burdens on small business such as pension contributions, and increases in minimum wage without any help towards these costs.'

'More responsibilities fall on employers.'

'Less involvement with small business.' *'They have decreased the tax credits.'*

'Too many regulations.'

'More legislation to knock business people - they are just making things harder.'

'Financial support is terrible. They want to tax me out of business.'

'More legislation and paperwork.'

'Higher levels of taxation.'

'More statutory requirements that require resource to implement. For example the need to file vat electronically.'

'Tax calculations have become more and more complicated. I have to hire an accountant which is an extra cost, it's difficult doing it alone.'

'It is just too complicated.'

'The rules are too complex and I feel they are created that way to catch us all out'.

'They make it complicated to catch you.'

'The process is very messy and complex. It's basically designed to make you make mistakes.'

'I find it too complicated.'

'It is all too complex.'

'The support available is not totally clear to me.'

'The rules are always changing and they use so much jargon it's not possible to know everything they want me to comply with. And then when I do figure it all out, some new thing comes out and I'm back to the start again.'

'There are so many loop holes and things to look out for that you have to hire accounts to do the work.'

'I need professional accounting qualifications to fill this stuff in.'

'Because HMRC and tax requirements are so complicated and I'd rather leave it to a third-party like my accountant to deal with them.'

'I have an accountant as I do not feel confident.'

'The rules and reliefs have become much more complicated, and, without expensive professional advice, it's impossible to be comfortable that one is compliant.'

'Have to use accountant for this.' 'I know how to fill in the forms but I do all the accounting myself and do not fully understand all the tax breaks.'

'It's all just a bit confusing and scary honestly because I'm worried about getting it wrong and being penalised for it.'

'Nothing is taught in schools about how to deal with doing your own taxes and accounting so it is a very steep learning curve with the added pressure a large fine if you get it wrong.'

VERBATIM QUOTATIONS

'Too much bureaucracy. I need an accountant's help.'

'The whole system is too confusing and the tax return forms are practically indecipherable.'

'I would struggle if having to deal with this alone. Have accountant to do this.'

'The paperwork is difficult unless one has a professional accountant.'

'I have heard the requirements are changing to online only but I am unused to online officialdom and have no idea how to proceed/comply and so far have seen/heard/read nothing from HMRC to help me.'

'So much technical jargon. HMRC slow to respond to queries sometimes.'

'It is so hard to find the correct information as it is way too complicated on the website.'

.'Rules and regulations keep changing and become more and more complicated.'

'The rules change every year.'

'It is not clear what is expected of me.'

'There is far too much red tape and hoops to jump through I'm never quite sure if everything is alright.'

'It's very hard for someone with no legal training to follow and untangle all the legal speak involved in legislative documents for things such as CE testing, GDPR, tax and VAT etc.'

'They change the requirements so often it's impossible to keep up.'

'It all changes too quickly.'

'Modern society is governed by far too much red tape and I only get more and more confused trying to keep track of it.'

'I just don't think there is enough information and guidance for us.'

'It is scary. I'm busy doing work and can't look at everything.'

2.4 Feelings that communication from government is inadequate (16 comments)

'You're not actually given info about it, you have to find out yourself.'

'There are too many changes.'

'They introduce new laws all the time with no help towards the cost of the process, which is typical of them.'

'The questions on the tax return form are not very clear.'

'I don't know what to do and I just have to answer or just leave blank. Their online facility is very difficult for me to use.'

'I always worry in case something has been missed.'

'Regulations have changed, I struggle to keep up as to what is available, I feel I get left out.'

'The government does not make it clear enough, they just expect you to know.'

'Tax returns seem to be written with 'when did you stop beating your wife' questions.'

'It would be helpful if HMRC were to publish a checklist of things they require and rough timescales, so that things are being done in an appropriate order and at the right times.'

'I think I know what I'm doing. But they don't send out enough information.'

'Every day it seems as if there is something different I must know about.'

'I expect to receive government sponsored communications from various sources about any changes that could affect my business but so far I have seen/heard/read nothing.'

'They are rushing through changes that have not been thought through with no communication.'

'If there is support available, then I don't know where to find it.'

'No one tells me the rules.'

2.5 Praise for specific government initiatives and government information (25 comments)

'Amount of available government finance schemes and grants available.'

'I have had a good amount of financial support which I believe is a very important factor within running a small business.'

'They ensure that loans are available to you.'

'Various small business grants available.'

