

## Contractors must decide what their spouses are worth in income shifting proposal

What's your spouse worth to your business?

That is what contractors must decide in the proposal for a law on [income shifting](#) which the Treasury published today.

### Revenge for Arctic Systems

Last year HMRC [lost its case](#) in the House of Lords in which contractor family company Arctic Systems was to be penalised for sharing dividend income between husband and wife. When the Law Lords said that the Revenue couldn't get away with this, the [Treasury stepped in](#) to change tax law so that such sharing would not provide tax advantages.

### What the New Proposal Says

Under the terms of the new proposal, the Treasury is asking contractors to value the worth of their spouses contribution to the family business. The Treasury says that you value what your husband or wife does, and you pay [dividends](#) accordingly.

The problem of course is that there is no sure way of making such a valuation. Take the example of a family where one member does the Web site. Some people get paid very little for doing a Web site; others get paid mega money. How is a contractor supposed to decide? And we all know that the Revenue has no more of an idea than anyone else about this.

### How To Do It?

"What's the rate for the job?" asks Bill Dodwell, a partner in the tax practice at the London office of consulting firm [Deloitte](#). "The practical application of this new law is very difficult to work out."

Dodwell points out that the measure will certainly lead to extensive debate, and possibly to a series of court cases. "The principle is that you have to ensure that each party receives something commensurate with what they do--well, that is a fair principle in theory. It is difficult to see how else the Treasury could have approached this. So the theory sounds fine, but in practice there is no way to establish a fair price for spouse contributions."

**“ What is the rate for the job is the question no one will be able to answer. ”**

Bill Dodwell-Deloitte

### Do We Need This?

To be sure, the Treasury insists that such a measure is urgently required. The Treasury believes that about 300 million pounds in tax are being lost through this form of alleged avoidance. (The methodology behind this estimate is hardly credible, but never mind).

Here is how the Treasury claims it works. "Nina and Charlie work together in a business, but Nina earns all the income. They each buy 50 shares in an off-the-shelf company. The business makes £60,000 of profit (ed. post corporation tax) in its first year and, in order to reduce her tax liability, Nina decides to distribute all of the profit to the shareholders, Charlie and herself, as dividends. They each receive £30,000 in dividends although Charlie has not contributed directly to the generation of the business's income. There is no income tax charge on the dividends received because neither individual is a higher rate taxpayer. If Nina had paid all of the dividends to herself, she would have had a tax liability of £6,039. Alternatively, if Nina had traded as a sole trader, she would have had a personal tax liability of £15,414.

But the key phrase of course is "Charlie has not contributed directly..." Has Charlie really not done anything? What does Charlie do? Is it entirely worthless, or perhaps worth a little something? Perhaps worth more?

Thanks to this new law, we will all have the opportunity of playing this guessing game.

The London-based [Professional Contractors Group](#) has already come out strongly against the proposal, and it is sure to be followed by the Federation for Small Business, and many other trade organisations.

"Contractors a key element of our productive economy. Will the tax income earned be worth the loss in competitiveness and productivity?" Dodwell asks.

**“ Contractors a key element of our productive economy so will the tax income earned be worth the loss in competitiveness and productivity ”**

Bill Dodwell-Deloitte

Published: Thursday, December 06, 2007

[Tweet](#)

© 2011 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#). If you want to use any content you have seen on this site then please [request our media pack](#) and ask for details of our Content Licencing Service.

## Readers Comments...



Be the first to comment on this article

## Also of interest...

### Related News:

- [Contractors Dividend Income Under Threat](#)
- [Income Shifting Proposals: Plan to Revenge Arctic Systems](#)
- [Contractors could pay 10% more in the treasury's Arctic Systems attack](#)
- [The house of lords has upheld the appeal by Arctic Systems](#)
- [Contractors face unworkable proposals on income splitting](#)

### Related Guides:

- [Splitting Dividends to Maximise Net Income](#)
- [Dividends and contracting: calculation, payment and taxation](#)
- [Contractor guide to calculating taxes payable on dividends](#)

### Related Calculators:

- [Contractor Financial Profile Calculator](#)

### Related Internet Links:

- [Deloitte](#)
- [Professional Contractors Group](#)



ABCe verified website - last audit confirmed **130,682 monthly unique visitors**

© Copyright 2011 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)