

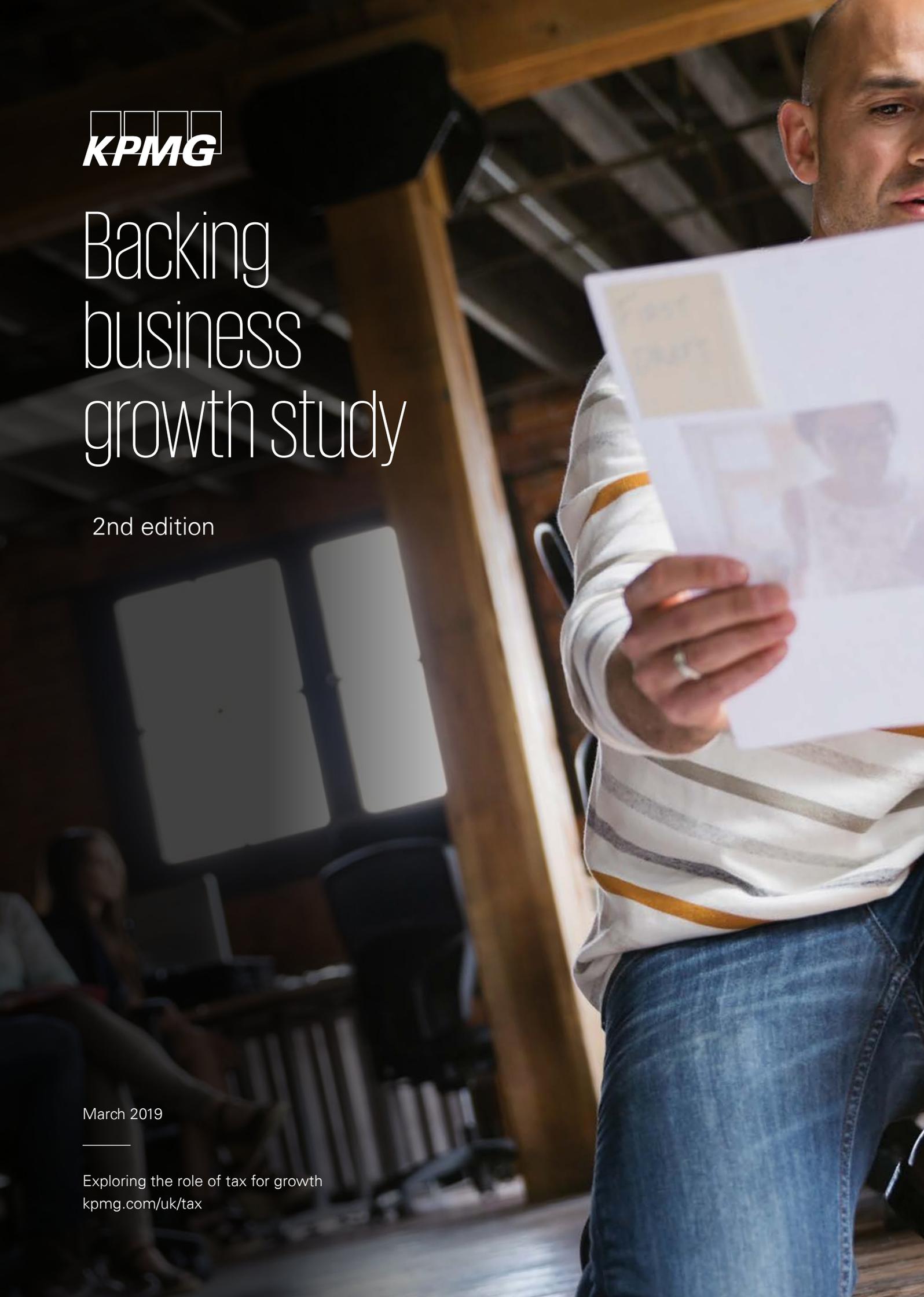


Backing business growth study

2nd edition

March 2019

Exploring the role of tax for growth
kpmg.com/uk/tax





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Our backing business growth study has captured the views of 1,000 SME and Mid-Market businesses (annual turnover of £10m to £750m), a group we staunchly support and which often feels overlooked in the debate about tax.

Mike Linter

Head of National Markets Tax,
Pensions & Legal Services

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Introduction

Welcome to our second backing business growth study, exploring attitudes to growth and tax amongst UK businesses.