'Grants are available to help small businesses start up.'

'They funded us slightly to help local community projects.'

'I have been encouraged by the government with employment schemes.'

'Has given support in relation to apprenticeship and training employees.'

'They have schemes to assist starts up and provide mentorships.'

'You can get some help (money) to start to run your business.'

'They issue government grants to support small businesses.'

'Business rate relief.'

'There are grants available to support businesses.'

'Information is available for small businesses although sometimes it takes some finding, on start up both inland revenue and national insurance were excellent.'

'The government website is helpful.'

'The online resources available are great.'

'They have increased information available and lowered taxes and rates.'

'The government has become more understanding of small businesses and aware when they need help.'

'They give rates reductions and simplify tax returns. They also offer guidance on most key subjects, vat etc.'

'I found them and their services very helpful.'

'Help for SMEs is out there. National Insurance system could be better though.'

'There is decent support through job centres.'

'I found the process of setting up and running a small business to be relatively straightforward.'

'Business gateway.'

'Apprenticeship scheme, rate relief.'

2.6 General sense of support from government (9 comments)

'The government has realised that small business is good for the economy and are helping small business start ups and existing

VERBATIM QUOTATIONS

small business financially.'

'Every small business needs to grow and that is what they're helping my business to do. I am supportive of that.'

'Good support in the budget for a business like mine.'

'The government has encouraged banks to be more supportive and has made the helpline much more informative.'

'Decent incentives for running small and micro-businesses, more relaxed taxation.'

'I think there has been more promotion for small business.'

'They supported me quite a bit.'

'I believe there is generally more support available across all sectors and that the government wants small businesses to be successful.'

'They are very supportive on the amount of tax I pay. It isn't a lot and I can cope with it.'

Notes

- 1 Italicised quotations at the beginning of each section are verbatim comments made in poll of micro-businesses, the results and methodology of which are summarised in Chapter 2.
- 2 The Conservative Party, 'Get Brexit done – unleash Britain's potential', 2019, p. 32.
- 3 PM statement on priorities for the government, 25 July 2019, <https://www.gov.uk/government/speeches/pm-statement-on-priorities-for-the-government-25-july-2019>
- 4 Sajid Javid speaking at the launch of a Centre for Policy Studies report, 16 May 2019, <https://www.cps.org.uk/research/think-small-a-blueprint-for-supporting-uk-small-businesses/>
- 5 'PM: An economy for all means hearing the voice of small business', August 2016, <https://www.gov.uk/government/news/pm-an-economy-for-all-means-hearing-the-voice-of-small-business>
- 6 Philip Hammond, Autumn Budget, November 2017, <https://www.gov.uk/government/speeches/autumn-budget-2017-philip-hammonds-speech>
- 7 Interview on Today programme, 27 January 2014, <https://www.bbc.co.uk/news/av/business-25909235/cameron-small-businesses-are-lifblood-of-uk-economy>
- 8 George Osborne, Speech to the CBI Annual Dinner, May 2010 <https://www.gov.uk/government/speeches/speech-by-the-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-at-the-cbi-annual-dinner-grosvenor-house-hotel-london>
- 9 Jeremy Corbyn, Speech to the Federation of Small Business, April 2017, <https://labour.org.uk/press/jeremy-corbyns-speech-to-the-federation-of-small/>
- 10 Ed Miliband, Speech to the Labour Party Conference, September 2013, <https://labourlist.org/2013/09/transcript-ed-milibands-2013-conference-speech/>

