COMMERCIAL SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Bilimoria
House of Lords
London SW1A 0PW

28 June 2010

Dear Karan,

Thank you for your contributions to last week's oral Parliamentary Question (PQ) on the Government's strategy for promotion of economic growth. You raised a number of points focusing on the need to generate growth in the economy. I thought it might be helpful to write to set out the Government's position on these matters.

The independent Office for Budget Responsibility (OBR) revealed that the structural deficit was higher than previously thought. The Government is therefore taking urgent action to eliminate the bulk of the structural deficit. This is a necessary precondition for sustained economic growth.

Research by the IMF and OECD suggests that spending restraint is more likely to generate lasting fiscal consolidation and better economic performance. That is why the Government is committed to achieving the bulk of this through reductions in Government spending, rather than tax increases, while protecting the quality of key frontline services.

However, given the scale of the fiscal challenge, tax must also contribute to the urgent task of cutting the deficit. Tax measures can be an effective tool for reducing the deficit quickly, allowing for phased reductions in public spending.

Taken together, the tax measures in this Budget increase the overall economic efficiency and sustainability of the tax system and support a fair reduction in the deficit while encouraging growth. For example, increasing tax on consumption does less damage to economic growth than rises in other taxes. Evidence from the OECD also suggests that corporation tax is the most damaging to economic growth, so the package of reforms to reduce the rates for companies of all sizes will be particularly beneficial.

Tax measures benefiting SMEs, in particular, include:

- Reducing the small profits rate of corporation tax to 20 per cent, instead of the planned increase to 22%, from April 2011 will benefit 850,000 companies;

- As part of the reforms to capital gains, extending the 10 per cent Entrepreneurs' Relief rate from the first £2 million to the fist £5 million of qualifying gains made over a lifetime; and
- Shortly announcing full details of a three year scheme to exempt new businesses in areas outside London, the South East and the Eastern regions from up to £5000 of Class 1 employers' National Insurance Contributions payments. This will apply for each of the first 10 employees hired in their first year of business. Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010 and is estimated to help around 400,000 businesses.

The Budget also included some spending measures specifically designed to ensure that SMEs continue to have access to the finance they need to start up and grow. These include:

- An increase to the Enterprise Finance Guarantee facility of £200 million for this year, to support additional bank lending of up to £700 million until 31 March 2011;
- The introduction of a new £37.5 million Enterprise Capital Fund, to provide venture capital finance to innovative, high-growth SMEs; and
- The creation of the Growth Capital Fund, to provide mezzanine finance for growing SMEs.

Collectively, these spending measures will assist the growth of some 2,500 SMEs.

I hope you find this response helpful. I am copying this letter to all peers who spoke during the debate on the oral PQ, and I will place a copy of this letter in the Library of the House.

Yours James

LORD SASSOON