

OTS tax relief report: little impact on contractors, but deeper tax issues flagged

Contractors will remain largely unaffected if changes to the UK's tax reliefs recommended by the Office of Tax Simplification (OTS) are adopted by ministers. However, the [just-published report](#) says that deeper tax issues, such as the merging of income tax and National Insurance Contributions (NICs), are 'key themes' that have emerged as part of OTS's review.

These themes, which also include employee benefits and expenses plus capital gains tax, have been identified by the OTS as topics "deserving of a full review", but are "complex...areas involving important matters of government policy that go beyond the current remit of the OTS."

Of the 1,042 tax reliefs, allowances and exemptions originally identified by the OTS team, the final report looks in detail at 155, recommending to ministers that 54 remain unchanged, 37 undergo further analysis and 47 are abolished.

It is recommended that a further 17 are to be simplified, including entrepreneurs' relief, which is regularly used by contractors to extract surplus cash tax efficiently from a contractor limited company when taking a break or retiring from contracting.

"It's clear that many of the reliefs are valuable and clear in their purpose and operation, so we have not sought to change them," explains OTS Tax Director John Whiting, "but others need simplifying or extending to be properly effective."

Contractors will have to wait until the publication of the interim report on Small Business Tax Simplification, due out by 14 March 2011, to hear the preliminary results of the [OTS investigation into IR35](#) and its potential replacement.

A possible merger of income tax and NICs has emerged from numerous sources, including a [white paper published by ContractorCalculator](#), as a solution that will render IR35 irrelevant. Whiting confirmed in an [exclusive interview with ContractorCalculator](#) earlier this week that: "We can't 'solve' IR35 until you 'solve' the whole tax system."

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