

A voice for private business?

8 out of 10 private businesses agree that they need an effective voice with Government.

Stay ahead.

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Introduction

Faced with the tough economic climate, privately-owned businesses are seizing opportunities to survive and thrive and 75% consider the worst is behind them. This year's survey indicates, though, that only a third of the privately-owned businesses across the UK believe that the UK tax regime supports and encourages enterprise.



Usage of the current tax reliefs and incentives on offer has grown since the research was first conducted in 2006, but remains low.

However, it should not be forgotten in any usage statistics that many reliefs are specifically targeted and, therefore, will not be relevant to a broad population. This includes the assistance offered by the Enterprise Incentive Scheme and Venture Capital Trusts, which help narrow the UK's 'equity gap', by providing funding and skills for early stage growth companies.

Increasingly, the private business sector is calling for stability in the tax system, with a clear call for reduction in the rate of legislative change.

Leaders of private companies are putting their careers, families and futures on the line, and are asking for as much certainty as possible in the tax system. They want to be able to make long-term business decisions with confidence that the rules are not going to change suddenly.

Private business is not a sector that is looking for a crutch. Entrepreneurial businesses represent the commercial powerhouse of the economy, and 99% of these companies have been taking active steps to thrive in the face of the recession.

Their message to Government is: "Give us the stability to keep the UK competitive and enable us to make sensible commercial decisions. Stop tinkering and let us get on with it".

We look forward to continuing to work with Government and private business, to improve the tax system and businesses' understanding of it.

A handwritten signature in black ink, appearing to read 'Mary Monfries'. The signature is fluid and cursive, with a horizontal line underneath.

Mary Monfries
Head of private business
PricewaterhouseCoopers LLP

The aims of the survey

This third national survey of private businesses by PricewaterhouseCoopers (PwC) is part of our long-standing commitment to the sector.

Building on our findings from 2006 and 2007, the Enterprising UK research tracks how these companies perceive the UK tax regime, and its support of enterprise and growth.

This year, the research also investigated the attitudes of privately-owned company leaders to the economic downturn and their plans and challenges as we approach the upturn.

Understanding their concerns helps us provide a voice for private business with Government and a more tailored range of solutions for our clients.

Key findings

- Only a third of private businesses believe the UK tax regime supports and encourages enterprise, despite the wide range of tax reliefs available and the measures introduced in the 2009 Budget.
- Awareness of the tax reliefs and incentives on offer has grown since 2006, but in some areas has fallen slightly since 2007.
- Usage of the different tax breaks has increased since 2006, but remains at low levels.
- An increasing proportion of companies are asking for stability in the tax system, with a call for a reduction in uncertainty and the rate of change, up from 8% in 2006 to 17% in 2007 to reach 25% today.
- Even more companies agree that they need an effective voice with HM Revenue & Customs (HMRC) and HM Treasury, at 84% compared to 77% in 2007, but almost half do not feel privately-owned business is able to make its views heard by Government, and less than one in five agree that Government actions the concerns put to it by privately-owned businesses.
- Private companies display growing optimism and confidence for the future, with more than two thirds expecting their businesses to do better in the next two years, compared to 37% who expect improvement in the next 12 months.

Commentary

Lack of support from the UK tax regime

Like the recent economic environment, some of the key messages in this year's survey are tougher and more challenging. There are some positive findings though, such as the overall confidence of private businesses about the future, and the growing popularity of the online service offered by HM Revenue & Customs (HMRC).

The proportion of privately-owned businesses who do not regard the tax regime as either supportive or encouraging of enterprise in the UK has worsened since 2007, rising from 59% to 65%. This represents a smaller change than might have been expected, given recent events, but it is still concerning that only around a third of private businesses regard the UK as supportive, with nearly one in six considering it not supportive at all.

Family businesses in particular were least likely to view the tax system as supportive, at 75%.

Relevance of tax reliefs and incentives

Awareness of the tax reliefs and incentives on offer has grown since 2006, but in some areas has fallen slightly since 2007.

The highest awareness levels of the twelve named schemes, known to more than eight in ten companies, were research & development (R&D) tax credits, tax deductions for employee share scheme rewards and first year allowances for the acquisition of capital assets.

Environmental relief has seen an increase in both awareness, up to 67% from 62% in 2007, and usage, rising from 11% to 17%. Similarly, a higher proportion of companies are now both aware of tax credits for research and development, at 86% compared to 81% in 2007, and taking advantage of the tax break, at 25% compared to 18% in 2007.

