

It's time to help small business 

A better deal for business with a SNP government

Business Rates Consultation Paper: The Small Business Bonus

Aims

The policy aims of the SNP are to reduce the burden of business rates on the smallest businesses so that they will be able to grow and develop into the medium sized businesses and large businesses of the future. The small and medium-sized enterprise (SME) sector has traditionally been important to the economy for various reasons; as a source of entrepreneurship and innovation, a driver of competition, local economic vibrancy and as a mechanism for job creation.

Small businesses also play a vital role in maintaining and strengthening Scotland's remote and rural communities. By helping small businesses in rural Scotland the SNP is confident this will help to revitalise the wider rural economy.

Lowering Business Rates

The SNP's policy on business rates, which had the support of businesses and business organisations, was to lower the Scottish poundage rate from 46.1p to match the poundage rate in England. In a surprising u-turn Jack McConnell announced in the Executive Legislative Programme for 2005-06 that the Executive would adopt SNP Policy. As a result business rates poundage will be brought down to the same level as England in April 2007 at an annual cost of £180m.

However as Table 1 demonstrates the savings to small businesses will be minimal compared to the savings for larger businesses. For example a business with a rateable value of £1,000 would only save £12 per annum compared to a £2,400 saving for a business with a rateable value of £100,000.

Whilst the SNP welcome any measures to help Scottish businesses we believe that even more can be done and should be done both in terms of underpinning the viability of small businesses and also as a signal of what will be done to increase Scottish competitiveness, when fiscal powers are reclaimed by the parliament.

Table 1: Effect of Lowering the Rate Poundage (based on provisional 2007-08 rates)

Rateable value (£)	Saving compared to 05-06 rate poundage (£)
500	6.00
1,000	12.00
2,000	24.00
3,000	36.00
3,500	50.40
4,000	57.60
4,500	75.60
5,000	84.00
5,500	92.40
6,000	115.20
6,500	124.80
7,000	151.20
7,500	162.00
7,999	172.78
8,000	182.40
8,500	193.80
9,000	205.20
9,500	216.60
10,000	228.00
11,000	250.80
11,500	262.20
15,000	360.00
20,000	480.00
25,000	600.00
29,000	696.00
40,000	960.00
50,000	1,200.00
75,000	1,800.00
100,000	2,400.00

Small Business Bonus

The SNP therefore propose the Small Business Bonus designed specifically to target small businesses. We propose to abolish business rates completely for all businesses with a rateable value of £8,000 and below.

In order to produce a real incentive for smaller business growth and to provide a declaration of intent regarding a more competitive tax regime in the longer term, we propose that businesses with a rateable value of £8,000 or less will no longer pay business rates at all. Small businesses with a rateable value of between £8,001 and £10,000 will be entitled to a 50% business rate relief; and businesses with a rateable value of between £10,001 and £15,000 will be entitled to a relief of 25% as shown in below.

Table 2: SNP Small Business Bonus Scheme¹

TOTAL rateable value of all non-domestic subjects occupied	Relief Applicable
0 to 8,000	100%
> 8,000 to 10,000	50%
> 10,000 to 15,000	25%

According to the latest figures for April 2006 obtained from the Scottish Executive, there are approximately 120,000 businesses with a rateable value of less than £8,000 that would no longer pay business rates. A further 29,772 businesses would have their business rate bills reduced.

Therefore 3 out of 4 businesses in Scotland will be better off under our Small Business Bonus Scheme. Nearly 150,000 businesses in Scotland will either have their business rates completely abolished or significantly reduced directly as a result of the scheme. Larger businesses will, of course, continue to benefit from the return of business rate parity with England.

¹ Businesses who receive one of the following reliefs will continue to be entitled to apply for them ; Charitable rate relief, disabled persons rate rebate, farm diversification rate relief, rural rate relief, derating allowance (stud farms) and relief by virtue of being empty.

Businesses in Scotland

By reducing business rates to the same level as in England the top 4% of businesses receive 70% of the £180 million. Therefore lowering businesses rates alone is not enough to help small businesses.

Table 3 shows the number of businesses by rateable value as at 1st April 2006.

