

Contractors should mainly benefit from Budget 2015, say contracting experts

Contractors will largely benefit from the measures detailed by the Chancellor George Osborne in his [2015 Budget](#). The abolition of the self-assessment tax return, significant investment in infrastructure, tax breaks for oil and gas firms, more flexible and [Help to Buy ISAs](#) and tax breaks on savings may all directly benefit contractors.

Furthermore, the feared new umbrella company expenses tax relief rules have failed to materialise. In their place is a proposed consultation that will be designed to develop measures aimed at the actions of those organisations abusing the rules. Any new legislation won't appear until 2016 at the earliest.

"The Chancellor said his Budget backs the self-employed and announced a series of measures specifically designed to help independent professionals across the country," notes Simon McVicker, director of policy and external affairs at the Association of Independent Professionals and the Self-Employed.

However, less positive are the moves to cut lifetime pension savings tax relief allowances and the impact of increasing the personal allowance will hit contractors earning between £100,000 and £122,000 with a 60% marginal tax rate. Some experts also question the practicalities of abolishing tax returns.

Umbrella companies and PSC restriction of tax relief on expenses

The top story was the feared removal of tax relief on travel and subsistence expenses for umbrella and personal services company (PSC) contractors threatened in the 2014 Autumn Statement and subsequent umbrella company expenses consultation. The planned measures are detailed on pages 61 and 78 of the [Budget 2015 document](#).

The [Freelancer and Contractor Services Association's](#) (FCSA) chief executive Julia Kermode is relieved, explaining that: "We were worried that the rules would simply be changed and we are very pleased that HMRC and HM Treasury have listened to our lobbying, and appreciate the value of our sector."

Kermode notes that in his speech, the Chancellor specifically said that the measures would be designed to protect the genuinely self-employed and tackle intermediaries that exploit the system for their own benefits.

"FCSA members and their contractor clients don't abuse the current system, so I am not convinced that they need worry about these measures. I have already spoken informally to HMRC, and a spokesperson said that they are looking to end tax relief for workers supplied by intermediaries who are effectively working as an employee. This does not include genuine contractors and freelancers.

"The use of supervision, direction and control neatly ties in with the False Self-Employment legislation. According to HMRC, we are unlikely to see any movement on this initiative until after the election."

Most contractors "do not operate under supervision, direction and control"

Managing director of professional umbrella employer [Parasol](#) and contractor accountant [ClearSky](#) Derek Kelly is also cautiously optimistic: "We haven't learnt a great deal from today's announcement, but we take encouragement from it nevertheless. The devil will be in the detail but I believe this could be very positive in the long run.

"As skilled professionals who maintain a high degree of autonomy during an assignment, the vast majority of contractors we support do not operate under supervision, direction and control of the end user. As such, they would not be affected by the new rules."

"The document talks about restricting rather abolishing tax relief. Detail is needed but is sorely lacking here. The government's stated aim of levelling the playing field for providers is laudable, and indeed this is something we have spent years campaigning for."

"[IPSE](#) is concerned that if not handled carefully by the Government this could be very damaging for the UK's smallest businesses. We will be working closely with Government to ensure this is not the case and we have already spoken to a senior HMRC official on this matter," adds McVicker.

Increasing personal allowances is a mixed benefit

According to James Abbott, founder and head of tax at contractor accountant [Abbott Moore](#), the changes to the personal allowance are mixed: "Whilst the changes that have been announced to 2017/18 are only an inflationary increase, this is an improvement on past years when fiscal drag actually led to allowances falling.

"However, National Insurance Contribution (NICs) bands have only crept up very slowly. As a result, it will not be in the interests of most contractors to pay themselves a salary that takes advantage of the income tax allowance but attracts NICs, particularly if they have other income that uses up their personal allowance."

Chas Roy-Chowdhury, head of taxation at the [Association of Chartered Certified Accountants](#) (ACCA) agrees adding: "The ACCA has called for this since

the Chancellor began raising the income tax threshold in 2010. The NIC's bands need to be raised in line with personal tax free allowance to ensure the amount of tax people pay remains consistent and fair for all."

Dave Chaplin, CEO of ContractorCalculator, warns that the changes to the personal allowances will leave higher earning contractors worse off: "Contractors earning in the £100,000-£122,000 bracket will see the personal allowance reduction extended, leading to a marginal rate of 60% on £22,000 of their earnings."

Can contractors be taken out of self-assessment, if tax returns are abolished?

Contracting experts have welcomed the move to abolish self-assessment tax returns and replacement with an online tax account, but some question how it will be achieved. IPSE's McVicker explains: "The abolition of the annual tax return is an attempt to reduce red tape and drag the tax system into the digital age. However, we would urge George Osborne to carefully consider the delivery of this and ensure business groups are consulted."

Abbott believes that anything making tax return preparation easier has to be a good thing, but questions the practicalities: "Most contractors who complete a tax return have to upload information that cannot be automatically collected from elsewhere. This is not going to change."

"Furthermore, although HMRC has made a concerted effort to take as many taxpayers out of self-assessment as possible, it does not always have the correct and consistent information, so taxpayers need to be aware that they will need to check that their information is correct and not to rely solely on what HMRC offers them."

FreeAgent chief accountant Emily Coltman is similarly concerned about how online tax accounts might work: "Tax returns do include information that HMRC already has, such as salaries for directors of limited companies, but they also include a great deal of information that's not visible to HMRC until the tax return is filed."

