

Contractors offer flexible workforce but government is inflexible

In a speech made on February 28, 2007, [Department of Works and Pensions](#) minister Lord McKenzie reminded us all of the government's policy of seeking a "flexible workforce:"

"We know that good work is beneficial for individuals, communities, and the economy. But we need to figure out exactly what 'good work' is, so that we can ensure workplaces are happy, healthy and productive. This may necessitate a radical rethink, including addressing outdated work practices, increasing flexible working, cutting red tape, and promoting effective and open work cultures," Lord McKenzie said.

Government Attacks Most Flexible Workers-Contractors

But the government's policy of attacking the contracting industry, which is the most flexible, fastest-growing, and fastest-adapting part of the workforce doesn't jibe well with Lord McKenzie's statement.

The attack launched last December by the Treasury on [Managed Service Companies](#) effectively ends tax-breaks for composite companies, and threatens the existence of managed service companies, all of which are privileged vehicles for contractors.

A Number of Serious Issues

This week, the London-based contractors trade organisation [Professional Contractors Group](#) has come out with a statement that criticises the government's policy in parts.

“ We have serious reservations about some parts of the proposals ”

John Kell -PCG

Loopholes Closed But Confusion Over Liability

The [PCG](#) welcomed the changes in tax legislation that effectively closed off loopholes in which composites and managed service companies were being used as ways to escape employment taxes.

Says PCG spokesman John Kell: "The tax advantage offered by managed service companies is indeed hard to defend...but we have some serious reservations about some aspects of the proposals."

Kell cites four issues for concern:

- o "On reflection we feel the timing of the measure's introduction to be so swift as to be certain of causing a damaging and shambolic period of uncertainty;
- o the debt transfer legislation currently includes workers in scope, contrary to what we were given to understand would be the case: workers should be removed wholly from scope and an order in which HMRC pursues third parties set in statute;
- o the proposed new questions on tax returns, which we cannot support.
- o There is also some uncertainty over whether or not [PAYE Umbrella companies](#) and recruitment agencies are in scope, with implications for the expenses policies currently lawfully operated by the former."

Postpone for Six Months

PCG Chairman David Ramsden commented: "We are making three key recommendations to the Government:

1. the introduction of the measure must be postponed by six months;
2. the debt transfer proposals must be amended so that workers cannot be pursued by HM Revenue and Customs for debts left by a managed service company;
3. the new questions proposed for the P35 and self-assessment tax return must be dropped.

“ The hopeless confusion around employment status in the UK is the root cause of tax measures such as this and IR35 ”

David Ramsden-PCG Chairman

Adds Ramsden: "With these changes, we believe the measure will be workable; without them, it won't."

PAYE Umbrella Companies Not Affected

On the question of whether PAYE Umbrella companies and their [expenses](#) policy will be affected by the measure, PCG has announced that it is satisfied that they will not.

The definition of a managed service company and the reference to "employment income" in the legislation take Umbrellas outside the scope of the changes. PCG has also used its response as an opportunity to put forward a positive vision of future reforms of

employment status. "The hopeless confusion around employment status in the UK is the root cause of tax measures such as this and [IR35](#)," continued Ramsden: "by tackling this and clarifying employment law so that disguised employment is no longer possible, the Government will be able to introduce the simplification that the tax system so desperately needs."

The PCG's response highlights the somewhat archaic stance that the Government has taken in this matter. The Government appears to think largely in terms of employees under the "outdated work practices" that Lord McKenzie deplores, instead of providing the "radical rethink" that the UK economy so badly needs.

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