



POLICY BRIEFING PAPER
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Improving the regulatory environment for small businesses

THE ISSUE

Regulation is a critical business issue. Recent estimates suggest that compliance with UK regulations costs around £100 billion a year.¹ Regulatory burdens have recently received increased attention from the Government. This has coincided with the UK Presidency of the EU and the Six Presidency Agreement on EU Regulatory reform.

ACCA has consistently argued for a balanced view to be taken on regulation, recognising that certain regulations are necessary for the development of business and for employees' rights. Evidence, however, demonstrates that small businesses are burdened disproportionately by regulatory requirements.² The impact of different regulations is complex and a sophisticated approach is required in order to gain a clear understanding of the implications. For example, research has found that individual employment regulations affect small businesses differently, according to their size, sector and workforce composition.³

ACCA's UK Small Business Committee meeting in June 2005 examined the regulatory environment for small businesses. The Committee considered the Government's Better Regulation Action Plan and Teresa Graham, Deputy Chair of the Better Regulation Task Force (BRTF) gave a presentation on the Task Force report 'Regulation – Less Is More. Reducing Burdens, Improving Outcomes'.

RECOMMENDATIONS TO REDUCE THE REGULATORY BURDEN

The Committee suggest ten recommendations to improve the regulatory environment for small businesses:

1. There continues to be need for a significant improvement in Regulatory Impact Assessments (RIAs). There should be standard tests of proportionality and simplicity which all new legislation should be required to meet before they are passed by Parliament. The respective Parliamentary committees concerned with

de-regulation should be required to assess new legislation in the light of these tests, and the responsible Minister should be required state that any new primary legislation meets these tests.

2. There should be compulsory retrospective audits of Regulatory Impact Assessments (RIAs), looking at their accuracy, whether the policy achieved its goals, examining the cost the regulation imposes on small businesses and ascertaining if there were any unintended consequences of the regulations introduced. This is already recommended practice, but the fact is that reviews are rarely undertaken.
3. Independent, professional assessors appointed by the BRC should be involved in the management of each new proposed piece of legislation, in terms of challenging the need for the new rule and make a cost/ benefit analysis. This would be a vast improvement on the current system whereby departments manage their own consultation process.
4. Government should aim to reduce the number of inspectors as this would force regulators to think about the volume and complexity of regulations which must be dealt with by small firms. In addition, it is important that inspectors are expert in the industry sector in which they are operating, such as the construction sector.
5. The Better Regulation Commission (BRC) should be formed as an independent body, reporting to parliament rather than via the Cabinet Office. The BRC should be provided with sufficient resources to conduct independent research and challenge government regulatory proposals.
6. There should be more joined up government and improved communications between different departments both regionally and nationally. For example, steps should be taken to improve the functionality of the Intrastat website for businesses trading within the EU. The inconsistencies in the data required by Intrastat and the VAT return form are confusing for business people and can lead to unnecessary enquiries from HMRC staff.
7. The speed and process of businesses obtaining a VAT number should be improved.

8. There are a number of areas where businesses act as unpaid tax collectors on behalf of Government. For example, Government should take over the administration of maternity/ paternity payments, rather than using businesses as the intermediary. Companies should have the option of opting out if they wish to administer the payments and offer additional benefits to their employees.
9. Employment-related Securities and Options Form 42 for the transfer and issue of shares should not have to be completed where newly incorporated businesses issue shares to the founders at face value, since this information is placed on public record at Companies House. The simplification of the form for other purposes is also welcome.
10. The Money Laundering Regulations continue to impose substantial burdens on professional advisers and business people alike. The UK has gone further than the EU norm in requiring regulated persons to report suspicions of money laundering in respect of the proceeds of all types of crime, as opposed to 'serious' crime only. There needs to be a thorough review of the regulatory effectiveness of the 'all crimes' approach, taking into account the burdens placed on individual businesses and the effectiveness of the current reporting system in tackling serious financial crime.

MONITORING PROGRESS: ACCA SMALL BUSINESS COMMITTEE'S INVOLVEMENT

Three key actions from the Better Regulation Action Plan⁴ have been selected to be monitored by the Small Business Committee:

1. SETTING TARGETS TO REDUCE THE BURDEN UPON BUSINESSES

Government objective: set challenging targets to reduce the regulatory burden on businesses and achieve targets by implementing the reforms recommended by the Hampton Review and the BRTF report.