However, awareness of first year allowances for the acquisition of capital assets, the Enterprise Incentive Scheme (EIS) and Venture Capital Trusts (VCTs), the ability to sell subsidiaries tax free and corporate venturing schemes have all slipped by up to three percentage points since 2007.

Overall, although usage levels have grown since 2006, they remain low. However, it should not be forgotten in any usage statistics that many reliefs are specifically targeted, and therefore will not be relevant to a broad population.

Just less than half (45%) of the companies eligible for the much-publicised Enterprise Finance Guarantee (EFG) scheme, designed to help businesses with a turnover of under £25m get access to funding, were aware of the scheme, and 3% of these had taken advantage of it.

Awareness of the EFG scheme was particularly low in London (26%) and Northern Ireland (27%).

Consistently only a minority of companies has taken advantage of the incentives and reliefs on offer, as shown in Figure 1.

The one exception is the first-year allowances for the acquisition of capital assets, used by 58% of the companies surveyed.

First-year allowances for the acquisition of capital assets were also cited most frequently as the tax incentive with the greatest impact on commercial behaviour. 21% of companies using at least two of the twelve different schemes surveyed cited these first-year allowances, while a further 18% judged R&D tax credits to have the greatest impact.

Of the companies who had not used them, at least two thirds said it was because either their company did not qualify, or because the relief was not applicable to their business.

Figure 1 – Awareness and usage of tax incentives and reliefs in 2006, 2007 and 2009

	Awareness %			Total usage % (All respondents)		
	2006	2007	2009	2006	2007	2009
R&D tax credits	70	81	86	14	18	25
Tax deductions for employee share scheme rewards	71	82	84	15	17	19
First year allowances for acquisition of capital assets	76	85	83	56	53	58
Extension of the trading loss carry back for businesses	-	-	73	-	-	25
EIS/VCT schemes	61	70	69	6	7	11
Environmental relief	-	62	67	-	11	17
New investment allowance	-	-	50	-	-	23
Entrepreneurs relief	-	-	47	-	-	10
Ability to hold unquoted shares to offer some inheritance tax protection	-	40	41	-	8	9
Ability to sell subsidiaries tax free – substantial shareholder exemption	28	41	39	8	8	12
Enterprise Management Incentive schemes	21	35	38	2	13	15
Corporate venturing scheme	13	23	20	1	1	1

“Whenever we have looked at any support that has ever been offered to businesses by governments or councils, we never qualify for anything. It’s so hard to get anything that most people give up at the first hurdle.”

Business leader’s view

Budget 2009, what impact?

At most, half of respondents expected key measures such as the introduction of a 50% income tax rate, the return to 17.5% value-added tax (VAT) and restricted tax relief on pensions for individuals earning over £150,000 to have an impact on their business decisions, as shown in figure 2.

Overwhelmingly the companies who did not expect the measures to have any impact dismissed them as either irrelevant to their business, or not expected to make any difference to their plans.

