

Contractors in firing line must act now, as HMRC plans hefty £1 billion tax clampdown

Contractors urgently need to take action in preparation for a compliance onslaught by tax inspectors, following an [HMRC](#) statement that it plans on 'relentlessly pursuing those who bend or break the rules'.

This has come to light with the publication of [HMRC's business plan](#), which reveals that tax inspectors are to receive a £1 billion budget to cut evasion and avoidance. Contractors will be a key target, especially those who haven't taken care to safeguard their [IR35](#) status.

The pressure on HMRC to increase its tax take has intensified as the Treasury attempts to address the black hole in public finances. As a result, the budget set aside by HMRC to tackle evasion and avoidance is a whopping 24% of its total £4 billion budget for 2009-2010.

Contractors take action - now

A major clampdown appears to be imminent, and as contractors have traditionally been a soft target for HMRC, because they lack the political and financial clout of big business, they should take action now.

[Limited company contractors](#), in particular, face the very real threat of investigation, and should urgently:

- o Ensure they are outside of IR35 and that they have a strong defence covering [all the key tests](#)
- o Confirm that their tax affairs are in order and that all [dividends](#), payments, salaries and tax paperwork is correct
- o Review [expenses](#) and provide receipts for every expense claimed
- o Take out [IR35 tax investigation insurance](#), making sure the policy covers their own accountant's fees, and not an adviser provided by the insurer.

In the light of the potential costs to contractors if found wanting following an [HMRC investigation](#), professional advice should be viewed as mandatory, as cash spent now on [contract reviews](#), checking accounts and insurance could save tens of thousands in the future.

'Tackle deliberate non-compliance and fraud'

HMRC states that it will step up its activity and apply new IT tools, plus 'dedicated expert teams, new powers and penalties'. Ominously, HMRC plans to 'pursue through the courts where appropriate' revenues it feels are owed. It is thought that this will bring to an end many out-of-court settlements, with HMRC intent on pursuing every last penny it feels it is owed.

All this should sound warning bells for contractors and their professional advisers planning IR35 defences against judgements by tax inspectors.

The new HMRC business plan promises to propose new legislation to government designed to shut down loopholes and avoidance schemes, whilst attempting to simplify existing anti-avoidance laws. Contractors using offshore solutions beware.

Improving customers' experience

In almost the same breath as threatening a massive purge, HMRC goes on to say it plans to 'improve customers' experience'. The HMRC Charter will be launched later in the year following a consultation.

However, both the Chancellor and HMRC have stubbornly refused to commit to placing the charter on the statue book, possibly because this would make HMRC much more accountable and allow 'customers' (ie taxpayers) to demand fair treatment.

“ The new HMRC business plan promises to propose new legislation to government designed to shut down loopholes and avoidance schemes ”

Contractors should watch out for the HMRC Customer Survey later in the year, which will be used to measure the organisation's success in becoming more customer orientated and 'providing a service designed with their needs in mind'.

Contractor casualties

With a £1 billion investigations war chest, HMRC is sending a clear message that it is taking avoidance and evasion seriously, as it quite rightly should do. However, the sad fact remains that HMRC has historically shown little concern for the innocent contractors who become casualties of their scattergun approach.


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