Our backing business growth study has captured the views of 1,000 SME and Mid-Market businesses (annual turnover of £10m to £750m), a group we staunchly support and which often feels overlooked in the debate about tax. Our aim is to build on last year's survey, deepening our understanding of how businesses are engaging with the tax system and how growth and economic activity can be better supported through tax policy.

The sample size in this year's survey is much larger, and the turnover categories have been extended at both the higher and lower end. We again polled businesses from a broad range of sectors across the UK. Asking about growth expectations has given us new insights into how their plans for growth alter perceptions of tax as an enabler, and this year we can also compare the views of privately owned businesses with their publicly listed peers.

Audience profile



All businesses were invited to participate and the following sectors were represented:



Retail, Technology, media, telecommunications (TMT), Business & professional services, Industrial, Pharmaceutical/Biological



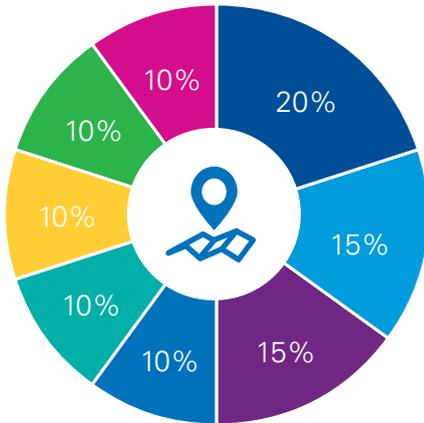
£10M+
turnover

Number of respondents



1000

Region



Key

- London
- East & West Midlands
- North West
- South West
- Wales
- Scotland
- Yorkshire & North East
- South East

While the results are consistent with last year in a number of areas, we find they have shifted substantially in others, particularly on tax as a driver of growth. Differences have been heightened partly by the increased presence of businesses from the smaller turnover categories.

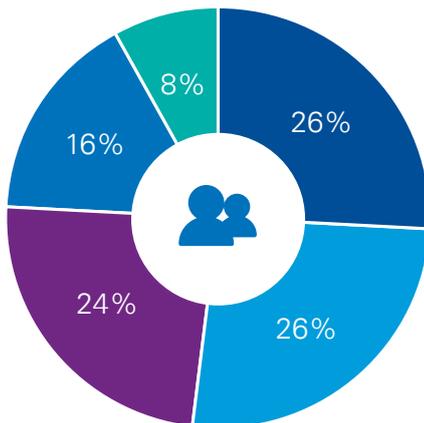
One of the most encouraging findings from this year's survey is that the majority of businesses share a sense of optimism, with 94% planning for growth of at least 5% this year, and 21% anticipating expansion of 10% or more.

We also explore the role of tax in supporting key components of growth, including creating new jobs, driving innovation and creativity, boosting productivity and attracting new investment. The picture which emerges is mixed – businesses can see a strong alignment between the tax system and some of these growth drivers, but no obvious connection with others.

Understanding how well the tax system is working for our SME and Mid-Market businesses – the engine of the UK economy – could not be more important, especially as we move towards a post-Brexit economy and the Government seeks to drive maximum impact from its substantial investment in tax reliefs, allowances and incentives.

At KPMG, we are here to help make sure businesses get the right support from the tax system to back their business strategy as well as ensure their tax affairs are in order.

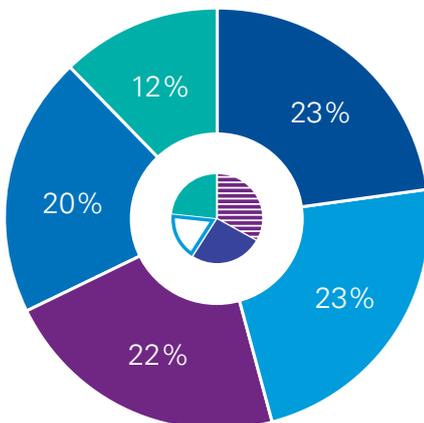
Job title



Key

- Finance Director/CFO
- Head of Finance
- Financial Controller
- Managing Director/CEO
- Business Owner/Manager

Sector



Key

- Retail
- Technology, media, telecommunications
- Business and professional services
- Industrial (manufacturing and engineering)
- Pharmaceutical/Biological

Key findings

Businesses are optimistic about their prospects for the current year, with the majority forecasting growth.

However, although we're only in the second year of the survey and it is too early to say whether these will turn into trends, businesses are significantly less convinced than last year that tax policy is supporting their growth, and have become more concerned about complexity in the system. Only a minority say tax issues are a priority in their business decision-making.

