PRIORITIES FOR GROWTH

RESEARCH REPORT

FEBRUARY 2013

FOREWORD

In 2011 the Coalition Government published the *Plan for Growth*, a comprehensive set of ambitious growth targets for the UK economy. The plan aimed to create the most competitive tax system in the G20, to make the UK one of the best places in Europe to start, finance and grow a business, to encourage investment and exports as a route to a more balanced economy, and to create a more educated workforce that is the most flexible in Europe.

Our latest research suggests policy progress is mixed. While half of our business members have seen progress on our tax system's competitiveness, the majority feel there has been no progress on the government's other growth targets.

Weeks ahead of the 2013 Budget, our research suggests the Chancellor has two years to focus on three policy priorities – access to finance, export and tax. The Chancellor should use this annual Budget to map out a clear strategy for the business bank and to ensure a localised strategy to boost exports with UK Trade & Investment. Moreover, for progress on the UK's tax competitiveness to continue, the government must end the culture of constant change in tax policy. For example, the new payroll IT system and Real Time Information (RTI) and the introduction of cash accounting all undermine the competitiveness of our tax system.

RESEARCH FINDINGS

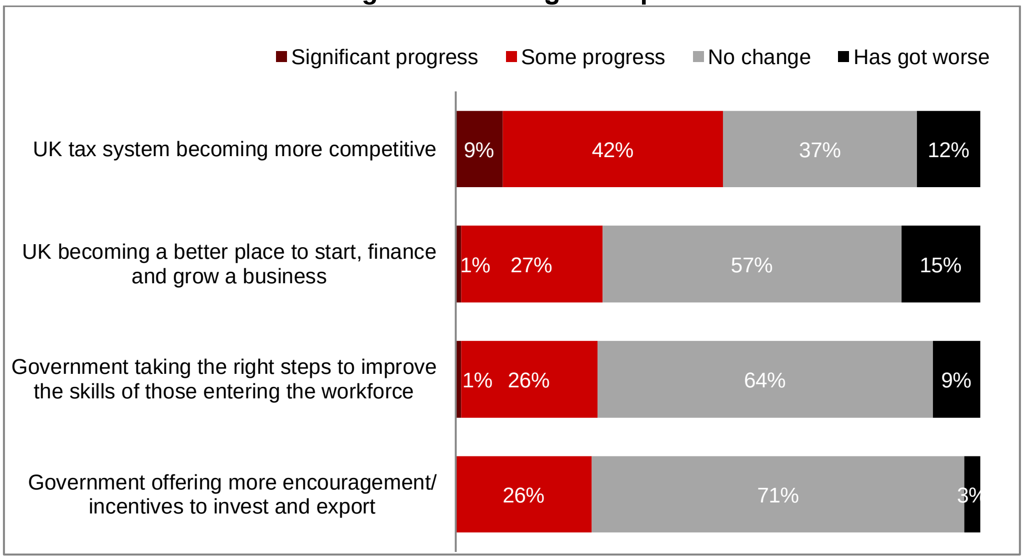
Half feel that there has been progress over the past two years in making the UK tax system more competitive

When considering progress on the government's growth priorities over the past two years, businesses are most likely to feel that there has been progress in making the UK tax system more competitive (Fig 1).

For each of the other growth priorities considered, while more than one in four feel there has been some progress over the past two years, the majority feel there has been no real change.

This perceived lack of change is most notable with regard to the government offering more encouragement and incentives to invest and export. Exporters are most positive in identifying progress in this area (32%). But even though 20% of non-exporters feel there has been progress in this area, virtually all claim to have no plans to start exporting in the next 12 months. This echoes findings in ICAEW's 2012 Enterprise research, where businesses said that a key catalyst for starting to export is customer demand.

Fig 1. Perceptions of progress in the last two years on the government's growth priorities



Base: All respondents (552)

Strong support for government prioritising protection of funding for UKTI, and for initiatives that would help Small and Medium sized businesses access finance

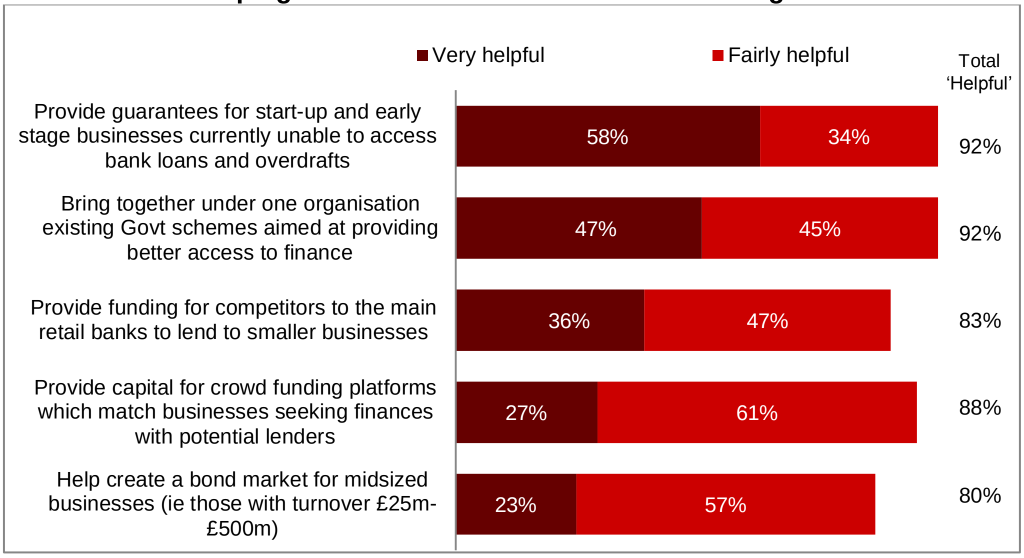
Of those aware of UKTI, virtually all (92%) think that government protection of UKTI funding, to support its activities in helping UK businesses to export, should be a priority for stimulating growth. Both exporters and non-exporters hold this view.

