

Surprise at contractor-neutral Pre-Budget Report, but pensions fallout still unclear

Contracting sector commentators have expressed surprise at the 'leniency' towards contractors of Chancellor Alistair Darling's [Pre-Budget Report](#) (PBR). But as details emerge, it is clear that there are downsides for some contractors: most significantly, the full impact of new pension rules has not yet been made clear.

Darling's speech was more of a pre-election budget than a Pre-Budget Report, according to Derek Kelly, managing director of [ClearSky Accounting](#), who says it was notable more for what [contractor taxation](#) it did not include. "The PBR was on the whole good news for contractors," says Kelly. "Many of the measures expected to increase contractor taxation failed to materialise and, with the increase in corporation tax deferred, some contractors will actually benefit."

However, as Tony Harris from [ContractorFinancials](#) explains, the changes to pension rules may end up affecting considerably more contractors than initially thought. "Dropping the threshold to £130,000 could trap an additional 150,000 higher earners, many of them contractors," warns Harris. "The wording in the PBR is very vague and, until we have confirmation in the next few weeks of exactly how the new rules will work, we won't know how many contractors will be affected."

Mediocrity won't stimulate the economy

Despite the lukewarm impact that the PBR will have on contractor's pockets, Kelly is concerned that, overall, there has been little attempt to improve on the parlous state of UK PLC's finances.

"The Chancellor is not offering much help to get the economy going and nor has he used taxation to plug the deficit," he continues. "So despite praising the UK's flexible workforce, he included no measures to improve the regulatory landscape for contractors."

“ Many of the measures expected to increase contractor taxation failed to materialise ”

Derek Kelly, ClearSky

Harris agrees, expressing concern that the disincentives to save, invest and prepare for retirement could be an economic time-bomb, particularly for contractors, who have to rely on their own [limited company](#) or private pension schemes.

"We've seen the Treasury tinker with pensions in previous budgets and the result is always greater confusion and higher costs," he says. "There is little government understanding of the realities us practitioners who work in independent financial advice and insurance face in communicating and implementing the changes."

Pensions - a slippery slope

Both Kelly and Harris express concern that the downward pressure on tax relief allowances for pension contributions could be paving the way for the Treasury to introduce tax relief at the lower rate for all pension contributions.

"Any further reduction in tax relief on pension contributions not only undermines efforts to encourage people to save for their retirement," warns Harris, "but would be a body blow to the pensions industry."

"Because the wording in the PBR was so vague, we won't know the full story of this latest round of changes until the Treasury releases guidance in the next couple of weeks," he continues. "Anti-forestalling measures mean the changes come into effect from close of play on 9th December, so it is inevitable that many contractors will be caught out."

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Tony Harris,
ContractorFinancials

'Tax of a thousand cuts'

Whilst there have been no major attacks on contractors, Harris has identified numerous small measures in the PBR that could impact on contractors with particular financial profiles and investments. He warns that it is by no means just the highest paid contractors who can expect to be paying more tax.

"The increase in National Insurance Contributions (NICs) will clearly hit [umbrella company contractors](#), as well as [limited company contractors](#) working inside [IR35](#)," continues Harris. "The freeze in the higher rate tax band means many limited contractors will start to pay increased income tax on their [dividends](#), and we have the new 50p tax coming into force in April 2011 for higher earners."

Contractors who have invested in buy-to-let property may also find costs increasing. "The end of the stamp duty holiday means contractors with property portfolios will find their costs increasing, whilst first-time buyers will find it even harder to get on the property ladder," says Harris. "Plus, the freeze in the inheritance tax threshold will create a new wave of contractors who have to start inheritance tax planning from their forties onwards to reduce the amount of their estate that goes to the Treasury."

Umbrella company consultation



With yet another consultation on [umbrella company expenses](#) announced for January 2010, Kelly says that robust enforcement of existing legislation is the answer, and not a further round of consultations and enquiries.

"HMRC has a bee in its bonnet about umbrella company contractors paying expenses, but when they have been tasked by ministers with finding evidence of large-scale abuse, none has been forthcoming," explains Kelly. "Our concern is that this consultation is a prelude to something wider and more in-depth."

The PBR undoubtedly has a sting in its tail, but Harris and Kelly both agree that it could have been a lot worse. The fact that the worst-case scenarios have been avoided – things like [income shifting](#) rules returning, NICs on personal service company dividends and changes to [contractor expenses](#) rules – should be a relief to all contractors.

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