

Contractor relief as Chancellor announces low-impact measures in the PBR

Despite using [today's Pre-Budget Report](#) (PBR) to praise the UK as having 'the most flexible workforce in Europe', Chancellor Alastair Darling had very little to comfort the UK's hard-hit contracting community. Despite that, most contractors are likely to be relieved that the PBR didn't signal an all-out attack on contractors.

In particular, many of the most feared measures failed to materialise. These include things like re-introducing [income shifting proposals](#), attacking [dividends](#) from [personal service companies](#) and targeting [contractor umbrella companies](#).

Darling's low-key tinkering with allowances will leave most contractors' financial status stable – assuming they are in work – but the very highest-earning contractors will be affected. Higher earners will find their pension contributions hit hard, whilst the punitive tax on bonuses in the banking sector may result in a brain drain that could damage the long-term prospects of the financial services sector, the largest market for UK IT contractors.

Business taxation

Although the value added tax (VAT) rate will return to 17.5% on 1st January 2010, as planned, no other changes in VAT are being made. This is to be welcomed, as some commentators predicted that VAT would be increased to as much as 20%.

And [limited company contractors](#) will be pleased as the Treasury will defer the 1p rise in corporation tax, leaving the current rate unchanged. However, although Employers' National Insurance Contributions won't increase beyond the Retail Price Index (RPI) until April 2011, they will go up by 0.5% after that. But the threatened NIC levy on personal service company dividends has failed to materialise.

Fuel prices will continue to increase in line with previously announced measures, but tax breaks for electric vehicles and [low emission cars](#) could benefit savvy contractors choosing the right make and model, as there are changes to the car tax bands to encourage lower emission vehicles.

Contractor taxes

[JR35](#) and [income shifting regulations](#) remain unchanged, but there are measures planned for umbrella companies that manipulate wage structures for lower earners by 'blending' salary and expenses, leading to breaches in the national minimum wage legislation.

Umbrella company contractors can take cheer that the [expected attack on umbrella expenses](#) has also failed to materialise, as have forecast changes to the [24-month expenses rule](#).

However, contractors using avoidance schemes will find themselves under the spotlight as HMRC steps up its anti-avoidance campaign. HMRC plans to raise or protect £5 billion, and this has already resulted in HMRC demanding over 100,000 offshore account details from banks.

Construction worker employment status will come under scrutiny as anticipated, with proposals due in the New Year.

Growth forecasts good for contractors

The chancellor is confident that growth will return this quarter. He forecasts growth of 1 to 1.5% in 2010, fuelled in part by exports, and to 3.5% in 2011 and 2012. However, net borrowing is not forecast to fall much in the next two years.

The good news for aerospace, medical/biomedical and oil and gas contractors is that those sectors are all set to receive tax breaks and investment. In addition, high-tech firms will benefit from a lower corporation tax rate on profits generated by UK developed patents; this might benefit a small number of contractors whose own limited companies own such patents.

This year has seen a low-key, low-impact Pre-Budget Report for most contractors, apart from the very highest earners. This is a welcome relief after so many years of punitive tax measures penalising knowledge workers and contractors. It would be comforting to think that politicians have finally realised that contractors are very good for the UK's economic health. However, cynics might see this 'contractor-neutral' budget as a cynical pre-election cease-fire, with hostilities due to resume after the 2010 election.

“ Most contractors are likely to be relieved that the PBR didn't signal an all-out attack on contractors ”

Personal taxation

Income tax has seen little change, with the personal allowance increasing slightly and the higher rate tax band frozen. National Insurance Contributions will rise in line with the RPI until an across the board rise of 0.5% in April 2011, except for those earning under £20,000 per year.

Capital gains tax has not attracted the unwelcome attention forecast, with allowances rising in line with the RPI. But, in a surprise move by the Chancellor, inheritance tax has been frozen at £325,000, although married couples can still pool their allowances.

In a blow to higher-earning contractors saving for their futures, pension relief for those earning over £150,000 will be restricted and the threshold of £150,000 includes employer pensions contributions, so those earning over £130,000 with employer contributions over £20,000 a year will be affected.

Other personal taxes will include a 50p tax on landlines to enable investment in a national super-high-speed internet infrastructure.

The stamp duty holiday is to end on 1st January 2010, so contractors with property portfolios might see their transaction costs increase. But those with a dodgy boiler could benefit from a new boiler scrappage scheme, and a tax-free windfall when the sun shines for installing renewable energy sources contributing to the national grid.

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