

Capping contractors' travel expenses benefits no one

Following the release of the [Treasury's consultation on contractor expenses last week](#), many contractor industry commentators are bemused as to why HMRC would put into place schemes that could remove highly efficient tax gatherers, like [contractor umbrella companies](#).

The increased tax take for the Treasury will be minimal if contractors working through umbrella companies lose their travelling expenses, but the cost to industry and HMRC will be huge, according to research conducted by ContractorCalculator CEO Dave Chaplin.

Move to limited companies

"If you take an average contractor working through an umbrella company and take away their travel expenses, the taxman will get less than £3,000," explains Chaplin. "But consider the alternative; if tens of thousands of contractors decide they will make more money using their own [limited companies](#), of course they will take that option and the net result will be very much less for the Treasury."

According to the Treasury consultation, there are approximately 120 major umbrella companies who employ an estimated 100,000 highly skilled flexible workers through 225,000 of what the government calls 'over arching contracts'.

No resources for policing more small businesses

Even before this latest Treasury consultation, [HMRC](#) was being challenged by the [Professional Contractors Group](#) (PCG), the contracting sector's representative body, as not being up to the job of providing a fair service to the UK's small and micro-businesses. The PCG has even gone so far as to call for the disbandment of HMRC, with a fresh body to take its place.

If contractors opt to go the limited company route, which, according to Chaplin's calculations could result in their tax payments dropping from an average 37% of earnings to 25% of earnings, how will the Treasury make up the difference?

Many contractors, when faced with such stark financial realities, are inevitably going to risk falling foul of [IR35](#), set up their own limited companies, and trust that HMRC's lack of resources will keep them safe from an [investigation](#).

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Dave Chaplin, CEO,
ContractorCalculator

Damage to small businesses

The real casualties of capping contractors' travel expenses won't be the contractors; it will be small to medium sized umbrella companies and employment agencies. In other words, companies that make regular and compliant payments to HMRC because they legitimately employ large numbers of staff.

Should the umbrella company market collapse, which is likely if contractors see they won't save money as a result of working through them, agencies will suddenly find their costs spiral as they deal with tens of thousands of new personal service companies, rather than 120 umbrella companies.

Processing ten thousand invoices and payments could force many agencies to shut down as costs dramatically increase, and there could be many thousands of job losses as a result of umbrella companies shutting up shop.

Will they listen?

Based on its past record and its current revenue shortfalls, the government seems unlikely to respond to the outcry of contractors and small businesses that would be hit by any move against the umbrella companies. However, using robust business models, Chaplin has demonstrated that further regulation would most likely result in a net decrease in the Treasury's income:

"Our financial models and the behaviour of contractors in the past when threatened by government action suggest that, just when the public sector needs supporting through tax revenues the most, the Treasury has presented a scenario that could potentially regress the contracting sector by a decade."

Lost revenue

According to the Treasury's consultation, £300m is being lost to the exchequer every year because contractors claim travel expenses to get to their clients.

However, 80% of contractors claim less than £5,000 per year travel costs, and only 1% of contractors charge over £20,000, which, if the contractor was an oil and gas engineering specialist working for an overseas client, would barely cover the costs of flying to the

client in Kuwait.

Contractors are not employees

And, as Chaplin highlights, contractors are not employees so have no protection for their expenditure: "Contractors face business risk every time they spend money on travel expenses because, particularly in today's economic client, their client might not pay them at the end of the month."

So why, argues Chaplin, should contractors subsidise clients, many of whom are in the public sector: "The Treasury should remember that contractors do not get sick pay, pensions, paid holiday, staff canteens, or a job for life, which of course most civil servants enjoy, but they are asked to pay taxes in the same way as employees."

Early reactions to this latest Treasury consultation indicate that the contracting sector will be putting up a tough fight against moves that could end up benefitting no one, and might even hit the Treasury hardest.

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Dave Chaplin is a former IT contractor in the City of London, and is founder and CEO of ContractorCalculator, and author of the Contractors' Handbook.

Started in 1999, ContractorCalculator (this site) is the leading independent website for the UK contracting industry – most of whom are highly skilled knowledge workers. [Read Full Profile...](#)


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