ACCA monitoring: the Government should accurately assess the costs of regulation and set ambitious targets to reduce the burdens. These should be made publicly available. The Netherlands adopted a target for a 25% net reduction in regulatory burdens on business from 2003 to 2006. The Committee considers this to be important because it has the potential to increase GDP by £16 billion for an expenditure of some £35 million.⁵

2. SIMPLIFYING AND SHORTENING FORMS

Government objective: reduce the amount of information required from businesses, shorten forms and reduce the time needed to complete them by designing better forms and improving regulators' handling and sharing of data.

ACCA monitoring: in addition to simplification, there should also be clear guidance on which forms businesses are required to complete. It should be recognised that accountants are the primary business advisers of small firms and often act as their independent knowledge brokers.

3. IMPROVING TAX ADMINISTRATION FOR BUSINESS

Government objective: reduce the administrative burdens on business from the tax system, including applying to HM Revenue and Customs (HMRC) the principles of risk based enforcement developed by the Hampton Review.

ACCA monitoring: research in the UK demonstrates that tax administration is found to impose the heaviest burden on small businesses. Smaller businesses actually incur net costs that may be several times higher than large businesses.⁶ Owner managed businesses act as a collector of PAYE and VAT for the UK Government and are also required to administer their own taxation, including deduction of taxes from employees.⁷ A simplified and equitable tax system works best for small businesses and their advisers. Certainty and fairness in tax regulation delivers stability within the economy and the best possible climate for wealth creation and employment growth.

ACCA'S UK SMALL BUSINESS COMMITTEE

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest growing global professional accountancy body, with over 105,000 members and 245,000 students in 170 countries.

ACCA's UK Small Business Committee (SBC) is a unique voice on small business issues. It has a wide membership including accountants, leading academics and representatives from the main small business organisations:

Chair: Professor Francis Chittenden, ACCA Professor of Small Business Finance, Manchester Business School

Professor Robert Blackburn, HSBC Professor of Small Business Studies; Director, Small Business Research Centre, **Kingston University**

Victoria Carson, **Forum of Private Business**

Jacqueline Cole, ACCA Council Member; Partner, **Dyke Ruscoe & Hayes**

Brian Crangle MBE, The **Institute of Business Advisers**

Valerie Culley, ACCA Council Member; Proprietor, **Culley Lifford Hall**

Anthony Cushing, ACCA Council Member; Partner, **Moore Stephens**

John Fairgrieve, Partner, **Fairgrieve-Kerr Consultancy Ltd**

David Finch, ACCA Council Member; Finance Director, **QM Limited**

Mark Gold, ACCA Council Member; Partner, **Silver Levene**

Sara Harvey, ACCA Council Member; Vice Chair ACCA UK Small Business Committee, Director, **Hines Harvey Woods Ltd**

Dr Moyra Kedslie, **ACCA Council Member**

Sally Low, Director of Policy & External Affairs, **British Chambers of Commerce**

Norman Mackel, **Federation of Small Businesses**

Jason Parker, ACCA Council Member; Partner, **Parker Randall LLP**

Ilyas Patel, Partner, Ilyas Patel & Co; Member of the **Small Business Council**

Professor Monder Ram OBE, De Montfort University; Member of the **Small Business Council**

Dr Richard Roberts, SME Research Director and Chief Economist, **Barclays Bank**

Martyn Robertson, Head of Business Start-up, **Leeds Business School**

Erika Watson, Executive Director, **Prowess**

Peter Windatt, Director, **BRI (UK) Ltd**

REFERENCES

¹ Better Regulation Task Force (2005), *Regulation – Less is More. Reducing Burdens, Improving Outcomes*.

² ACCA (2005), *Putting Small Businesses First*. Small Business Manifesto.

³ Blackburn, R., and Hart, M. *Small Firms' Awareness, Knowledge and Access to Information on Individual Employment Rights*, DTI, 2000.

⁴ Better Regulation Action Plan (2005)

⁵ Better Regulation Task Force (2005) *ibid*

⁶ Chittenden, F., Kauser, S. and Poutziouris, P. (2002), *Regulatory Burdens of Small Businesses: A Literature Review*, Small Business Service.

⁷ Southern, A. Meyrick, J. (2004), *Owner-managed businesses and their tax – an interim report on the views of small businesses*. Lloyds TSB, ACCA, FSB, FPB.