



PRIME MINISTER

SMALL FIRMS POLICY

I shall unfortunately be abroad on 14 October, when you are to hold your meeting on this important aspect of our programme. Moreover, although I agree with their broad thrust, I have of course had little time to consider in detail the new measures and ideas raised in David Mitchell's note to you. I hope, therefore, that there will be subsequent opportunity to consider them more fully. In the meantime, there are some points which I should like to feed into the discussion at this stage.

2. David Mitchell's minute mentions my proposal to amend company law to permit companies to purchase their own shares. My Green Paper on this has had an extremely positive response and provisions in the next Companies Bill will be warmly welcomed. They will, however, merely clear the way for re-purchases. It is apparent from the response to the Green Paper that, unless we remove the tax disincentives, companies will be able to make little use of their new freedom. This would lose us all the kudos gained through the change in company law. I hope, therefore, that we can agree that a tax change in this area should be a necessary part of the next Finance Bill. Of particular concern in the context of your meeting will be devising, through a buy back of shares scheme, a means whereby entrepreneurs can repay loans used to start up a business out of the untaxed income of that firm. Now this can only be achieved by selling the firm or liquidating it - an obvious nonsense.

Mitchell

Sally Gorton will  
come in J.M. Mitchell's  
place.

12/10/71

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3. The Companies Bill to be introduced in December will provide for a major reduction in the filing and public disclosure requirements imposed on small firms in the field of accounts. Around the same time, I shall be publishing a Green Paper to elicit views on whether the present system of incorporation under the Companies Acts best suits small enterprises, whether there are alternative forms which might be introduced or whether existing forms could be made more attractive. This may raise for discussion some quite radical departures from our traditional ideas about incorporation.

4. On a number of occasions in the past, papers covering various aspects of the work on encouraging small firms have tended to concentrate on the manufacturing sector and have failed to mention the parallel needs of the service sectors: David Mitchell's paper is no exception - it is the service sector, in the broadest sense, that will provide the majority of new jobs in the next decades - from software services to leisure industries. For instance, the hotel industry has almost exactly similar problems to those outlined in his note and its contribution to the economy is considerable.

5. In general, however, I agree with David Mitchell's useful note. The principal obstacles are planning (i.e. premises) and finance. On the latter, the clearing banks have made some limited but inadequate moves to assist small business formation. But the problem remains one of security for bank borrowings. We may have to look again at a loan guarantees scheme although, for all the obvious reasons, we rejected it in Opposition discussions.

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6. Finally David Mitchell in this and earlier notes touches on the problems of small businesses in their post formation stage. Until we restrict the powers of the Revenue Departments and simplify the collection of VAT etc there can be no real incentive to build up a business. How we can educate "authority" to understand that it has an interest in encouraging small business as well as policing it, I do not quite know. They are two different worlds, and neither understands the other.

7. I am sending copies of this minute to David Mitchell and recipients of his minute.

J. N.  
(dictated by the Secretary of  
State and signed in his absence)

Department of Trade  
13 October 1980