

## Contractors could see change on family business tax

Unofficial reports from Downing Street have reached the general press that Chancellor Alistair Darling plans to lighten up on proposals for [income shifting](#), the so-called Family Business Tax.

### No Official Confirmation

There has been no official confirmation of these reports, nor have they been unofficially leaked by identifiable sources.

However, word has got out that the change could consist of exempting the smallest companies from the family business tax which prevents spouses or partners from sharing [dividend income](#).

### Rumoured Exemption Proposal Unclear

This would mean that family businesses, up to a certain level of income, could continue to [divide dividend income](#) between spouses and partners and thereby reduce the tax payments on such dividends. But it is hard to see at what level this exemption could intervene as income shifting only works for companies with relatively low amounts of income. The exemption, assuming such is the plan, would have to include only very small companies and start-ups.

All of this is quite speculative as there has been no clear indication of policy change from the [Treasury](#).

"Indeed, up till now, the Treasury has insisted that this measure must go through and has shown no willingness to reconsider any significant part of it," comments a spokesman for the London-based [Federation of Small Business](#).

The FSB spokesman explains, however, that there are reports that this measure and the enormous wave of reaction to it are not well-received by the prime minister's office. Says FSB chief spokesman Stephen Alambritis: "Gordon Brown is very sensitive to criticism from the business community. The hard-nosed Revenue approach is not going down well with Number 10."

The FSB is planning to step up its campaign against the Family Business Tax. The new efforts will join those of the London-based [Professional Contractors Group](#). Commenting on this news, PCG managing director John Brazier says: "It would be a terrible irony if Mr Darling was only willing to listen to the very wealthy [editor's note: here Brazier refers to tax exemptions for non-domiciled foreigners] at the expense of hard working UK families. PCG, leading tax experts and a range of other representative bodies have expressed their dismay at the ill thought out proposals which will place an enormous burden of red tape on small family business."

PCG will hold a Press Briefing with Liberal Democrat Treasury Spokesman Jeremy Browne MP, leading tax experts and family business representatives on Tuesday 26 February at Westminster to discuss developments in the fight against this proposal.

The implication is that if the Chancellor has provided a break for wealthy foreigners, it is only logical to consider one for small non-affluent UK businesses.

PCG and other expert groups consulted raised questions about how any exemption from the Family Business Tax would function. There is still considerable uncertainty about how the new tax would work under its current proposals as there has been no clarification from the Treasury on the fraught question of "arms length" valuations for the activities of family business members (meaning what the accounting value would be for a spouse or partner's activities that would justify the shifting of dividend income to them).

The Treasury has given assurances that the mechanics of the proposal would be made clear during the consultation period which is currently underway, but no such clarification has yet emerged.

**Published: Monday, February 18, 2008**

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“ This approach is not going down well at No. 10 ”

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