

Contractor neutral Budget penalises highest earners and ignores contractors' concerns

Against a backdrop of astronomic public sector debt, an economy forecast to shrink by 3.5% in 2009 and falling tax revenues, only the highest paid contractors are likely to be affected by Chancellor Alastair Darling's [Budget changes](#).

Crucially, there is no mention of areas of key concern to contractors following recent Treasury and HMRC 'noises' that the following are under scrutiny:

- o Umbrella companies and expenses
- o Income shifting and the family business tax

This will come as relief to contractors, whether working through [umbrella companies](#) or their own [limited companies](#). But despite the topics not coming up in the Budget, such is the government's need to generate income that it does seem likely that the [Treasury](#) and [HMRC](#) will be keeping them under review.

Some contractors will have just cause to be concerned that the government is tightening up tax avoidance legislation, targeting offshore account holders and tax avoidance schemes. But this should come as a surprise to no-one.

In brief, the key Budget changes likely to affect contractors include:

Pensions

From April 2011, contractors on incomes of over £100,000 per year will suffer restricted relief on their pension contributions. Previously, all contractors have been able to invest significant amounts of their earnings in a pension scheme tax free to allow them to enjoy an early, partial or comfortable retirement.

Income tax

Income tax rate bands for low and middle-income earners remain unchanged from those previously announced. However, those contractors earning over £150,000 per year will pay 50% income tax starting from 2010, a year earlier than previously announced.

Personal allowances

The vast majority of contractors will remain unaffected, as the Chancellor does not plan changes to personal allowances previously announced for middle and low-income earners.

However, those contractors earning over £100,000 per year will lose some of their personal allowances, resulting in higher income tax payments.

Duty on fuel

Duty on fuel will increase by 2p per litre from September, and continue to increase above the rate of inflation, despite high pump prices. Once again, contractors who don't live in urban areas with public transport infrastructure will be penalised and find their journey to client sites more expensive.

Boost for energy sector contractors?

A range of measures have been announced to support both further North Sea oil and gas exploration and extraction, plus additional support and funding for renewable energy schemes, such as offshore wind and wave power.

This has the potential to benefit contractors in those sectors, plus encourage the burgeoning contractor sector in the renewables field. Contractors working in ancillary and support areas, like IT, also stand to benefit.

£450m has been promised for 'green manufacturing' and a plan to reduce carbon emissions by 34% by 2020 will be unveiled later today. Contractors will almost certainly benefit from the science, engineering, technical and IT challenges that will have to be overcome to achieve this.

Tax simplification for small businesses

Limited company contractors may benefit if the government implements initiatives designed to simplify corporation tax returns. A taxpayer charter will be launched by HMRC by autumn 2009.

Corporation Tax

Corporation tax for small businesses, which includes contractor limited companies, will not rise to 22% as previously announced, and so will remain at 21%.

VAT and the VAT threshold

VAT will return to its 17.5% rate on 1 January 2010, as previously announced. The threshold is due to rise from £67,000 to £68,000.

Tax Avoidance Spotlight

HMRC are to publish a 'spotlight' on tax avoidance with details of schemes that will come under scrutiny and be challenged when HMRC find them.

Offshore trading solutions

Contractors who operate offshore trading solutions are firmly in the Treasury's sights, as banks will be forced to disclose details of offshore bank account holders. An amnesty will operate until March 2010, but after that any UK taxpaying contractor will be fair game.

Construction contractors beware

A consultation has been announced to develop future legislation that will target workers in the construction sector who the government claims are 'falsely self-employed'. It is not clear yet whether this will impact on limited company contractors in construction and engineering disciplines.

A contractor friendly Budget?

Whilst contractors have no immediate major threats to fear, much of the rhetoric in the Budget document is so lacking in detail that the government could choose to resurrect many of the schemes it has chosen to defer.

However, for once, contractors are not being threatened with new legislation targeting their pockets. They would therefore be well advised to celebrate with a glass of their favourite tippie, but should make sure it is before midnight when the new duty is applied!

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