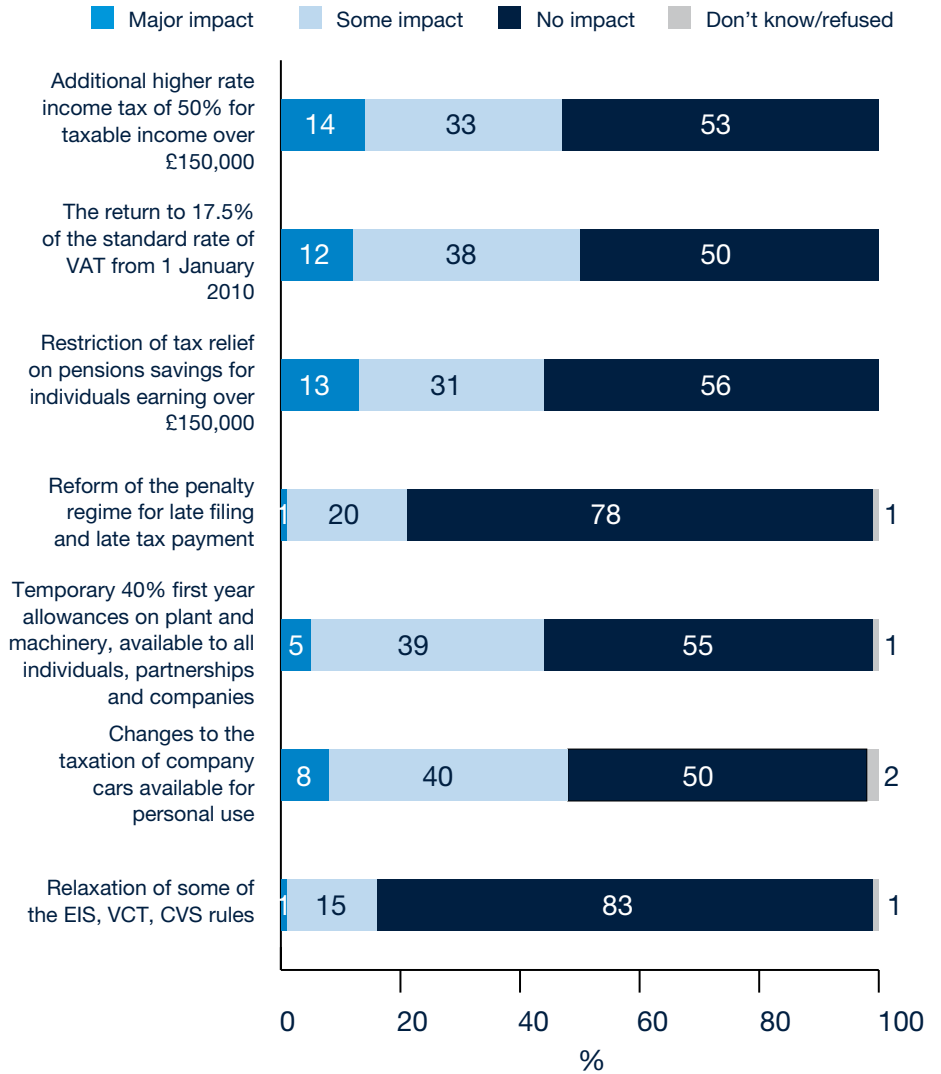
Varying the rate of VAT came in for particular criticism as ‘a waste of time’, while changes to the taxation of company cars available for personal use were dismissed as playing around at the edges.

However, concerns were raised that changes such as the introduction of a top rate of 50% income tax could make the UK less appealing to international entrepreneurs and business builders compared to other countries.

Chris Romans, PwC private business tax partner in Birmingham, said: “The Government needs to ensure the UK is an attractive place to do business, by not taxing the wealth creators too highly.”

“Otherwise we risk losing key entrepreneurs and the jobs they create to competition from overseas locations.”

Figure 2 – What impact will proposals in the 2009 budget have on your business decisions?



“If you want everyone to spend time working out how they can save a little bit of tax, they will not be concentrating on the real function, which is making money.”

Business leader’s view

Creating a more competitive tax system

The positive message for HMRC is that its online service is proving even more popular with privately-owned businesses than two years ago.

A larger proportion of companies are now going online to submit their returns for corporation tax and VAT, to deal with pay-as-you-earn (PAYE) and to claim benefits, up from 67% in 2007 to 78% this year.

Respondents were also much more likely to perceive dealing with HMRC over the internet as quick (up to 64% from 35% in 2007), easier (54% from 28%), more convenient (47% from 17%), more accurate (27% from 7%) and more secure (23% from 4%).

Perhaps unsurprisingly, information technology and telecoms companies are greater advocates of the online service, while financial services companies are less positive about online security.

However, when asked how Government could improve the competitiveness of the UK tax regime, half of the private businesses called for lower tax rates, but more than a quarter are still focused on reducing the burden of compliance, despite the success of the online service.

Mary Monfries, PwC head of private business, said: "Reducing tax rates would be a challenge for any government in the current economic climate, but a reduction in the rate of change and uncertainty should be easier to deliver."

"Businesses need to trust that the rules as they know them are going to stay the same."

Companies also criticised the distractions of an onerous tax system, as one respondent said: "The tax regime is so complicated, that the whole country employs thousands of people as tax experts. I spend a lot of time going through tax manuals, just trying to decode what's allowable and what's not. If you amplify that throughout the country, it's a lot of wasted time."

Desire for stability

Simplifying the tax rules remains the most popular measure to help reduce red tape and the burden of compliance, cited by 42% of the sample. However, this has fallen from around half of companies demanding simplification in 2006 and 2007.