- 11 See <http://www.sme4labour.org>. Its December 2018 Gala Dinner was addressed by, among others, Shadow Chancellor of the Exchequer John McDonnell MP, Mayor of London Sadiq Khan, the General Secretary of the Labour Party, Jennie Formby, and the then Shadow Secretary of State for Education Angela Rayner MP.
- 12 A guide on definitions: SMEs (Small and Medium Sized Enterprises) consist of all enterprises up to 250 employees. Small businesses are those with less than 50 employees, micro-businesses are those with between one and ten employees; those without any employees include sole proprietorships and partnerships with only the self-employed owner-manager(s), and companies with a single employee, who are assumed to be directors. This report focuses on micro-businesses and non-employers (unless otherwise stated).
- 13 Department for Business, Energy and Industrial Strategy, Business Population Estimates for the UK and Regions 2019, <https://www.gov.uk/government/publications/business-population-estimates-2019/business-population-estimates-for-the-uk-and-regions-2019-statistical-release-html>
- 14 These range from Local Enterprise Zones initiatives, the establishment of Gov.uk and various tax reforms (such as Enterprise Allowance schemes). See section 2.4 for a not exhaustive list.
- 15 See Chapter 2 for an analysis of the polling results, Appendix 1 for the methodology and Appendix 2 for a summary of the results.
- 16 The Council members are: Mike Cherry (National Chairman, Federation of Small Business) James Timpson (CEO, Timpson), Brent Hoberman (Co-Founder and Chairman, Founders Forum), Emma Jones (Founder, Enterprise Nation) Stan Boland (CEO, FiveAI), Sherry Coutu (Founders4Schools and ScaleUp Institute), Ben Francis, (Gymshark), Karen Friendship (Aldermans), Amit Gudka (Bulb), Gareth Jones (TownSquare), Grainne Kelly (Bubblebum), Alastair Lukies (CEO, Motive Partners), Matthew Moulding (CEO, The Hut Group), Rebecca Pick (Pick Protection), John Roberts (AO.com) and Richard Walker (Iceland).
- 17 See Appendix 1 for the methodology.
- 18 The proportions of those saying that they were not confident may be underestimates for obvious reasons.
- 19 There is of course plenty of overlap between each of these categories.

- 20 Recent attempts by the European Union to clamp down on multinationals' perceived tax and regulatory advantages were not commented upon by respondents. However, it will be important post-Brexit to ensure that the strong sense of unfairness felt by micro-business owners is not exacerbated.
- 21 It may or may not be telling that the number of respondents who made positive comments on government support are far fewer than those of a more critical nature. This may well be a natural response to such polling. But it is certainly not evidence of strong support among the micro-business community for government policy.
- 22 Milton Friedman is reported to have said that 'The business of business is business'. This is disputed. Wikiquote states that while the quotation 'is sometimes cited as being in his work *Capitalism and Freedom* (1962) this is also attributed to Alfred P. Sloan, sometimes with citation of a statement of 1964, but sometimes with attestations to his use of it as a motto as early as 1923.' https://en.wikiquote.org/wiki/Milton_Friedman
- 23 See Nicole V. Crain and W. Mark Crain, *The Impact of Regulatory Costs on Small Firms*, September 2010, [https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20\(Full\).pdf](https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20(Full).pdf)
- 24 <https://www.instantprint.co.uk/printspiration/be-inspired/small-business-census-2017>
- 25 <https://www.theguardian.com/society/2018/nov/18/make-mental-health-important-first-aid-business-leaders-manifesto>
- 26 This section does not criticise the intent of the Minimum Wage. It merely points out that government is imposing significant burdens which fall disproportionately on small businesses.
- 27 See <https://www.gov.uk/national-minimum-wage-rates>. The Minimum Wage has risen for adults by 117% since 1999 which is significantly above the rate of inflation for that period (69%).
- 28 <https://labour.org.uk/wp-content/uploads/2019/11/Real-Change-Labour-Manifesto-2019.pdf>
- 29 Jonathan Cribb, Robert Joyce, Xiaowei Xu, *The future path of minimum wages*, IFSA, 2019.
- 30 For example, 71% of those polled by Opinium Research in the run-up to the 2019 General Election supported Labour's policy to increase the Minimum Wage to £10 an hour, one of the four policies that gained the highest levels of public support, <https://www.opinium.co.uk/potential-labour-policies/>.

- 31 By increasing gross wages of lower earners, so the income tax and National Insurance they pay to the government increases. An estimated 2.4 million employees would benefit directly from the government's current proposals to increase the Minimum and Living Wages. Regulatory Policy Committee, *National Minimum Wage (Amendment) Regulations 2020: increases in the national minimum wage and national living wage rates*, February 2020.
- 32 Again, by increasing their gross wages, the entitlement to means-tested benefits of lower paid workers can fall.
- 33 Regulatory Policy Committee, *National Minimum Wage (Amendment) Regulations 2020: increases in the national minimum wage and national living wage rates*, February 2020.
- 34 For example, 34% of all SME turnover is in the 'Wholesale and retail and repair sectors', compared to 24% of large business turnover. See BEIS, *Business population estimates for the UK and regions: 2019 statistical release*, January 2020, <https://www.gov.uk/government/publications/business-population-estimates-2019/business-population-estimates-for-the-uk-and-regions-2019-statistical-release-html>
- 35 This section does not criticise the intent of Statutory Sick Pay. It merely points out that government is imposing significant burdens which fall disproportionately on small businesses.
- 36 The current Government has put forward proposals for a sick pay rebate for small businesses. However, there are concerns that these may be over-bureaucratic.
- 37 This section does not criticise the intent of the GDPR. It merely points out that government is imposing significant burdens which fall disproportionately on small businesses.
- 38 The number of web trackers operating in the EU since the introduction of the GDPR declined by 31% by the end of 2018, with Google getting access to even more data than before. See WARC, *Google is the main beneficiary of GDPR*, October 2018, https://www.warc.com/newsandopinion/news/google_is_the_main_beneficiary_of_gdpr/41168
- 39 This section does not criticise the intent of Making Tax Digital. It merely points out that government is imposing significant burdens which fall disproportionately on small businesses.
- 40 <https://www.telegraph.co.uk/tax/self-employed/millions-will-have-file-five-tax-returns-per-year/>