The businesses we interviewed across the UK are ambitious: 94% expect their businesses to grow by at least 5% this year, and 21% are anticipating growth of 10% or more.

Only around a quarter (24%) support the view that tax is a driver for growth, compared to 71% last year.

62% of respondents say the Government is doing 'about enough' to encourage growth through the tax system. But although 88% of respondents say tax plays a role in their business decision-making, only 8% take tax into account 'to a great extent'.

This points to a number of challenges with the tax system, as when we look more deeply, a number of issues emerge:



Businesses are even more concerned than they were last year that the tax system is too complex (62%, up from 38%)



Only 27% of businesses say they are making full use of the tax system, also significantly lower than last year (73%)



A majority of businesses say that tax simplification should be the top priority of Government tax policy



More than half (57%) still feel that large multinational corporations have too much influence on tax policy, although we saw an improvement compared to last year (72%)

We found strong evidence that *moderate* growth businesses are less positive about the tax system and less engaged with it than *faster* growth businesses.

Businesses are clearest in identifying the most effective drivers of job creation and investment, but there is less agreement about which specific policies are best for driving innovation, creativity, productivity, growth and regional development.

Almost a fifth of firms, and nearly a quarter of manufacturers, would accept higher corporate taxes, although nearly half would prefer them to be lower.

There is a broad consensus across all regions towards complexity in the tax system and the influence of multinationals. Business in Scotland are most supportive of the view that the tax system is designed to help SME's achieve their growth plans (29%). Businesses making the most of the tax system are more likely to be based in London (36%).

More proactive support from HMRC and the ability to better manage their tax affairs through digital tools were cited as key areas by all businesses.

Part of the solution?

How businesses view tax as a driver of growth

Although many of the businesses we surveyed expect 2019 to bring new growth opportunities, most do not associate the tax system with strong support for those ambitions.

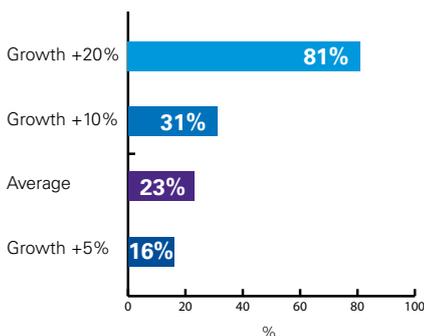
While the current economic and political backdrop remains uncertain, an impressive 94% of the businesses we spoke to are forecasting growth of 5% or more this year.

Given that UK SME and Mid-Market businesses account for more than half of private sector turnover and employ 16 million people*, this optimism is welcome.

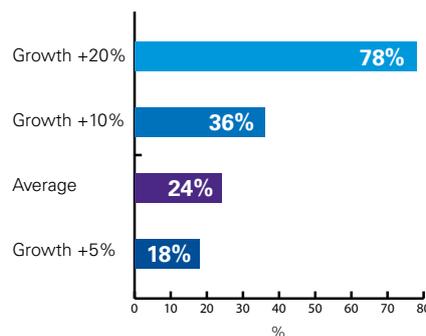
A majority of respondents are anticipating moderate (5%) growth, but a significant minority (21%) believe 10% or more can be achieved, rising to 31% amongst Business and professional services firms.

In last year's survey, 71% of businesses shared the opinion that tax is a driver for growth, but we found a very noticeable shift in thinking this year, with only 24% overall supporting that view; Retailers and Manufacturers were most likely to express disagreement. However, a closer look at the responses from businesses with higher or lower growth expectations reveals a clear divergence of opinion.

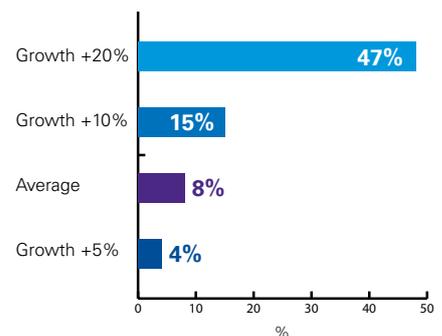
The tax system supports the needs of SMEs



The tax system is designed to support SME growth



Tax is significant 'to a great extent' in our business decision-making



Businesses with higher growth expectations are more engaged with tax and view the tax system more favourably





57% of companies overall – and a majority of both fast and moderate growth companies – believe that the tax system is too influenced by the needs of large multinational corporations, fewer than last year but still a majority. Strikingly, the highest growth companies (75%) are most likely to express this view. Looking at the different sectors, 64% of TMT firms support the statement compared to 51% of Pharmaceutical/Biotech companies.

