

TAXREP 17/04

ROUTES FROM UNEMPLOYMENT INTO SELF-EMPLOYMENT

*Response by Institute of Chartered Accountants in England and Wales (ICAEW)
in March 2004 submitted to Paul Rigby, Secretary to the Review Board at SBS
Enterprise Culture Team in relation to the call for evidence*

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INTRODUCTION

1. We are pleased to have this opportunity to respond to the call for evidence by the Review Board at SBS Enterprise Culture Team.

WHO WE ARE

2. The Institute of Chartered Accountants in England and Wales is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).
4. The Tax Faculty is the focus for tax within the Institute. It is responsible for technical tax submissions on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter 'TAXline' to more than 11,000 members who pay an additional subscription.

GENERAL COMMENTS

5. We are strongly committed to the Lisbon Agreement of 2000 which aims to make Europe the most competitive and dynamic knowledge based economy in the world by 2010.
6. At the end of last month the European Commission published its Action Plan *The European Agenda for Entrepreneurship*. The English version of the document can be accessed by clicking on the link http://europa.eu.int/comm/enterprise/entrepreneurship/promoting_entrepreneurship/doc/com_70_en.pdf When asked whether they would prefer to be self-employed rather than an employee 48% in the UK expressed a preference for self-employment but this was only very slightly greater than the EU average of 45%.
7. In seeking to establish a business environment where business entrepreneurship can flourish we believe the key factors are:
 - Culture
 - Advice and support
 - Business and Regulatory environment
 - Finance

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CULTURE

8. While the UK may have a more *entrepreneurial* culture than the rest of Europe it still lags behind the United States.
9. In the longer term the entrepreneurial culture needs to be embedded in the individual psyche of the UK population from an early age which is why in our estimation the efforts of organisations such as Young Enterprise are particularly important.

ADVICE AND SUPPORT

10. The initial business contact for would-be entrepreneurs ought to be with the various Government sponsored support organisations, and in particular the Business Link network.
11. We applaud the current efforts of the SBS Business Link organisation to relaunch their website with sources of information of relevance to business grouped in a single location.
12. We believe the Business Link organisation could work more effectively with other business support organisations and should be seen as the initial source of advice but not the only one. To use a horticultural analogy the Business Link organisation is the seed tray which nurtures the initial growth of new businesses but these businesses then need to be 'planted out' into the more challenging business environment where they can benefit from the input of other advisors, including members of ICAEW. We believe that if businesses become too dependent on a subsidised environment, where business advice is provided at a cost considerably below the market rate, the businesses will never adapt to the realities of the business world.
13. We also believe the Government business support organisations ought to work closely with other advisers such as the Princes Trust which provides invaluable support and advice to would be entrepreneurs up to the age of 30.

BUSINESS AND REGULATORY ENVIRONMENT

14. The ICAEW has surveyed its members on attitudes to SME issues since 1996. The survey feedback suggests that regulation is an increasing burden on smaller businesses. Red tape diverts owner managers away from the core activity of running their business.
15. In a civilised society there will always be a need for regulation - to protect consumers, employees and vulnerable groups and to protect the environment and promote sustainable development. There is an inherent tension in those policy objectives and the efficient working of markets. ICAEW surveys suggest excessive business regulation and heavy-handed enforcement imposes large and growing costs on business and detracts from UK flexibility and competitiveness

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16. ICAEW surveys also reveal that it is the cumulative burden rather than any particular legislation, which creates the burden for SME's. The ICAEW believes that information on regulatory changes affecting SMEs needs to be more readily available to SMEs and their advisors. The Small Business Service has a key role to play, but needs to work with the private sector information providers and SME organisations.
17. Developing an understanding of the tax issues that confront start-up businesses is critical for new entrepreneurs. Should they trade as an incorporated business? When do they have to register for VAT? What are the implications of taking on the first employee? These are some of the issues which businesses seek advice from Chartered Accountants. In an attempt to assist start-up businesses Business Links published The No-Nonsense Guide to Government rules and regulations for setting up your business. The ICAEW welcomed this development as a step to increasing awareness of start-up and small businesses of the regulatory burden.

FINANCE

18. Many start-up businesses are hampered because there is insufficient finance within the business to fund development to a level that offers the owner a living. Yet there is a plethora of schemes available to help start-up and growing businesses. Many Enterprise Agencies, the Princesses Trust and government sources offer finance and grants for start-up businesses. Friends and family are also a frequent source of start-up finance. There are also commercial sources for finance up to £25,000. The entrepreneur needs to be aware of the various sources of finance and the relative merits of each. The ICAEW therefore welcomes the Small Business Services' proposal to publish The No-Nonsense Guide to Business Finance, which will be available shortly.
19. Businesses requiring finance for growth can access the government's Small Firms Loan Guarantee Scheme (SFLGS) if commercially available finance is not an option. The ICAEW annual Enterprise Survey reveals that members believe the SFLGS to be a cornerstone of small business finance. The ICAEW therefore welcomes the Treasury's Graham Review of the SFLGS and will be contributing a response to the consultation. The ICAEW also welcomes the government initiatives to stimulate and grow the small-scale equity market.

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11 March 2004