Virtually all (96%) agree that providing Small and Medium sized businesses with better access to finance should be one of the government's priorities for stimulating growth in the UK. This view was equally prevalent across all sizes of business.

In terms of specific initiatives that could provide better access to funding, each of the proposals examined received backing from 80%+ of businesses (Fig 2). Strongest endorsement was for providing guarantees for start-up and early stage businesses currently unable to access bank loans and overdrafts (58% felt this would be 'very helpful').

In addition, virtually all felt that it would be helpful to restructure different government schemes aimed at providing better access to finance, so that they are brought together under one organisation.

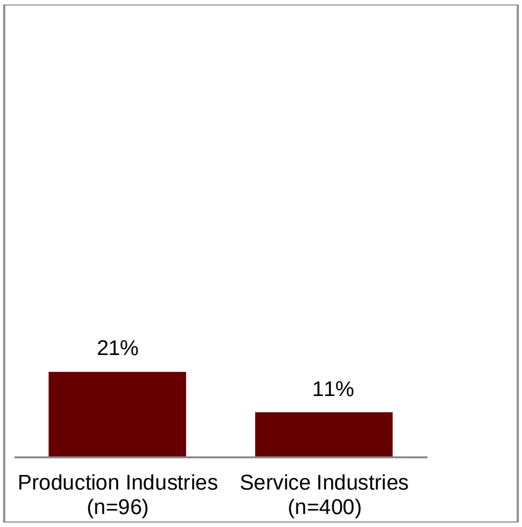
Fig 2. Attitudes to potential initiatives aimed at helping Small and Medium sized businesses grow



Base: All respondents (552)

Recent increase in the Annual Investment Allowance may encourage one in five in the Production sector to invest in plant, machinery, equipment

Fig 3. Likely to invest in plant, machinery or equipment in the next two years as a result of the AIA increase



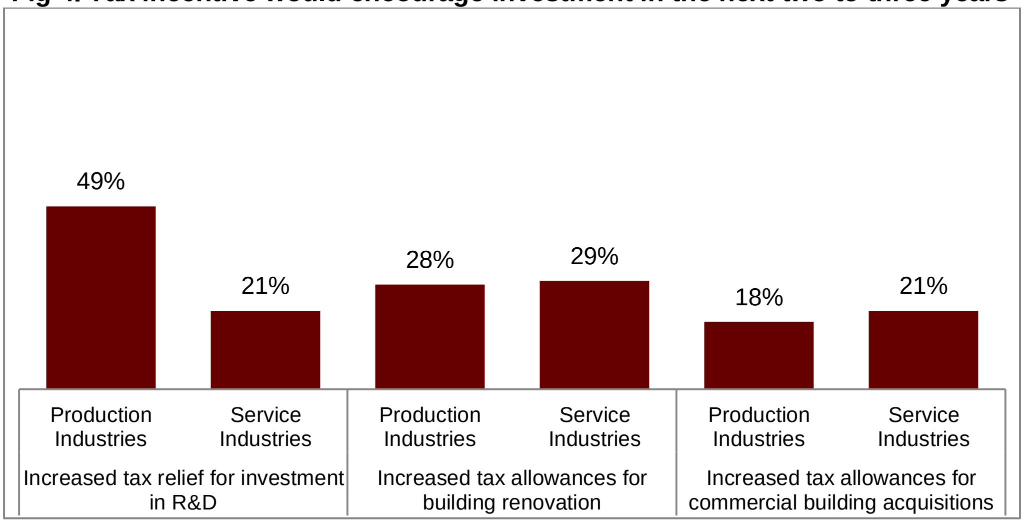
Around one-fifth of businesses in the Production sector, and 1 in 10 in the Services sector, claim that the recent increase in the Annual Investment Allowance (AIA) is likely to encourage them to invest in plant, machinery and/or equipment in the next two years (Fig 3).

R&D tax incentives most likely to encourage Production sector businesses to invest

There is some support for each of the tax incentives that the government could introduce. Each could encourage investment over the next few years from one-fifth or more (Fig 4). As would be expected, businesses in the Production sector are more likely than those in Services to say that R&D tax incentives would encourage investment. Nevertheless, one in five Service sector businesses would view this as a potential incentive to invest.

Tax incentives for building renovation would have somewhat wider appeal than incentives for commercial building acquisition. Each of these is of particular appeal in encouraging investment among businesses in the Property sector (71% and 58% respectively).

Fig 4. Tax incentive would encourage investment in the next two to three years



Base: All respondents. Production Industries 96, Service Industries, 400

METHOD: This report is based on 552 telephone interviews among ICAEW members working in industry and commerce. The sample was controlled to ensure a reasonable representation by region, company size and sector. Fieldwork was conducted by Kudos Research between 11 January and 19 February 2013.