Editorial

'Budget 1987'

Political pundits have assiduously scrutinised the entrails of Mr Lawson's Budget on 17 March and found in it a bit of comfort for almost everyone, though hardly the vote-catching bonanza that some (inspired, perhaps, by mischievous government rumour-mongering) had predicted. The Opposition was left floundering for something constructively critical to say.

One theme of this Budget is the Government's continuing anxiety to lighten the burdens on small businesses and the self-employed, seen by the Chancellor as a "vitally important sector of the economy". Some fiscal changes in this context merely reflect the cut in the basic rate of income tax - eg reduction of the small companies' rate of Corporation Tax from 29 per cent to 27 per cent. Other changes are aimed at family businesses - eg increase in the threshold for Inheritance Tax from £71,000 to £90,000, and exemption from Capital Transfer Tax in respect of gifts involving settled property where there is an interest in possession (a change that is particularly beneficial to family trusts).

But the most important cluster of changes relates to VAT, a burdensome tax for all firms, but a bureaucratic

nightmare for small companies with limited administrative support and chronic cash-flow problems. The proposed changes are based on responses to a consultative document issued last autumn. In future (subject to derogation being granted in respect of the relevant EEC directive), businesses with an annual turnover of less than £ 1/4 m (more than half of all traders registered for VAT) will be exempted from liability to pay tax until they themselves have received payment from their customers: this will provide some welcome relief in respect of the chronic problems of late payment. Secondly, these small businesses will be able to opt to account for VAT on an annual basis instead of making quarterly returns. Thirdly, the period within which businesses must apply to be registered for VAT is extended from ten to thirty days. Lastly, the VAT threshold is increased to £2,3000, to keep it at the maximum permitted under European Community law.

The promotion of small business is very much in harmony with the self-help spirit of our times. This Budget still leaves much to be done and is a meagre response to the continuing scandal of unemployment; but fiscal rationalisation

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is always welcome (particularly to the small-businessman, oppressed by the VAT inspectors), and self-help, while not an economic panacea, is at least a logically consistent with this government's oft-declared philosophies.