

## Lawspeed leads AEMC response to Treasury consultation on contractors' expenses

[Lawspeed](#) has submitted the response of the Association of Employment Management Companies (AEMC) and 14 key [contractor umbrella companies](#) to the [Treasury's consultation on contractors' travel expenses](#).

Adrian Marlowe, Managing Director of the national legal consultancy Lawspeed, which specialises in recruitment and contractor affairs, said that the submission had a number of key strands that addressed the Treasury's concerns and included substantial research on the contracting sector.

"The [Treasury's](#) primary basis for the consultation was that it was not the government's original intention to allow travel expenses relief to site-based workers," explains Marlowe.

There was a 1996 consultation on exactly that point, he explains, which granted travel expenses specifically to site-based workers in 1998, when the current government was in office.

This same consultation claimed ten years ago that there would be no loss to the exchequer in granting relief to site-based workers, where the Treasury now claims, without apparent basis, it is costing £300m.

### Umbrella company sector needs time to mature

"The umbrella company sector is a relatively new industry that has only been in existence for a few years," continues Marlowe, "and every new industry sector evolves and learns from its mistakes. In our view, there simply has not been enough time for a proper evolution that is satisfactory for [HMRC](#). Although, with the formation of AEMC less than 12 months ago, things were clearly beginning to head in the right direction."

The same principle, says Marlowe, applies to trade bodies within the sector that might be expected to perform the role of regulator: "Since AEMC was formed, albeit only one year ago, a number of significant industry players have joined.

"However, it is too soon for the full benefits of having a trade organisation to disseminate and police a high level of industry standards. I believe this would materialise if HMRC permitted."

### What does the market say?

As part of its research to formulate the response to the Treasury's consultation, Lawspeed conducted extensive surveys of both umbrella company and contractor sentiment, with potentially alarming results.

"When we asked contractors working for umbrella companies what they would do if the tax rules were changed and they no longer receive relief for travel expenses," says Marlowe, "80% said they would no longer use an umbrella company"

The grim possibility of an estimated 80,000 unemployed contractors, formerly umbrella company workers' is not so far-fetched, nor is the mushrooming of [limited companies](#).

In addition Lawspeed's survey revealed that:

- o 90% of those contractors surveyed said they were aware of their employment rights as umbrella company employees; and
- o 100% of respondents valued these employment rights.

These statistics contradict the Treasury's claim that umbrella companies' provision of employment rights to contractors was 'dubious'. Marlowe went on to say: "The treasury's suggestion that the [Agency Workers Directive](#) (AWD) would replace all the employment rights contractors might need is questionable and, in any event, would not be applicable to highly skilled flexible workers if they are to be excluded from the AWD."

### Perception not reality

Lawspeed's surveys may also have highlighted another 'white elephant' in the Treasury's consultation document regarding the true level of abuse of the allowances and, more specifically, [dispensations](#).

The survey results, says Marlowe, are quite telling: "91% of umbrella companies surveyed felt that the abuse of tax relief on travel expenses is considerably less than the Treasury thinks, and is largely perception rather than reality."

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Although, Marlowe hastened to add, there are without doubt abusers, but the umbrella company sector is moving towards a situation where its own self-regulation will weed out offenders.

### Certain job losses, and reduced tax revenues

Lawspeed's research clearly highlights that there would be a major upheaval to the contracting sector if tax relief on travel expenses were to be removed, including major job losses and, ironically, a reduction in tax revenues from the sector.

The survey further revealed that:

- o 83% of contractors said the tax relief on travel expenses was important to them
- o 27% of contractors said they would seek permanent employment if tax relief on travel expenses was removed
- o Only 29% of the 27% of contractors who said they would seek permanent employment said their existing client would offer them the option of direct employment
- o 90% of contractors said it would be a loss if umbrella companies ceased to exist and there was no alternative model of employment.

Umbrella companies are clearly highly concerned as their very livelihood could well disappear. According to Marlowe: "91% of the umbrella companies we asked said they did not think it would be financially viable for them to continue if relief was removed, and 73% said they would cease to trade and make all staff redundant."

A conservative estimate is that 2,400 permanent staff are employed by the estimated 120 umbrella companies, which would mean 1,752 job losses if those 73% of umbrellas did indeed cease to trade.

### Agencies confirm contractor woes

In addition to asking detailed opinions of the umbrella companies and contractors, Lawspeed also surveyed the agency sector, with similarly downbeat responses.

"Of the agencies we asked, 88% of agencies felt that if contractors were not able to claim relief for travel expenses they would not be willing to travel such long distances to find or attend work," continues Marlowe. "And 79% of agencies said they would lose money."

"The Treasury and HMRC already have the powers they need to clamp down on any perceived abuse of the system," concludes Marlowe, "but they are simply not enforcing them."

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Adrian Marlowe, Lawspeed

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