



## Small businesses absorb VAT increase

More than a third of small business owners (39%) are absorbing the additional cost of the VAT increase rather than pass it on to their customers, according to a survey from accounting software company Intuit.

The survey found mixed levels of support for the VAT increase, with 44% of small business owners saying they agreed with the coalition government's decision, and 13% who said that raising income tax would have been more effective.

The cost of implementing the changes was less than £350 for around 70% of respondents and this included administration, absorbing price increases and loss of revenue. When asked how much time they spent dealing with the change, 46% of small business owners estimated that they spent less than five hours managing the VAT increase.

Mark Batchelor, managing director of management consultancy Markman OTW, says: 'I'm surprised that 67% of the small businesses surveyed stated that the VAT increase had no impact on their business, and yet 39% are absorbing the increase and not increasing their prices, suggesting that VAT is impacting on their profitability. I'd suggest that small business owners are having to stoically address this in the best way possible.'

However, confidence is fragile as the slowdown in growth figures in the last quarter showed, and escalating petrol prices are a concern for businesses. John Walker, national chairman of the Federation of Small Businesses (FSB), said: 'A number of pressures on small businesses are beginning to come to a head, such as the increase in VAT and fuel duty, placing more strain on cashflow. This, combined with the severe weather at the end of 2010, has meant that small firms are not as confident about their prospects in 2011.'

'With inflation above target and the labour market still weak, small firms cannot rely solely on the consumer for growth in 2011. So it is imperative that the Bank of England base rate is kept at 0.5%, as once the impact of the VAT rise is excluded, inflation is relatively low.'