

## Contractors wait in fear for UK budget announcement

Up to 250,000 contractors are going to be significantly affected by the UK Budget on March 21st. In particular the vast work force of IT contractors could find themselves losing up to 20% of their net take home pay.

The final form of the UK Government Budget, to be announced by the Chancellor of the Exchequer Gordon Brown on March 21 at 12:30 GMT, includes a fierce attack on contractors and on the country's flexible workforce. (WATCH THIS SPACE FOR LIVE COVERAGE OF THE ANNOUNCEMENT).

The move is expected to create years of tax confusion and many law suits: "we can expect that five years of court cases will be needed to clarify what is to be announced on Wednesday," says one legal specialist in contracting.

### A Wave of Protest

The [managed service company](#), which many contractors use to run their businesses, is the subject of this attack by HM Treasury. Contractors who use a managed service company will from now on be treated as though they were regular employees, and taxed in the same way. To see how much the move will cost contractors, use our [Managed Service Company Legislation Calculator](#)

A wave of protest from the industry has been largely ignored by the Treasury. Experts have been critical of the language of the new law which is anything but clear, yet, after a consultation period of several months, no change has been announced. Ann Swain, chief executive of the [Association of Technology Staffing Companies](#), among others, has called the announcement "grossly unfair" and complained that "there are millions of pounds at stake."

“ There are billions of pounds at stake ”

Ann Swain - Association of Technology Staffing Companies

"The Government needs to provide legislation that distinguishes between contractors who provide services and employees, but thus far we have not see this distinction made clear," agrees Barry Roback, chief executive of the Watford-based accounting firm [JSA](#) which specialises in contractors.

"What is critical is the definition of a managed service company," says Kate Cottrell, a principal with the Westoning, Beds-based legal consulting firm Bauer & Cottrell which specialises in contractor affairs. "We need a definition that is sufficiently precise, so that achieving compliance is clear."

### Cost and Paperwork Increased to No Purpose

Until now no such clarification has been forthcoming. "The move has already created an enormous amount of paperwork, and will simply demand more and add costs. All of this in a period where contracting, until now, has been growing and prospering, " says David Colom, a principal with the London-based accounting firm [DJ Colom & Co.](#) which specialises in IT contracting. Many UK contractors are already switching to [limited companies](#) to run their businesses, and that clearly places a burden on administrative services.

"We are looking at a bottleneck at Company House," the UK agency that handles company starts, says Marc Morris, sales director at the Warrington-based contractor employment services provider [Parasol Group](#).

Morris points out that the Government has not allowed much time for these proposals to be implemented properly by the industry. "We haven't had time to prepare, and under the terms of the legislation, our responsibility is considerable," Morris explains. In fact, the legislation makes recruiters and service providers liable for tax debt incurred by any managed service companies they work with. This assignment of third-party liability has obliged these businesses to check with every contractor in their databases, and that means thousands of inquiries. "Most of us are still working on it," Morris adds.

“ We are looking at five years of lawsuits ”

UK Contract Lawyer

### Third-Party Liability Delayed?

There have been reports that some of this legislation will be modified before its final announcement on Wednesday, but there has been no official confirmation. The Treasury has reportedly considered delaying the imposition of third-party liability for six months, although some participants in the consultations do not agree.

Other participants have reported that the Treasury may indeed provide a clearer definition of managed service companies so that enforcement and compliance are made easier. But this also has yet to be confirmed.

Contractors will be anxiously awaiting the budget speech to learn what the final language of the law will be.

## Budget Affects Survey

To help the Contracting industry realise the true effects of this new legislation, we have launched an independent [Budget Effects survey](#) designed to shed light on the level of understanding that exists of the new legislation amongst Contractors.

The survey is online now and can be accessed by following this link: [Budget Survey - click here.](#)


## Budget News - As IT Happens

We will be keeping our readers completely informed of all the Contractor relevant Budget activity with complete coverage via our [news channel](#), including a special post budget [NewsCast](#) containing a full analysis of all the budget changes that will be affecting Contractors in 2007/08 and beyond.

You can subscribe to the [NewsCast](#) for free by completing the [Budget Effects Survey](#) and following the on-screen instructions.

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**David Colom**  
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David Colom qualified as a Chartered Accountant in the City of London in 1981 and is the founder and principal of D J Colom & Co Chartered Accountants established in 1989.

Started specialising in serving IT contractors in 1993 and is now one of the longest standing suppliers of accountancy services to computer contractors. [Read Full Profile...](#)

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