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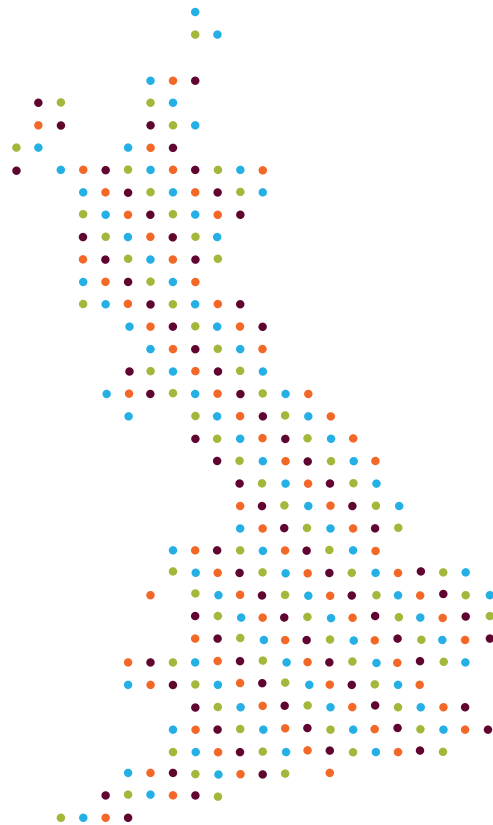
Business School



2011

# Quarterly Survey of Small Business in Britain

*Special topic: capital allowances*



# Summary

Recovery in the small firm sector remains stalled though manufacturers have continued to see net sales increase. Expectations for the current quarter are lower than at this time last year. Prospects for construction firms look particularly gloomy, with as many expecting sales to fall as rise. Firms in the East Midlands had the best performance over the past year but are least optimistic about the current quarter. Inflationary pressures are increasing and moving up the ranking of problems facing small business. There are still more small firms shedding jobs than recruiting. Although most small firms are trying to cut costs, many leave complex matters like capital allowances to their accountant and do not understand the rules themselves. Small firm owners would prefer simpler capital allowance rules, but most do not see the current system as having a significant impact on their current investment decisions.

- The small firms' sales balance has improved only marginally, after dipping in the previous survey. Sales expectations for the current quarter are up, but this may well be a seasonal effect. The expected sales balance is lower than at this point in 2010.
- For the third survey in a row, retailers, construction firms and hotels & restaurants report falling sales while all the other sectors report rising sales. Small retailers in particular report extremely poor sales.
- Construction firms expect, on balance, no change in sales during the second quarter but the other sectors are hopeful of some improvement, even if only a seasonal boost. Transport firms are most optimistic, followed by hotels & restaurants and manufacturers.
- Small firms in the East Midlands of England report the best sales performance over the past year, but are the least optimistic about their prospects for the current quarter. Those in Wales report the worst sales performance and yet are most optimistic about the immediate future.
- Most small firms did not change the number of people they employed or the amount they invested over the past year, neither did they expect the situation to change during the following quarter. Those making cuts, or expecting to do so, are almost matched by those recruiting or investing more.
- The net balance of firms increasing their average selling prices over the past year continued to rise, in part due to this year's higher VAT rate. An increased proportion of firms report that inflation and the cost of inputs is a top three problem for them. Overall, though, the economic climate still remains by far the top business problem.
- More than four in ten owners of small businesses indicate that they do not understand the current tax rules for capital allowances for new business equipment. Many leave such issues to their accountant.
- Of those which do have knowledge of the rules, almost four times as many think the rules are 'complicated' as think they are 'clear'.
- Even the very smallest firms, which should be able to simply claim all of their investment in equipment as a deduction against income in the same year under the Annual Investment Allowance, think that the capital allowance rules are too complicated.
- Firms that see the capital allowance rules as 'clear' or 'acceptable' are a little more likely to have increased their investment compared to those that see them as 'complicated'.
- Despite this, most firms suggest that the capital allowance rules have little impact on their investment decisions.

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