Coltman also highlights that the plans could impact negatively on contractor and freelancer cashflow, even placing some in financial difficulties: "The government plans to implement 'a new payment process to enable tax and NICs to be collected through digital accounts, instead of Self Assessment'. This could spell the end of twice-yearly payments and the attendant payments on account, which cause cash flow difficulties for many small business owners."

How contractors will benefit from Help to Buy ISAs

The new Help to Buy ISAs could deliver a range of benefits to contractors. **Contractor Mortgages Made Easy** business development director Taj Kang explains: "The Help to Buy ISA is a great way for contractors who have never owned property to save towards a deposit for their first purchase."

"For those who operate limited companies, it is a good way to accumulate savings outside of the business, with a decent financial incentive to extract income from the business because of the future government contribution offsetting any tax liability in the short term."

"I would encourage first time buyers in the contractor community to use this scheme to at least supplement their intended deposit, as larger deposits can mean lower interest rates for the future mortgage. For many it won't be the sole vehicle for setting money aside for a deposit."

Pensions news is mixed, but the annual allowance has not changed

Senior financial consultant Angela James of specialist contractor financial adviser **Contractor Wealth** was disappointed but unsurprised at the reduction of the lifetime pension savings allowance from £1.25m to £1m.

"This move underlines the need for contractors with growing pension pots to seek professional advice to ensure that they protect the pension assets they already have from tax liabilities."

"Fortunately, the allowance will be index-linked from 2018, although that will not result in significant increases. There is some positive news, which is that the annual tax-free contribution has remained at £40,000 – we could have seen it decrease further."

Contractors can use flexible ISAs to plan for contract downtime

On the ISA front, James is very upbeat: "Many contractors hold large cash balances to cover living expenses when they are between contracts. Many are reluctant to put this cash into ISAs because of the withdrawal penalties, but they don't earn much interest in regular deposit accounts."

"The combination of the new flexible ISA and the tax-free savings interest allowance of up to £1,000 makes ISAs much more attractive. Contractors can withdraw cash to cover a few months of downturn and won't face penalties if they repay the money within the financial year. The tax-free allowance so no tax is paid on the first £1,000 of interest will make these contingency cash savings deliver a greater return."

Abbott's concern is how the tax relief will work for higher rate taxpayers: "We know the allowance will halve to £500 for higher rate taxpayers. The marginal rate could be very high: will the allowance change on a 'cliff edge' or stepped basis?"

Tax measures: corporation tax and company cars

"Corporation tax will now be 20% for the majority of companies irrespective of the size of their profits," continues Abbott. "Previously, there was a £300,000 limit on the 20% CT rate. This becomes very relevant for contractors with several businesses that may have shared the previous £300,000 limit."

"Few contractor companies would have profits of £300,000 but it is not unusual for a contractor limited company to have profits of £150,000, so a couple who both run a contracting business could be much better off."

Measures introduced by the Chancellor to change company car tax rules in this Budget prompts Abbott to urge contractors to think carefully before choosing to run a vehicle through their business: "What has become apparent is that what might work for a vehicle today won't work two or three years down the line because the rules on benefit in kind (BIK) change so much.

Abbott explains that a contractor buying a 50g/km vehicle now will be paying 43% more tax on the vehicle by the 2019/20 tax year: "Contractors need to think about the consequences not just for this tax year, but for years two and three."

Entrepreneur's Relief (ER) – a lucky escape

The Budget 2015 has introduced two key changes to Entrepreneur's Relief (ER), but neither should have a major impact on contractors using ER as a strategy to extract cash tax efficiently from their limited company.

"The government has removed the 10% tax rate on capital gains when personally owned assets are used as part of the business," explains Abbott. "Few contractors will be affected as contracting businesses tend not to be capital intensive and those assets that are used tend to be inside the company."

The other new measure relates to ownership rules that will prevent a taxpayer benefiting from ER by using the strategy of assigning their small ownership in the trading company to a company where they own 100% of the shares.

"What is significant about these changes is not that they may affect contractors, but that ER is firmly on the government's radar. We can almost certainly expect further changes in future Budgets that may well impact on contractors."

Oil and gas contractor prospects buoyed by North Sea tax breaks

The two major Budget announcements where contractors will benefit indirectly will be oil and gas and infrastructure. As a result of the oil price crash that made exploration and production in much of the North Sea unprofitable, the Chancellor slashed taxes and introduced generous new investment allowances.

In response to the moves, [Oil & Gas UK](#) chief executive Malcolm Webb said: "Today's announcement lays the foundations for the regeneration of the UK North Sea. These measures send exactly the right signal to investors."

Simon McVicker also welcomed the Chancellor's steps to attract North Sea investment: "[The Chancellor's] pro-small business announcements like tax breaks for North Sea oil and gas producers will hugely benefit the large number of contractors working in this important sector."

Oil & Gas UK estimates that, in the near-term alone, these measures could incentivise an additional £4bn of capital investment that could result in hundreds of new contracts and jobs, and the protection of thousands more.

Contractors across all core disciplines will see new contracts from infrastructure

Alongside the tax breaks for oil and gas, a series of substantial infrastructure investments in the North and South West of England could lead to the creation of new contracts across all contracting disciplines.

However, although these projects will create a steady stream of new contracts, Tom Hadley, director of policy and professional services at the [Recruitment and Employment Confederation](#) (REC), warned that these initiatives may falter due to skills shortages:

"Given the current skill shortages in the UK, we're concerned that it may be difficult for the infrastructure initiatives and investments to succeed.

"Recruiters are already struggling to find suitably skilled candidates in key industries like IT, science, engineering and construction and it is in these sectors where we will need even more people now investment has been confirmed."

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