- 41 See <https://www.cinoa.org/cinoa/perspectives?action=view&id=AWJwp9yN1B8GfYskag3i>
- 42 Ibid.
- 43 This section does not seek to question the intent of compulsory auto-enrolment in company pension schemes. It merely points out that government is imposing significant burdens which fall disproportionately on small businesses.
- 44 This section does not query the intent of maternity and paternity benefits. It simply expresses that government is imposing significant burdens which fall disproportionately on small businesses.
- 45 For details on the early history of maternity and paternity pay and leave, see the House of Commons briefing note, Maternity pay and leave, 13 January 2010 at <http://researchbriefings.files.parliament.uk/documents/SN01429/SN01429.pdf>
- 46 This section does not criticise the intent of Equal Opportunity Regulations. It merely points out that they impose significant burdens which fall disproportionately on small businesses.
- 47 Employment lawyers typically cost £240 an hour. See <https://www.co-oplegalservices.co.uk/media-centre/articles-sept-dec-2018/how-much-do-employment-lawyers-charge/>
- 48 This section does not criticise the intent of employment regulations. It merely points out that government is imposing significant burdens which fall disproportionately on small businesses.
- 49 This section does not scrutinise the intent of Health and Safety regulations. It merely describes that they impose significant burdens which fall disproportionately on small businesses.
- 50 Sajid Javid speaking at the launch of a Centre for Policy Studies report, 16 May 2019, <https://www.cps.org.uk/research/think-small-a-blueprint-for-supporting-uk-small-businesses>
- 51 The following is the text of an email which the Charity Commission sends to all registered charities:

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- 1. Your responsibilities around political campaigning*
- 2. Get ready to submit your charity annual return*
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- 4. Preparing your charity for Brexit*
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6. *Updated guidance on independent examination of charity accounts*
7. *Reporting of related party transactions in charity accounts*
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9. *Keeping in touch with us*

Read Charity Commission News issue 64 on our website.

If you are the contact for a charity please forward this email to your trustees.

Thank you,

Charity Commission'

- 52 The precise definition of such a pledge and, perhaps more importantly, how it would be monitored and enforced would need careful consideration.
- 53 <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

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For the past two decades, politicians from across the political spectrum have been vocal in their praise of small business – often to great acclaim when producing initiatives in government. But, do we know what business owners themselves think of government? As Tim Knox explains in this study on how micro-businesses feel about government, many policies and regulations have imposed heavy burdens on their operations.

Through two original surveys, Knox uncovers a world in which most micro-businesses feel lukewarm, at best, about government policy. The rhetoric of politicians claiming to support small businesses rarely seems to be reflected on the ground. There is even a palpable sense that there are no government co-ordinated businesses services which are intended to help them (despite many such services actually existing). With some business owners claiming things are getting worse, many others indicated a sense of neglect from government for the small business community.

More optimistically, some small businesses did feel that they were coping with tax and red tape demands and remained positive about their interaction with government. Others are less confident. Critically, in one survey, just under a third felt they were not confident of compliance with HMRC and tax requirements and a similar proportion were also not sure of complying with regulations.

When looking into the reasons for dissatisfaction, many owners felt that government tended to listen to big business far more closely to that of small business – as if multi-national companies received a preferential treatment from government. Many reported a sense of neglect and poor communication by government, on top of high tax rates, red tape and a complex system. So, while many politicians repeatedly claim that small businesses form “the backbone of the economy”, the responses provided by small business owners themselves indicate a great disconnect.

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