Here we see a clear message coming through – the vast majority of businesses on a steady or gradual growth path (almost three-quarters of our sample) do not seem to be actively engaged with the tax system. And although faster growth businesses have a stronger sense that the tax system is providing them with support, closer engagement is reinforcing their perception that the system is geared to the needs of larger multinational businesses rather than SME or Mid-Market businesses.

Whilst tax is not a driver of business decisions per se, there is certainly scope for improving perceptions of its role as an enabler of a business strategy, particularly for growth, investment and employment, whether through deeper understanding or better user experience.

*Source: <https://www.fsb.org.uk/media-centre/small-business-statistics>

Simplicity: the key to engagement

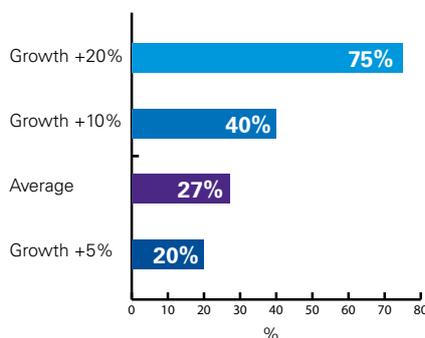
Almost two-thirds of businesses feel that current tax policy is broadly on the right lines to encourage growth, yet complexity in the system remains a concern.

Last year's survey drew attention to dissatisfaction with the level of complexity in the tax system, a sentiment which has intensified this year: 62% of businesses say it is too complex, up from 38% in 2018. The majority of higher and moderate growth companies agree.

Echoing this, simplification of the tax system is ranked as the top policy priority by 63% of respondents, although improving reliefs and incentives emerged as a close second and was slightly preferred by moderate growth businesses.

Only 27% of businesses overall believe they are making the most of the tax system, significantly lower than last year, but here we find growth expectations emerge as a differentiator:

My business is making maximum use of the tax system



Not surprisingly, given that smaller businesses have fewer in-house resources, we again found that they tend to be more concerned about complexity. Those in the £50-99m turnover category are most vocal (73%) and also least likely to be getting the most out of the tax system (20%).

Underlying these negative perceptions are issues around engaging and communicating with HMRC. Across all businesses, two-thirds want improvements to the Business Tax Account with more real-time data. Almost as many feel HMRC needs to be more responsive to requests, and more than half say there should be more consultation about changes to the tax system.

However, views were more positive amongst the highest growth businesses, reinforcing the message that they are more engaged with the tax system. Only 31% are critical of responsiveness and 34% want more consultation.

Only 12% of businesses feel fully prepared for this year's Making Tax Digital (MTD) compliance deadline for VAT. The majority say they need more support, particularly the £50-99m turnover category (74%); even among the largest companies, almost half require more help to be ready in time. The highest growth businesses were again the exception, with 59% ready for the deadline and only 28% in need of support.

The perception of complexity is widely shared, and for many businesses it presents a barrier to securing maximum support from the tax system. Greater resources or a more growth-focused stance are enabling others to cut through complexity, suggesting that new ways are needed to boost engagement with businesses which do not fit this profile. In the meantime, providing additional support to those companies feeling least prepared for MTD is an urgent priority.



Elements of growth

Businesses share their enthusiasm for certain key reliefs, but there is less consensus when asked to link them to specific outcomes widely regarded as being key drivers of growth.

As businesses are not limited to benefiting from just one relief, we asked them to identify up to three which they consider most valuable. 'Additional relief for R&D expenditure' was most frequently chosen (59%), with 'capital allowances for new buildings and structures' and 'tax efficient equity schemes for employees' close behind on 55%. Just under half of respondents

identified '100% tax deductions for the first £1m spent on plant and machinery' and 'Enterprise Investment Scheme and other venture capital reliefs (EIS)'.

We were also interested to know if businesses agree that a particular relief or incentive is the single most effective driver for the following outcomes: new jobs, innovation, creativity, productivity and regional growth.



Creating jobs

We find some consensus here, with 38% of businesses identifying 'additional tax relief for employee training' as the best driver of job creation, although opinion is divided between moderate growth (44%) and the fastest growth businesses (12%). Some regional differences are also apparent: almost half of businesses in Scotland and 42% of retailers mention it, but only around a quarter in London. We found a similar split between businesses in the £50-99m and £200-299m turnover brackets.



