

Income shifting proposal unacceptable for contractors, experts say

The Treasury's [plan to revive](#) the dreaded [income shifting](#) proposal is unacceptable, according to experts in tax and in contracting.

The proposal, which most of us had hoped would be scrapped by the [Treasury](#), was found by ContractorCalculator to be right back on the front burner with some unpleasant modifications regarding contractors.

Targeting Contractors is Unacceptable

"If the proposal is framed in such a way as to target contractors then it is discriminatory and entirely unacceptable," says John Kell, policy director for the London-based [Professional Contractors Group](#). "We had expected to see a full-scale reworking of the proposal, ideally in way linked to the reform of small business taxation, but apparently that is not what is happening." The PCG is working closely with the Treasury on all issues that affect contractors, and is now looking into the current state of consultations on this subject.

In fact, what appears to be happening is that there are two entirely separate processes at work at the Treasury (The Treasury has declined to comment on any of this).

A Real Effort At Reform

One section of the small business taxation unit at the Treasury is at work on reform. Here a real effort is taking place. A whole slew of complex corporate taxation is being simplified in ways that will indeed making it easier for all of us to operate our businesses.

On the other hand, a separate section of the Treasury is handling the consultation on income shifting. "The trouble is, the two sections are not talking to each other," explains Richard Mannion, chairman of the Owner-Managed Businesses group at the London-based [Chartered Institute of Taxation](#). "There is some real progress being made on small business taxation issues, much of it based on the need to adapt to international accounting standards as the basis for how businesses are taxed. In the context of the acceptance of such international standards, HMRC is willing to accept some very significant changes."

Two Heads Not Communicating

The income shifting proposal is one that should be put back into the context of this full-scale reform, and adapted as part of it. "Instead," says Mannion, "it looks like we're going to get another bit of 'sticking plaster.'" Mannion refers to the patchwork attempts to adapt tax law so that it can deal with small business taxation issues. 'Sticking plaster' refers to [JR35](#), the [managed service company legislation](#), and all the other badly drafted legislation that the Treasury has propounded with an idea to solving some much more deeply rooted problems.

The problem, as always, is the bizarre orientation of the Treasury which sees contractors as a source of tax evasion and not as an industry which contributes to the flexible economy. In fact, what we really have is three separate tendencies all at work at the same time in the same government: the will to attack contractors, the perceived need to improve conditions for small business, and the desire to support a flexible economy. All three tendencies work in contradiction--a bit like dropping the 10p tax band and then vaunting Labour's support of the those who earn little.

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Richard Mannion-CIOT



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