

An end to expense deductions for IR35-caught contractors?

A source close to the [Treasury](#) has told ContractorCalculator that HMRC is seriously considering cutting out the expenses deductions for contractors who are caught by [IR35](#).

The source said that the move was provoked by abuses on the part of a few umbrellas of [dispensations](#) for [contractor expenses](#). But the review has now become greater in scope, the source says, and part of it is now the active consideration of the removal of expense privileges for IR35-caught contractors.

Another Attack on Contractors

The move would be yet another in the series of attacks on the contracting industry that began last year with the [Managed Service Company legislation](#). Again and again, the Treasury has come up with ways to limit the privileges that contractors enjoy without taking into account that contractors run businesses at their own risk and have no employee advantages.

Warning in the Budget

The move comes just after the announcement in the Budget for 2008 that HMRC would be "carefully reviewing" the operations of umbrella companies. The Budget announcement runs: "The Government is concerned at the growing use of structures, such as...overarching contracts of employment with employment businesses, to obtain tax relief for travel expenses that would not be available to other workers. It will monitor the use of these structures and, if necessary, consider action in the future."The language was vague, but the threat, apparently, is real.

The London-based [Professional Contractors Group](#) has protested these measures and has announced that it will work closely with the Revenue and the Treasury on these proposed changes.

The argument that HMRC is using, according to the source, is that these contractors are just like employees, so why should they have the advantage of such deductions? Yet this is virtually the only compensation that contractors caught by IR35 receive in exchange for a tax burden that is almost 20% higher than that of a contractor who is outside of IR35.

Bitter Irony

There is bitter irony here. The contractor caught by IR35 is indeed obliged to pay taxes just like an employee, although that contractor does not enjoy any of the rights and perquisites that the employee can claim. No holiday pay. No sick pay. No bonuses. But the contractor still must pay the same taxes as those who have all these advantages.

Call for A Wave of Protest

But this is speculation. What is actually needed is a strong wave of protest from the entire industry. This is only another in the series of attacks that contractors have endured from this Government. But we beat down '[income shifting](#),' so let's try and beat this one down too.

Published: Tuesday, April 01, 2008

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“ The review of contractor expenses policy has broadened in scope- Some contractors may lose expense privileges ”

ContractorCalculator

“ We are working closely with the Revenue and the Treasury on these areas ”

John Brazier-PCG

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