

Exclusive: return of income shifting to directly target contractors

The Treasury's [income shifting](#) proposal, which we all hoped would go away, is coming back, and it's expected to target contractors.

ContractorCalculator has learned that the Treasury is actively considering a new version of the dreaded income shifting proposal, which, in its last version in the Budget for this year, garnered a [wave of protest](#) from small business organisations and tax expert bodies alike.

Targeting Contractors

"The plan is to target contractors who, the Treasury believes, are using income shifting as a tax dodge whilst excluding other small businesses where it is used fairly, or so the Treasury believes," says [Simon Sweetman](#), a tax consultant based in Felixstowe who is one of the leading experts on small business taxation and a spokesman for the London-based [Federation of Small Business](#).

No Large-Scale Reform

We were expecting any such proposal to be accompanied by a total, holistic reform of small business taxation, but Sweetman says that's not on the cards. "There is a tax simplification effort under way, but it is treating a number of specific issues. There is no attempt to re-conceptualise small business taxation."

Consultations Ongoing

It isn't clear yet how the new [income shifting](#) proposal will be shaped, although consultations at the Treasury are ongoing. The previous proposal depended on the determination of an 'arms length' value, or market value, for the services of a given partner in a small [limited company](#). Even if a partner owned 50% of the shares of the company, dividends could only have been allocated to the partner if that partner was providing work that could be shown to have a specific market value.

Accountants and tax experts from all over the country protested, pointing out that the valuation of such services would have been very difficult to establish objectively. The London-based [Professional Contractors Group](#) set up a website to protest what it called the "Family Business Tax," and garnered 7,500 signatures on its petition against the proposed law.

Write Your MP!

What is clear is that the attack on contractors who have family companies who [share dividends](#) is going to be carried on into the upcoming Budget. We can expect the proposal to make use of the same poor drafting that the other attacks on contractors like [IR35](#) and [Managed Service Company legislation](#) have purveyed. There will almost certainly be a circumlocutory approach to defining the target group--small companies with fewer than so-many shareholders, etc.--but it is still hard to imagine how the Treasury will specify who is undeserving of dividends in a small company.

This is all of course a great disappointment, as we were all hoping that a real attempt would be made to define self-employment and to rethink small business taxation so that some of the basic contradictions inherent in the current system would be ironed out. Apparently, we can't hope for any such thing. Contractors need to mobilise again and start writing their MPs because it's going to be an even tougher battle to make this one go away.

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