

Pre budget report: contractors dividend income under threat

The Government plans to attack the ways in which contractors may share income, as the Chancellor of the Exchequer Alistair Darling announced in the Pre-Budget report yesterday.

Revenge for Arctic Systems

In the wake of the [loss in court of the Arctic Systems case](#), in which the House of Lords ruled that the sharing of [dividend income](#) from a contractor company between husband and wife was entirely lawful, the Government has come back with plans to change the law. The move will have a disastrous affect on contractor incomes for couples throughout the UK.

Such changes were [announced](#) the day after the Revenue lost the case against Geoff and Diana Jones who fought for four years, with the support of the London-based [Professional Contractors Group](#), to uphold their right to share income from their company in the form of dividends. A husband and wife, the Law Lords ruled, may [divide income](#) from their [limited company](#) in this form so long as the shareholding is in the form of ordinary shares (as opposed to preference shares, or other kinds of share capital).

Income 'Shifting' Or Sharing

But the Chancellor seeks to change all that. Says the [Budget report](#): "The Government believes it is unfair that some individuals arrange their affairs to gain a tax advantage by shifting part of their income, from dividends or partnership profits, to another person who is subject to a lower rate of tax," (see section 5.99 of the report).

The report continues: "The Government will be launching a consultation shortly on draft legislation to prevent such income shifting, with the intention that this legislation will take effect from 2008-09."

UK Practice Different From Rest Of World

A consultation means that lawyers and accountants, along with the rest of us, will have the right to make our views known on this matter. But the effect is likely to be the same. This means that within a year contractors will no longer be able to use this income sharing which is commonplace in most Western countries, including the US.

The Government aims to ensure, through consultation, that only arrangements intended to reduce tax, rather than commercial arrangements, are affected by this legislation and that the administrative burdens of the legislation are minimised.

Contractors received this news with outrage. PCG intends to participate intensively in the consultation, but managing director John Brazier had this comment:

Random Raid

"This is a completely random raid by the Chancellor on hundreds of thousands of small family businesses. This means that every business will now have to account for every single item of work carried out which means that most people in this position will spend their time becoming slaves to the tax man instead of getting on and running their businesses."

"The Treasury's assertion that 'income shifting runs counter to the principle of general taxation' strikes us as very odd: it is the natural consequence of independent taxation and was foreseen and accepted when independent taxation was introduced. Nothing has changed since then that should suddenly make it unacceptable."

PCG believes that the Chancellor is hitting back after the landmark House of Lords ruling in the Arctic Systems case which gave a glimmer of hope to family businesses that a fairer, clearer and more consistent tax legislation would follow.

"It seems quite ludicrous that when a couple starts a business and shares all the stress, risks and hard work involved, that they are now not going to be allowed to share the rewards. This measure will do nothing to encourage the hundreds of thousands of small businesses that contribute so much to the national economy and the creative and commercial lifeblood of the UK," Brazier insists.

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Government Pre Budget Report


“ Contractors will become slaves to the tax man instead of getting on and running their businesses ”


John Brazier - PCG

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