

## Leading conservative John Redwood slams income shifting proposals

[Conservative](#) economic policy leader [John Redwood](#) roundly condemned the Treasury's proposals today on [income shifting](#) in an interview with ContractorCalculator.

### Nasty Attack

"This is another nasty attack on small business," Redwood said. "It is more of the same type of excessive regulation that we have seen in the past. Why shouldn't husbands and wives share income?"

### Conservatives Would Change Law

Redwood committed the party to reforming the Treasury's position on income shifting. Redwood has also in the past, in an [interview](#) with ContractorCalculator, committed the party to reforming [JR35](#) and the [managed service company legislation](#)--essentially to "put back the clock," as Redwood puts it, removing all of the attacks on contractors that the Government has attempted in the past ten years.

### What It Will Mean

Income shifting, according to the Treasury, takes place in a family company where one spouse--in theory--provides more value to the company than the other. By paying equal [dividends](#) to both spouses, the Treasury claims, the overall tax bill for the household is reduced. The Treasury seeks to put an end to this practice, according to its consultative document released yesterday.

ContractorCalculator has determined that the income shifting measure, if applied, would increase contractor tax bills by about 40-50%.

The income shifting proposal has been attacked as unsound by a series of tax experts, including the London-based [Institute of Chartered Accountants](#) and the London-based [Chartered Institute of Taxation](#). As the ICAEW points out, the difficulty is in determining what the market value of a spouse is to a business.

"The proposed income shifting rules are very widely drafted. They will catch many owner-managed businesses involving husbands and wives and other family members. The difficulty will be working out whether they are caught by the definition or not. This will lead to yet more uncertainty for many entrepreneurs, who are likely to have to spend much more time looking over their shoulders to see if HMRC will attack their structure," says ICAEW Technical Committee chairman Francesca Lagerberg.

### What Contractors Should Do

Despite the total opposition of tax experts, this proposal will become law in the next few months. Fortunately, it's not retroactive, so it won't penalise you for what you've done in the past.

But contractors need to take some concrete steps. It is almost certain you will need to take professional advice, but before doing so, you may wish to clarify your position to give the advisor something to work with.

First, you should clearly define the roles you and your spouse play in the business. Find justification in published salary figures for that role; i.e., if you do the website, find a job ad that shows that doing a website is paid at a certain rate. Don't hesitate to do the same for all your work in the company; if you drive your spouse to work sites, find out what a taxi to the work site would cost and base your calculation on that. And if you have serious credentials for what you do in the company, i.e. if you are a qualified accountant and you do the books, you should charge much more than if you just do them. The law makes reference to the market rate for the job.

Yes, it all sounds a bit looney. And it is. But the law is the law, so we'll deal with it until someone changes it. Some of us will have to spend time in court defending our position. This is something that the current government clearly does not care about at all.

Anne Redston, from the Institute of Chartered Accountants of England and Wales tax faculty, puts it in a nutshell: "It breaks all the rules on a good tax, being neither simple, fair nor certain."

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John Redwood - Conservative Party

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