

## How contractors want taxes simplified

### Tax Simplification Proposals

- o Overall total reform
- o End tax avoidance laws like IR35
- o Clear definitions
- o Better Service from tax offices

Just about everyone in business who watched the Queen's Speech this year was struck by two things: the absence of any tax reform proposals for business--apart from the capital gains fiasco which doesn't much affect contractors; and the total lack of any proposals which supported small business.

Alan Barr, director of the legal practice at the Edinburgh-based [Law Society of Scotland](#) told parliament: "We think that any claim to simplification that there has been over the last few years, perhaps particularly in relation to the business tax package, is a joke"

The Revenue is also running a series of consultations on tax simplification, but as the laws governing these areas are not under consideration for change, the consultations don't count for much.

So what is needed for tax simplification?

### All-At-Once Approach

One doesn't have to get involved in all the politics to see that this is a glaring omission. The bipartisan House of Commons Treasury Select Committee called for extensive tax simplification as a means to keep the UK competitive. Notably, one of the items it listed for attention was "overly complex tax avoidance measures," meaning [IR35](#) and the [managed service company legislation](#) among other things. Certainly everyone in the contracting industry has been calling for revisions in those areas for years. The IR35 legislation never even included measures to give contractors inside IR35 employment rights. So we get taxed like employees, but get none of the benefits.

But when you think about tax simplification for small business, you need to get beyond the individual aspects with an all-at-once approach.

"It became clear some years ago that the piecemeal approach to reforming small business taxation wasn't working," says Bill Dodwell, a tax partner at the consulting firm [Deloitte](#) in London. "So in 2004, a full-scale review of the subject was undertaken by the Treasury, one which included considerable input from consultants. The review provided a holistic overall proposal for reform. Unfortunately, none of it was ever acted upon by the Government. Yet a complete overall reform is what is needed so that businesses know what to do."

### Clear Definitions Needed

But Dodwell is only one of many experts who have proposed that the entire system be reformed. "There is a crying need for clear definitions in small business tax law--enormous time is wasted splitting hairs to determine if a regulation applies to a given business or not. Concepts in tax should be so clear that any

layman reading them should know what to do," says Frank Haskew, head of the tax faculty at the London-based [Institute for Chartered Accountants](#). "They should also be clearly targeted so that there is no doubt about to whom they apply."

### Enormous Resources Wasted

Haskew points, as many others have, to the lack of a definition for self-employment as a good example. Enormous amounts of time and resources have indeed been wasted on trying to decide if a contractor works for himself or for someone else, and this is because the law does not say who is or is not self-employed. "There is a crying need for this definition, so that all contractors can all be certain about their status," agrees John Kell, policy director of the London-based [Professional Contractors Group](#).

There is also an overall demand by the ICAEW and other expert organisations for better service from Revenue tax offices. Ideally, a contractor should be able to get trustworthy advice, and prompt attention, but this has not always been the case in the recent past. PCG is calling for 'duty of care' to be imposed by legislation on the Revenue, which would mean that the Revenue would take responsibility if the tax office didn't do its job properly. For now there is still more slippage at this level than most experts feel is fair or

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“ Get rid of IR35 and the MSC legislation and replace with a single tax for contractors. ”

Peer Clarke - UK

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“ An overall reform is needed so that businesses know what to do ”

Bill Dodwell-Deloitte

desirable.

But these are just a few points that need to be taken within a vast overall reform effort -- one which would help to make the UK more competitive. As it is, some investors and entrepreneurs will vote with their feet and go elsewhere.

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“ Concepts in tax should be clear enough that any layman reading them should know what to do ”

Frank Haskew - ICAEW

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