

PCG's revelation of IR35's £1.5m per year tax take is (sadly) not the full story

With official figures showing that [IR35](#) only brings in about £1.5 million each year, it would seem a safe assumption to make that scrapping the expensive-to-administer tax legislation would be a no-brainer. Sadly, though, the figure of £1.5 million is not the full story.

Contractors' association the Professional Contractors Group ([PCG](#)) has revealed that in six years IR35 is thought to have raised less than £10m in additional tax revenues for [HM Treasury](#), casting doubts over the flawed legislation's value to UK taxpayers.

Following a [Freedom of Information Act](#) request submitted to HMRC, asking how much tax IR35 raises for the exchequer, PCG has discovered that between the tax years 2002/3 and 2007/8, IR35 directly raised just £9.2m – the equivalent of just £1.5m per year.

However, income measured by [HMRC](#) as directly attributable to IR35 is only likely to show a very small part of the overall picture. For example, it does not take into account the fact that [umbrella companies](#), formed as a direct result of IR35, employ tens of thousands of contractors. In fact, the umbrella company giants pay some of the largest PAYE income tax and National Insurance Contribution (NICs) bills in the UK.

Cost versus reward for the government

The original regulatory impact assessment completed for IR35 in 1999 reported that HMRC expected revenues of £220m per year through increased NICs alone. The evidence brought to light by PCG's request suggests the actual figure is considerably less.

In addition, despite frequent attempts by HMRC to enforce the legislation, of the 1,468 investigations PCG has supported only six showed that the contractor under the spotlight actually owed additional tax, penalties and interest.

John Brazier, managing director of PCG commented: "IR35 makes very little money for the Government, and given the cost of enforcing it, and the number of failed investigations for HMRC, it may even cost more to implement than it actually brings in."

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John Brazier, PCG

IR35 income - direct or indirect?

What is not clear from PCG's announcement is exactly how the IR35 tax revenues have been calculated, so it is not possible to draw any firm conclusions about the real benefits to the exchequer of the legislation.

It has to be recognised that not all umbrella company contractors choose to work through an umbrella because they believe their contracts are within IR35; many, particularly those new to contracting, prefer the simplicity and convenience of not running a [limited company](#) and using an umbrella company instead.

And what's not in doubt is the enormous indirect income tax and NIC gathering potential the top 120 umbrella companies have. As [previously reported by ContractorCalculator](#), umbrella company [Parasol](#) alone contributed in excess of £100m in income tax and NICs over 12 months. How much of this enormous sum can be attributed to contractors within IR35?

Replace IR35 with what, exactly?

What is also clear is that an IR35 vacuum could result in mass limited company registrations and a migration to offshore solutions, neither of which would suit the Treasury and HMRC. So the likelihood is that IR35 is here to stay.

Despite this, PCG is committed to following up with further Freedom of Information Act requests, with Brazier saying he believes there is more to be uncovered from HMRC. "In doing so," he says, "we will find out the true costs of IR35, and expose the wildly inaccurate premise on which it is based. PCG now has an even stronger case to make for IR35's abolition, which politicians of all parties cannot fail to ignore."


What is clear is that neither the government nor the opposition are likely to make sweeping changes to tax legislation that can make even only a small contribution to reducing the budget deficit and repairing UK PLC's finances.


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