Unleashing Innovation and Creativity

On these outcomes, businesses are less clear. 59% of companies consider 'additional tax deductions for R&D expenditure' a valuable relief, but only 20% say it is the best driver of creativity or innovation. 'Tax efficient employee ownership schemes' is seen as the best innovation driver by 41% of businesses in Scotland, while 34% of the fastest growth companies associate the Enterprise Investment Scheme (EIS) with creativity.



Boosting productivity

No specific policy is currently driving business thinking in this area: only 16% of companies say sector-specific reliefs and allowances are most effective, with more respondents choosing the more general measures 'simplify reliefs and allowances' (21%) and 'improve the value of reliefs and incentives' (20%).

We see growth expectation influencing engagement around tax policies for boosting job creation, but in general, businesses find it difficult to link tax initiatives to specific outcomes. One possible way forward could be to provide more explanation of the intentions behind policies which might help to raise awareness amongst SMEs.



Growth environment

Another area where opinion is divided. 41% of the fastest growth companies suggest lowering business taxes and 27% of +10% growth companies would like to see personal taxes reduced to boost demand. 26% of moderate growth companies (and 29% of companies in the E&W Midlands) say better access to funding is the best answer. Incentives to support international trade are supported most strongly by TMT businesses.



Regional impetus

Businesses are also split on how policy could best drive local activity, perhaps setting out a difficult balancing act of targeted regional support and managing complexity. 31% of fast growth companies want City Mayors to be able to flex business rates, but only 5% of moderate growth companies agree. Targeted regional reliefs gain some support in Scotland (23%) and helping attract international investment in the South West (23%). Enterprise zones are most popular in the North West (18%) and E&W Midlands (17%).

Drivers of investment

Attracting private capital is fundamental to business growth, and tax plays an essential role in incentivising investors, owner-managers and entrepreneurs.

When we asked companies which tax policy they consider most effective for driving investment, 41% chose 'the Enterprise Investment Scheme and other venture capital reliefs', making EIS the stand-out winner. It was also the top choice for the quoted companies in our sample (33%), a reminder of the importance of the scheme for scaling up SMEs through their lifecycle.

But EIS is far more relevant for moderate growth businesses (48%) than for the fastest growth companies (12%), who may feel it restricts multiple funding rounds. For them, 'a 100% deduction for plant and machinery' is the most effective policy, selected by 31% (compared to 14% of respondents overall).

We also noted that EIS is not widely viewed as a significant driver of other elements of growth. Only 9% of businesses see it as the best driver of job creation and 15% of innovation, although 34% of fast growth companies chose it as the best driver of creativity.

R&D relief – despite being ranked as the most valuable relief – was chosen by only 12% of companies as the best investment driver, and just 6% of the fastest growth businesses picked it. In other words, although this relief is welcomed by many companies, it does not have a clear link to investment decisions.

The survey also explored views on the best tax incentives for encouraging entrepreneurs and private investment. There was broadly equal support for capital gains deferral relief for reinvesting in a new business (61%), upfront tax incentives to attract investors to high growth companies (60%) and tax incentives on disposals to encourage growth (60%). Pharmaceutical/biotech companies had a strong preference for disposal incentives (72%).

Support for all of these tax incentives is highest from moderate growth companies, highlighting their particular significance to this group which is often most focused on building and protecting value. We also find that these businesses are the most proactive in seeking information and advice about changes in the tax system from media and advisers as well as from HMRC to ensure they stay fully informed.

Some interesting regional differences emerged. In Scotland, 61% recommended equalising the tax treatment of debt and equity to encourage private investment, whereas only 39% of North West respondents agreed. In the South East, fewer than half of businesses chose reinvestment relief, compared to 72% in Scotland.

We see clear indications that businesses' growth expectation and life cycle stages are key factors determining the responsiveness of businesses to different kinds of tax incentives, while sector and regional market characteristics also play an important role.

Recommendations

UK SME and Mid-Market businesses are the backbone of the economy, and for them to achieve their growth ambitions is a win-win outcome. The tax system strives to support their goals, but our survey has highlighted gaps between this intention and the response it generates from businesses.

Is it possible to bring about a shift in thinking, particularly among the least engaged businesses, so that the tax system is more widely viewed as a growth driver and becomes a more positive focus in business decision-making?

1 Businesses want a simpler tax system. Even companies which say they are getting maximum benefit from it see complexity as an issue. They are also asking for better reliefs and incentives and continue to view the system as more relevant for larger, multinational businesses.