Instead, an increasing proportion of private businesses are calling for stability in the tax system, with a reduction in uncertainty and the rate of change, up from 8% in 2006 to 17% in 2007 to reach 25% today.

"I am actually an employer, trying to create wealth for the economy, and HM Revenue & Customs (HMRC) is coming in and trying to trip us up on technicalities."

Business leader's view

Figure 3 outlines what companies think could be done to cut red tape and reduce the burden of compliance in 2009 compared to 2006 and 2007.

Mary Monfries comments: "Trust that the tax rules will not keep changing is just as important as the underlying tax rate in attracting entrepreneurs and investors to the UK."

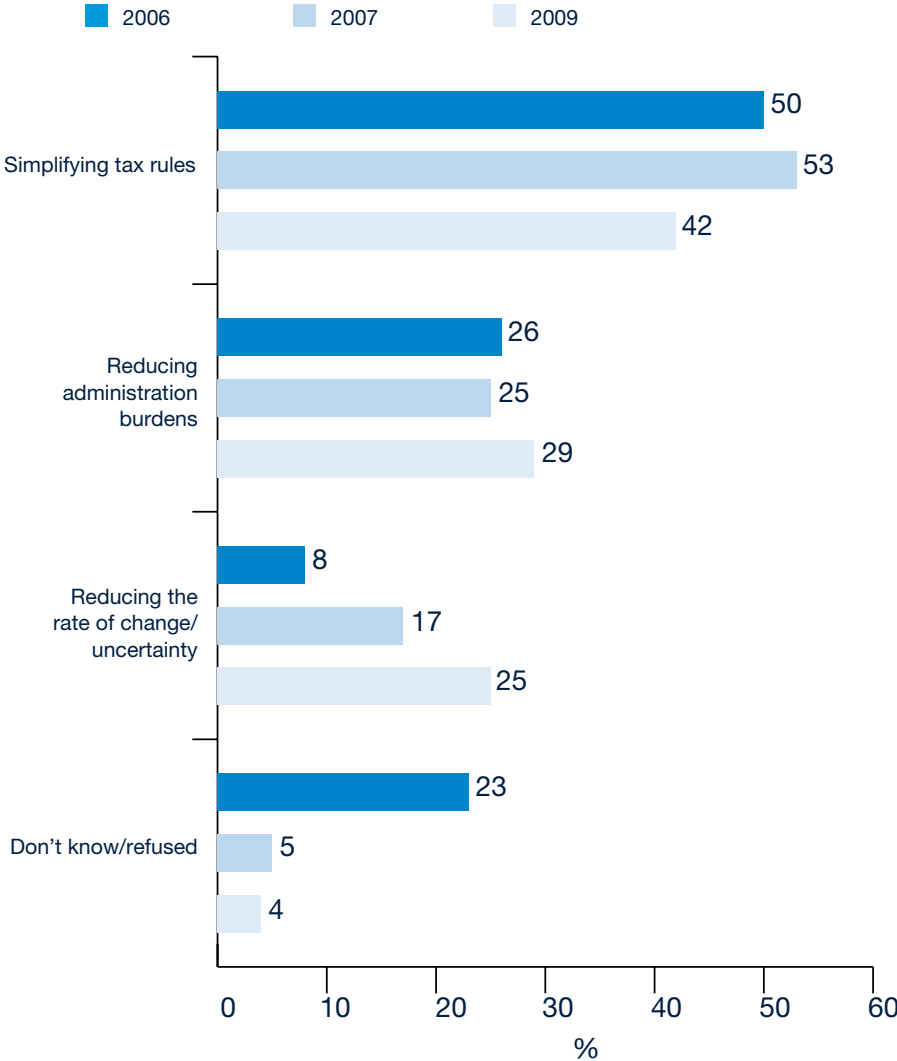
Research conducted by the World Economic Forum, in its *Global Competitiveness Report 2009-2010*, also identified tax regulations and tax rates as major concerns for business. Both appear in the top five most problematic factors for doing business in the UK, where 13% cited tax regulations and 12% tax rates, along with access to financing (22%), inefficient government bureaucracy (14%) and political instability (11%).

Paying a fair share

Two thirds of companies agreed that tax is the licence fee they pay to society, and they need to pay a fair share.

