

Contractors no longer use IR35 & tax as the sole reasons to choose umbrella companies

Despite the aggressive rumours circulating before the [recent emergency Budget](#), the first of our new coalition government, those rumours of tax hikes mostly failed to materialise and contractors across the board fared relatively well. If this "Tough but tender" approach is a sign of the next five years to come, then we should count ourselves lucky, as contractors could have been facing a much more hostile tax environment.

The Conservative-led coalition is very quickly stamping its mark on the UK tax arena. Whereas with the former Labour government, we had an administration that liked rules, the more of them and the more complex the better, with the Conservatives, the likelihood is a return to a distinct, different and wholly more simplistic approach.

Take Capital Gains Tax (CGT) as one example. We had Labour introduce complex rules, taper relief and then replace these with entrepreneurial relief a few year's later. George Osborne resisted any return to complexity, instead announcing three simple tiers - one for entrepreneurs at 10%, one for basic rate taxpayers at 18% and one for higher rate taxpayers at 28%. Simple. Having said that, though, a read through the detailed budget documents shows the plan is to potentially revisit CGT later in this parliament!

Abolish IR35? Be careful what you wish for

But that simplistic Tory approach, which may work for many contractors and taxpayers in general at the moment, may not work so well once [IR35](#) is tackled. Right now we have what is clearly an unjust tax, poorly implemented and causing genuine distress for many of the UK's most valuable workers.

However, IR35 indirectly was responsible for the massive growth of the umbrella solutions provider sector. And [umbrella companies](#) are extremely efficient tax and National Insurance Contributions (NICs) collectors on behalf of an overstretched [HMRC](#). So whatever it's called, we're likely to see an IR35 replacement designed to keep that positive cashflow going to the Exchequer.

Taking a simplistic approach, a scenario where the Chancellor requires all [personal service companies](#), however they may be defined, to pay income tax and NICs on a percentage of fee income, to be determined but potentially quite high, is not beyond the bounds of possibility. This would require all contractors to pay more tax. Is that what we would wish for as an IR35 replacement?

Compliant umbrella companies no longer under the spotlight

Although the tax avoidance agenda is tough, and getting tougher with the review into the possible use of a "General anti avoidance" rule, compliant umbrella solution providers have not attracted further attention from the government. This is possibly for two reasons. Firstly, the Treasury have much more important and bigger areas of the economy to focus on than UK resident, compliant umbrellas.

Secondly, and this brings us back to the earlier point about umbrella companies being highly efficient tax gatherers, HMRC is unlikely to want to see umbrella contractors choosing other trading options. Take a compliant, mid-tier umbrella company with 600-1000 contractor clients. Threaten these contractors and they will disperse into 600-1000 different cashflow-negative trading alternatives, such as limited companies, partnerships and sole-traderships.

Most of the contractors might remain inside IR35, but wouldn't declare it, and 90% of those might also slip under the radar because of HMRC's lack of resources, which is likely to worsen as public sector headcount is cut. And tinkering with the temporary place of work rules to address any lingering issues over expenses could impact on the entire UK workforce, of which the estimated 1.4m contractors represent less than 5%.

Service and process become umbrella company differentiators

Through the noughties, contractors used to choose umbrella companies because they were caught by IR35, wanted the tax advantages of claiming expenses, because their earnings did not justify a limited company or for the convenience of dipping in and out of contracting with no limited company legacy.

Now the umbrella company landscape is evolving rapidly. Many [Tarpon umbrella company](#) contractors are high earners and often higher and top-rate tax payers. They claim genuine, modest expenses, are contracting 'lifers' and might even, with planning, be able to fall outside of IR35 if trading through a [contractor limited company](#). Not your stereotypical umbrella contractor at all.

Why do these contractors choose an umbrella company? What our prospective, current and past clients tell us is that they choose Tarpon because of the high levels of service they receive from dedicated account managers. Our clients also demand tax efficiency, accuracy and expertise, as well as a smooth and efficient process that maximises the speed and amount of net pay going into their account, with the minimum effort on their part. And many of our contractors have 'grown-up' with us, have families and a mortgage and something as simple as a guaranteed regular payslip

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makes a huge difference to their peace of mind.

dedicated account managers



Anthony Bennett, Tarpon

Flexibility, now and in the future

Contracting sector service providers have evolved to meet the needs of their contractor marketplace; witness the mushrooming of umbrella solutions providers over the last decade. The contractor marketplace is also evolving and we're likely to see a changing contractor landscape as the UK's flexible workforce adapts to meet the high-end skills needs of the economy.

Alongside the stalwarts of IT and telecoms, engineering and interim managers, the contractors of the future will also work in renewable and nuclear energy, oil & gas and offshore. This emerging breed of energy and offshore contracting will bring fresh challenges for service providers, not least because many will be working outside the UK on many, if not most, of their contracts. They could be outside the UK's offshore tax territory, in traditional expat destinations in Europe and the Middle East, and even in the South Atlantic.

Umbrella companies will once again have to up their game, being flexible to contractors' needs and developing new competencies and expertise to provide contractors with trading models that take best advantage of different work patterns and tax status. Contractors, as well as taking advantage of new opportunities, will also want the security of compliant trading solutions, like trusted umbrella companies that they know and understand, and will expect those solutions to be delivered efficiently, honestly, accurately and to the highest levels of service.

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