2 Businesses have widely differing needs and priorities. We have seen that growth expectations play a key role in how companies view the tax system and the incentives to which they respond best. There is an opportunity to help businesses forecasting moderate growth to engage more with the tax system. Equally, the UK has a strong track record in generating business start-ups but is less successful at scaling up businesses* – can the tax system do more to turn that around?

3 Effective communication with businesses is key to closer engagement. Businesses associate certain incentives with growth, but the potential benefits of others require more explanation. In some areas, they need better practical support and 2019 MTD VAT deadline needs to be an early priority for HMRC.

*Source: <https://www.enterpriseresearch.ac.uk/38353-2/>

Regional perspectives

Across the UK we saw a number of differences around how businesses engage and view the role of tax to back growth.

Highest scores in comparison to other regions for:

Scotland



- Additional relief for employee training (job creation)
- Tax efficient employee share awards as a driver of innovation
- Equal tax treatment of debt and equity to boost investment
- Improve reliefs for businesses
- Targeted regional reliefs to improve regional business activity

Yorkshire/North



- Negative responses on tax system as a support for businesses
- Additional R&D relief and EIS as valuable reliefs
- Need to simplify the tax system

North West



- Had the greatest readiness for MTD
- Local enterprise zones to improve regional business activity
- System influenced by needs of large multinationals (tied with Midlands)

East and West Midlands



- Sector specific targeted reliefs as best policy to improve productivity
- Improve access to funding as best policy to drive growth
- Planning for +10% growth
- System influenced by needs of large multinationals (tied with North West)

Wales



- Take tax into account in decision-making to a great extent
- Reduce corporate tax
- 100% relief for first £1m of plant/machinery as driver of innovation
- Provide help to exporters to improve regional business activity

South West



- 100% relief for first £1m of plant/machinery as valuable relief
- Increase corporate tax
- Reduce stamp taxes to encourage regional mobility to improve productivity

South East



- Need more support for MTD
- Need to improve Business Tax Account with real-time data
- Flexibility to vary immigration rates to encourage regional activity

London



- Government doing too much to support SME growth through tax policy
- Planning for +20% growth
- EIS as driver of creativity
- Additional R&D relief and 100% relief for first £1m of plant/machinery as drivers of job creation

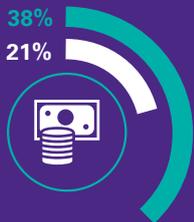
Highlights

£50-99m turnover category are most likely to say:



- Tax does not drive their decisions
- The tax system is too complex
- Need support with MTD
- Expecting moderate growth
- Reducing regulation is the best way to improve productivity
- Most likely to say needs changes across key aspects of tax policy
- Find out about tax changes from newspapers rather than HMRC
- Least positive on the tax system is supporting them, the least engaged with HMRC

Publicly listed companies (vs private):



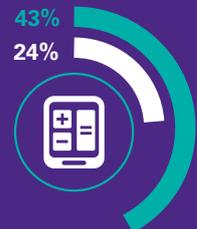
38% say the tax system is supporting business growth (private businesses: 21%)



14% say the Government doesn't do enough for business through the tax system (private businesses: 23%)



15% take tax into account 'to a great extent' (private businesses: 6%)



42% getting the most out of the tax system (private businesses: 24%)



76% consult HMRC about tax changes (private businesses: 71%)



26% are ready for MTD (private businesses: 9%)



31% expecting +10% growth (private businesses: 19%)

■ Publicly listed companies
■ Private businesses

Businesses expecting zero growth:

- Least likely to say that the tax system is influenced by:
 - The needs of multinationals (29%),
 - Needs to be simplified (47%) and;
 - That Government is doing too little to support SME growth through the tax system (18%).



Lower tax rates supported by:



Moderate growth



Wales



£50-99m turnover



Pharma/Bio

Higher tax rates supported by:



Fastest growth



South West



£200-299m turnover



Manufacturing

Sector highlights – strongest support for:



- **Retail:** additional relief for employee training (job creation), incentives for new buildings and structure (most valuable relief)
- **Industrial/manufacturing:** tax efficient employee equity awards (most valuable relief), simplify tax system (policy priority), improve reliefs (policy priority)
- **Technology, media, telecommunications:** reducing stamp taxes to encourage regional mobility (productivity), policies to encourage international trade (regional growth)
- **Business/Services:** 100% relief for first £1m of plant/machinery (most valuable relief), targeted regional reliefs (regional growth)
- **Pharma/bio:** employee share awards (innovation), R&D tax relief (most valuable reliefs)

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