

What contractors can expect from the Pre-Budget Report

There is likely to be a mixture of good and bad news for contractors from Chancellor Alastair Darling next week, when he releases details of his second Pre-Budget Review on Monday 24th November. Sadly, chances are the scales will tip towards the bad news.

The big issues in the contracting sector are all due for a visit in Darling's speech next week, and might include the outcome of the [consultation on tax relief for some contractors travelling expenses](#), as well as [income shifting](#) proposals. If enacted, these could both hit contractors very hard in the pocket.

But in addition to the contractors who lose out, there are likely to be some who gain from the Chancellor's predicted 'fiscal tinkering'.

Income shifting proposals

Until the advent of the financial crises and firm evidence of the economic downturn, it was likely that contractors would be hit by a newly presented set of income shifting proposals.

However, in addition to the fierce criticism the proposed legislation has met from every key organisation representing contractors and SMEs, the burden of swingeing tax rules on small businesses, currently feted as the saviours of the economy, might be too much to bear. So perhaps family businesses, including those owned by contractors, will be spared.

Travel expenses tax relief

The solutions proposed by the Treasury in its consultation about tax relief on travel expenses for contractors using [umbrella companies](#) has met with strong opposition from the contracting sector.

Despite robust submissions to the consultation from the [Professional Contractors Group](#), the Service Providers Association and the [Association of Employment Management Companies](#), the cash strapped [Treasury](#) is almost certain to change the current rules.

The remaining question is how far will new legislation go to capture all contractors, including those working through [limited companies](#)?

VAT Staff Hire Concession

[HMRC](#) has shown no sign of relenting in its decision to remove the VAT Hire Staff Concession in April 2009, which will result in higher costs for clients in the charity and public sectors, among others, which currently don't have to pay VAT for the contractors they hire.

Once the concession goes, contractors in those sectors will overnight become 17.5% more expensive to their clients. The result of the extra costs to clients, estimated by the [Recruitment and Employment Confederation](#) to be £400m per year, is likely to result in a reduction in the number of contracts and/or a squeeze on contractors' rates, as clients are highly unlikely to absorb all the additional costs.

Tax bands

If the Chancellor is serious about giving the economy a shot in the arm, then it is possible there will be some tinkering with both the income tax and corporation tax bands.

Contractors are not likely to see much change, as any measures are likely to be aimed at low income brackets to stimulate consumer spending, and at medium sized and large companies to maintain their capital investment.

Updating HMRC's powers

Following previous updating and, in some cases, upgrading of HMRC's powers, this trend is likely to continue with a new raft of penalties, payments and interest on unpaid and late tax.

Contractors who use their own limited companies and do not process their tax returns and payroll efficiently, and make income tax payments late, may find themselves subject to a harsher regime of penalties and interest.

It is likely that the same approach may be applied to VAT payments, and action over National Insurance Contributions can be expected in the not too distant future.

Tax Payers' Charter

The Tax Payers' Charter, which has been rendered quite toothless by HMRC refusing to entertain giving it a statutory base, will

probably get a mention in the Budget, but the focus is likely to be on taxpayers' responsibilities under the charter, rather than their rights.

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