JSA Consultancy Services

THE BUDGET STATEMENT – MARCH 2021

It’s now 24 hours since the Budget announcement and the scribblers are in full flow. The majority of them have no idea about how business works. In particular, the mind of the entrepreneur.

I read that the 25% tax rate is a disincentive to investment and growth with job creation.

Nonsense. Over the past ten years, the UK has had one of the lowest CT rates in the Western World and, in parallel, the lowest rate of capital investment, particularly by big corporates.

The new higher rate will affect only 30% of UK businesses. Most of these have under-invested in recent years, while paying out excessive bonuses to Board members. Smaller companies (which are most of the source of our growth) have a much better record of investment, probably because the majority are owner-managed. Because the new higher rate will only apply to profit over £1/4m, most of these these companies will continue to pay at 19%.

Regardless of the facts, when an entrepreneur takes the risk of starting a business, he or she rarely sits down and looks at CT rates, and then decides to go or not go. At the beginning, tax is irrelevant. The driver is usually the desire to create something unique and distinctive, and to have the freedom to choose how it is delivered.

Tax only becomes an issue when there is plenty of cash and margin – in other words, when the business is a success.

Back to the budget. The 130% capital investment allowance is going to stimulate investment, particularly as SMEs can currently borrow at around 2% currently, and all banks are pushing money.

The ability to carry back losses for three years is another useful incentive, particularly for the hard-hit hospitality sector.

THE BIG NUMBERS

By the end of this month the total stimulus will be £355Bn.; by this time next year, it will be £234Bn.

In total, this is the equivalent of three months GDP. Imagine your business getting three months revenue out of the blue!

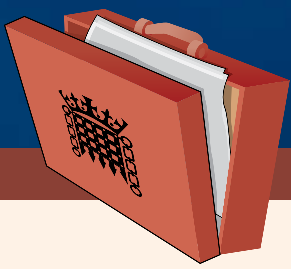
It is a massive stimulus. And the cries that it is not enough just indicate the high level of economic illiteracy.

The eight Free Ports are another good move, and note, only one is in the SE. To shift high paying civil servants to Darlington will inject local spending power but, more importantly, the quality of life will improve for those who move. Teesside, and its surrounding countryside, in my opinion is a much nicer place to live than Greater London. In ten years, Redcar will be transformed!

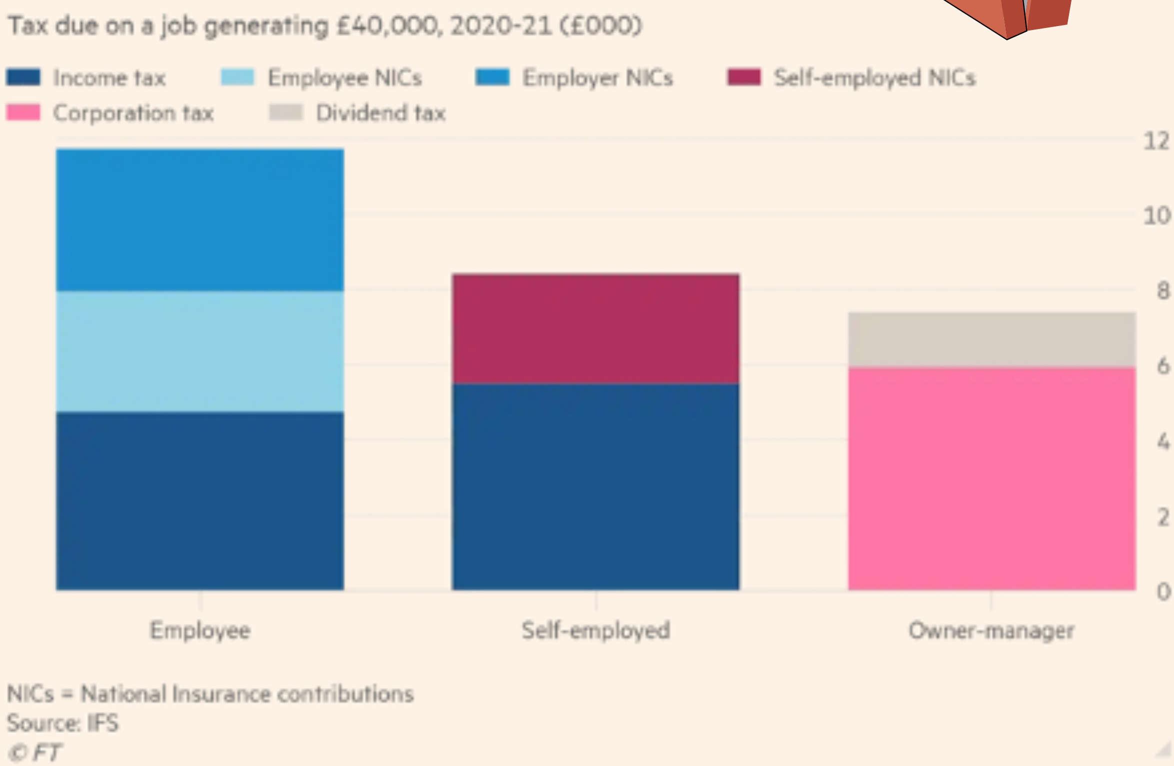
The 95% mortgage guarantee is good old-Tory, home owning, stuff. Sunak has guaranteed they win the next election, as house prices this year will now rise by 10%, and continue to rise over the next 3 years. The new Tory voters in the North are already seeing a 10% uplift.

The infrastructure bank in Leeds with £12 Bn of Tier 1 capital will be able to create up to £300Bn of new money. Another welcome move.

I am convinced we will see an inflationary boom beginning in May/June. In three years' time, all the scribblers will be whingeing about labour shortages, inflation, and the need to reduce demand, but, by then, the deficit will be falling rapidly as tax receipts soar.



THE HEAVY TAX BURDEN ON EMPLOYEES



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Roger is a graduate of the University of Leicester. He has worked in the New Zealand Treasury, at the Bank of England and, for many years, was Client Director at Henley Management College where he worked with a wide range of businesses. He is a behavioural economist who believes that economic forecasting is an art, not a science and that it is crucial to estimate the nature, size and impact of 'animal spirits' when looking forwards. He believes that Government cannot control the economy; it can only influence the behaviour of economic agents. He was one of the few who forecast the depth of the recent recession based on his anticipation of the behaviour of the banking system. He thinks it is better to be broadly right than precisely wrong when forecasting the future!