Table 3: Number of businesses and rateable values

Rateable Value Band	Frequency	Percent	Cumulative Frequency	Cumulative Percent
< £3,500	82,483	39.78	82,483	39.78
< £4,500	13,898	6.70	96,381	46.48
< £5,750	14,939	7.20	111,320	53.69
< £7,000	10,622	5.12	121,942	58.81
< £8,000	7,138	3.44	129,080	62.25
<=£11,500	18,669	9.00	147,749	71.26
<= £15,000	11,103	5.35	158,852	76.61
<= £20,000	9,971	4.81	168,823	81.42
<= £29,000	10,109	4.88	178,932	86.29
<= £40,000	6,932	3.34	185,864	89.64
<= £60,000	6,941	3.35	192,805	92.98
<= £80,000	3,823	1.84	196,628	94.83
<= £100,000	2,260	1.09	198,888	95.92
<= £200,000	4,601	2.22	203,489	98.14
<= £300,000	1,583	0.76	205,072	98.90
<= £400,000	750	0.36	205,822	99.26
<= £500,000	408	0.20	206,230	99.46
<= £1,000,000	710	0.34	206,940	99.80
> £1,000,000*	412	0.20	207,352	100.00
Total	207,352			

* Includes Electricity Designated Assessor subjects.

Source: Local Government Finance Team, Scottish Executive

Savings to Businesses

It is expected that by 2007-08 when business rate parity with England is restored the rate poundage will be approximately 43.7p. The anticipated savings of the lower poundage rate combined with the SNP Small Business Bonus Scheme are shown below.

Table 4:Effect of New Relief on businesses

Rateable value	New Relief Applicable	Business rate bill @ 43.7p with SNP Small Business Bonus Scheme	Business Rate bill @ 43.7p with the current Executive Relief Scheme	Total Saving
500	100%	0.00	109.25	109.25
1,000	100%	0.00	218.50	218.50
2,000	100%	0.00	437.00	437.00
3,000	100%	0.00	655.50	655.50
3,500	100%	0.00	917.70	917.70
4,000	100%	0.00	1048.80	1048.80
4,500	100%	0.00	1376.55	1376.55
5,000	100%	0.00	1529.50	1529.50
6,000	100%	0.00	2097.60	2097.60
6,500	100%	0.00	2272.40	2272.40
7,000	100%	0.00	2753.10	2753.10
7,500	100%	0.00	2949.75	2949.75
8,000	100%	0.00	3321.20	3321.20
8,500	50%	1857.25	3528.78	1671.53
9,000	50%	1966.50	3736.35	1769.85
9,500	50%	2075.75	3943.93	1868.18
10,000	50%	2185.00	4151.50	1966.50
11,000	25%	3605.25	4566.65	961.40
12,000	25%	3933.00	5244.00	1311.00
13,000	25%	4260.75	5681.00	1420.25
14,000	25%	4588.50	6118.00	1529.50
15,000	25%	4916.25	6555.00	1638.75

Costings

The cost of introducing the SNP Small Business Bonus Scheme would be £150 million as shown in Table 5.

At present the Scottish Executive contributes £11.9 million and businesses with a rateable value of £29,000 and above contribute £16.1 million to the existing business rate relief schemes. As part of our consultation exercise we will ask if the system could be simplified.

However, over the medium term the cost of the SBB scheme is likely to fall as more small businesses grow into larger businesses.

The SBB scheme will also help small businesses to survive. A Parliamentary Answer published last week showed that in Scotland as a whole, less than half of businesses registered for VAT in 1997 had survived to 2003, while the figure was much worse in Glasgow with only 34% of businesses surviving the six year period.

Table 5: Breakdown of costings of Small Business Bonus Scheme

Relief Scheme £	Relief Applicable	Cost to implement (£ m)
0 to 8,000	100%	
> 8,000 to 10,000	50%	
>10,000 to 15,000	25%	
Total Cost of Scheme		150
Less		
<i>Current Executive funding</i>		<i>11.9</i>
<i>Current contribution from Big Business (paid through supplement on poundage)</i>		<i>16.1</i>
Additional Cost of SNP Scheme		<u>122</u>

DTZ Pidea produced an “**Evaluation of the Impact and Effectiveness of the Small Business Rates Relief Scheme**” for the Executive (December 2004). Amongst the most important findings were the following:

“At an economy-wide level, the effects of the scheme will be nil or negligible given that it involves some marginal re-allocation of, rather than any increase in, the resources available to business activity.”

“The FSB undertook a survey of members (in 2001)... which indicated that small businesses were suffering disproportionately from business rates, paying on average ten times relative to profit or turnover more than larger businesses.”

“It is understood that at a national level the value of receipts from the supplement exceeds the value of the relief granted” (this was in the first year of the scheme 2003),

“The evidence suggests a potentially significant number of properties within Scotland are not applying for the full rate of relief for which they are eligible”

“The supplement (i.e. the £16.1m paid towards the scheme by bigger businesses) was not considered to be an imposition on the companies with larger rateable values.