

Contractors get easy ride in Pre-Budget Report

In his second speech as Chancellor, amid the jeers of the opposition and cheers from Labour backbenchers, Alastair Darling held the nation in thrall detailing how his Pre-Budget Report (PBR) will stimulate the economy and pull the UK, and its banking system, back from the brink.

A perfect time, under normal circumstances, for unpopular measures and tax increases to be slipped through under the radar. But the overall impact on contractors is likely to be neutral, with government adopting the tactic of giving with one hand and taking with the other.

The key measures from which contractors stand to gain include:

- o A postponement of the [income shifting](#) proposals
- o No additional legislation following the [Treasury consultation on expenses](#) tax relief for contractors working through [umbrella companies](#)
- o A reduction in VAT
- o Delayed implementation of planned Corporation Tax increases.

In fact, it could be argued that this year's PBR was verging on the positive for contractors, a sentiment voiced by Rob Crossland, managing director of contractor umbrella company [Parasol](#): "In many ways this has been a welcome Pre-Budget Report that helps rather than hinders contractors – and it's not often you can say that."

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Rob Crossland, Parasol

Martin Hesketh, managing director of [Brookson](#), which provides accountancy and tax services to contractors, felt that "there was tinkering at the top level to get the relevant relief in place in the short term".

But the Professional Contractors Group ([PCG](#)) is less pleased and has warned that the government's understanding of contractors is still fundamentally flawed. In response to the PBR, PCG managing director John Brazier said: "IR35 continues to place vital freelance workers in appalling difficulties: it imposes significant costs, makes it impossible to self-assess with any certainty, and allows [HMRC](#) to mount unjustified attacks on law-abiding taxpayers. The Government's refusal to admit that it was wrong and remove this burden on small businesses is unforgivable."

Umbrella expenses consultation paid off

Crossland is pleased with the news that the government will be introducing no additional legislation as a result of the Treasury consultation over travel expenses for umbrella company workers. However, he warns that the wording in the PBR includes a clear warning: "HMRC has been given a mandate to monitor the situation," he says. "It already has an established compliance unit and, if more resources are put into issuing and policing dispensations, they will get to the root of the issue."

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John Brazier, PCG

Rigorous enforcement has been advocated by Hesketh for some time, both at company and industry body level via the Service Providers Association, one of the key bodies that originally responded to the consultation. "It is incumbent on all of us within the umbrella company sector to deliver a compliant industry," explains Hesketh.

Adrian Marlowe, of specialist consultancy [Lawspeed](#), which represented many umbrella companies within the consultation, said: "This news will come as a huge relief not only to umbrella companies, but also to the large number of contractors for whom tax relief is a significant factor in accepting site-based work."

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The Association of Employment Management Companies ([AEMC](#)) also welcomed the decision. Adrian Learer, an AEMC director, commented: "The AEMC campaigned for precisely this result, but I urge that there should be no complacency. The reasons for the consultation in the first place should not be forgotten and a return to practices that the government clearly finds unacceptable could be disastrous for everyone in the industry in the long run."

There was clear consensus that the umbrella company sector has been given the opportunity to self-police the sector and drive companies that abused dispensations, and therefore placed the entire industry at risk, out of business.

Income shifting

Whilst another year's reprieve of the income shifting, or family business tax, proposals was viewed as very much a positive step by most, the PCG remains deeply suspicious of the government's motives.

According to Brazier: "The UK's freelancers and other small businesses are pleased that the Government has reached the right decision, but concerned they have done so for the wrong reasons.

"We needed to see a firm commitment from the Government to drop the proposals and an acknowledgement that they were wrong; instead, we have a commitment to defer them and keep them under review owing to the economic circumstances."

Hesketh, whose client base includes many contractors who could be affected, was disappointed that the proposals were "postponed rather than killed". But he conceded that: "It is good news that contractors can continue with their tax planning for at least another year."

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VAT and Corporation Tax

Mixed messages greeted the changes to VAT and corporation tax, with the PCG once again less than impressed. "The decision to delay the third of the successive rate increases instituted by Gordon Brown's last Budget is barely a concession at all," explains Brazier. "Small business owners will not be fooled – the government should have completely reversed this policy, which was a mistake to begin with."

Hesketh points out that Brookson's analysis of the new [VAT flat rate](#) regimes show that contractors in some sectors may not get the full benefit of the VAT changes. He says: "It is possible that we are seeing an attempt by the government to push contractors in some sectors away from flat rate VAT schemes." And indeed, prominent amongst the documentation accompanying the PBR was the topic of deregistering from flat rate schemes.

So, have contractors really benefited from this year's Pre-Budget Report or is this just a temporary stay of execution? And if the economy recovers relatively quickly, will the government reintroduce punitive measures against contractors, such as the income shifting legislation?

No-one can say for certain. So, for the moment, perhaps the best option is to be thankful that it could have been a whole lot worse.

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