However, 79% agreed that they would seek to reduce the tax cost on their business operations and commercial transactions, although without using artificial arrangements. Only 26% perceived tax as an investment in the UK.

Figure 3 – What is the most useful change government could introduce to reduce red tape and the burden of compliance?



"I don't know how you can simplify the tax system, because there are so many different aspects to it, but what really irritates me is when you have changes in the rules."

Business leader's view

Mary Monfries said: “Governments can come across as assuming that companies are aggressively trying to avoid tax, but in fact the vast majority are not interested in artificial tax planning arrangements.”

“They treat tax as a cost, and will seek to cut their tax bill like any other cost, but most businesses fully accept that they need to pay their fair share.”

“However, if Government are hoping that businesses see the payment of tax as an investment in the UK, they have a long way to go.”

Increasing confidence and optimism

On a truly positive note, just over a third of the companies surveyed expect their businesses to do better over the next year, rising to more than two thirds who expect improvement over the next two years. One in six expect their business situation to be a lot better over two years.

Businesses in the South East and Scotland were more optimistic about their prospects over the next couple of years, at 75% and 78% respectively.

Encouragingly, management teams at these companies are planning for the future, and seizing opportunities to improve their competitive performance.

The vast majority of companies have updated their strategic plans in the last year, at 88%, with half having done so in the last three months. 99% of companies are actively taking advantage of the opportunities created by the recession.

Nevertheless, a third of companies have had their business plans compromised by a lack of access to financing, and this rises to almost half of investor-backed companies and 43% of Scottish companies.

While some privately-owned businesses have struggled to survive during the downturn, others viewed it as an opportunity to improve their position, and emerge stronger compared to their competitors.

Where is the voice of private business?

While the companies surveyed raise multiple concerns about the tax regime, they do not feel their messages are getting through.

Compared to 2007, even more companies agree that they need an effective voice with HMRC and HM Treasury, up from 77% in 2007 to 84%.

However, almost half (45%) do not feel the private business sector is able to make its views heard by Government, and less than one in five believe that Government acts on the concerns expressed.

“A recession clears out the competition and normalises the market. Those with decent business models can emerge better for it.”

Business leader’s view

How the survey was conducted

The research for the survey was co-ordinated by PricewaterhouseCoopers' International Survey Unit, based in Belfast.

391 companies with annual turnovers ranging from less than £5m to more than £200m were surveyed, across a wide variety of industries and regions throughout the UK.

Telephone interviews were conducted with chief executive officers (CEOs), finance directors, managing directors and proprietors of privately-owned businesses, between 4 June 2009 and 7 August, 2009.

Figures are weighted to reflect the profile of companies participating in 2009, and therefore may show minor differences compared to the figures published in the 2007 *PricewaterhouseCoopers Enterprise in the UK* survey.

The results have been shared with the Department for Business, Innovation and Skills, HM Revenue & Customs and HM Treasury.

Investor-backed companies

Private companies backed by professional investors or venture capitalists displayed distinctly different views compared to the other ownership structures surveyed, whether more likely to see the UK tax regime as supportive, reviewing their business plans more recently or expressing more optimism about their future prospects.

Their attitudes stood out compared to family businesses, other owner-managed businesses or ex-management buy-out or management buy-in (MBO/MBI) companies.

A higher proportion of investor-backed companies considered the UK tax regime as supportive, at 58% compared to only a third of companies overall.

They also displayed the highest awareness of the Enterprise Finance Guarantee (EFG) scheme, at 66% compared to 45% of those eligible, and were more likely to believe that research and development (R&D) tax credits would have an impact on their commercial behaviour, at 32% compared to 18% overall. Faced with the recession, all of the investor-backed companies have updated their strategic plans within the last year, compared to 88% overall, and they were more likely to have done so more recently, with 62% reviewing their plans within the last three months compared to half on average.

Investor and venture capitalist-backed companies were also the most optimistic group in expecting their business to do better in the future.

However, investor-backed companies were more likely to have suffered at the hands of the credit crunch. Almost half (48%) had been forced to compromise their business plans due to lack of funding, compared to a third of private companies overall.

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A sister report – *Enterprising UK: Will private business drive the UK forward?* focuses on the operational issues facing private businesses, what companies are doing to stay ahead in the current economic conditions, and opinion from PwC private business specialists. To receive a copy of this report, please visit www.pwc.co.uk/privatebusiness.

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