

Umbrella contractor expenses Budget clampdown may be averted by FCSA HoP event

Umbrella contractors may be spared a crackdown on subsistence and travel expenses that is anticipated in the 2015 Budget.

This follows a [Freelancer and Contractor Services Association](#) (FCSA)-led education event at the Houses of Parliament where MPs were warned that clamping down on expenses would threaten the £2.8bn of income tax and National Insurance Contributions (NICs) each year that umbrella service providers across the industry collect for the Exchequer.

Speaking exclusively to ContractorCalculator, FCSA CEO Julia Kermode highlights that the objective of the event was: "To educate MPs about the positive aspects of working with umbrellas because of the noise out there, particularly from the trades unions about the lower paid end of the spectrum. We are concerned that MPs think umbrellas exploit workers and of course they do not."

Averting any extreme and damaging Budget proposals

Kermode's other hope is that if the Budget were to contain proposals that may damage the sector those MPs present would have an opportunity to influence thinking at the [Treasury](#) and stimulate more informed debate of any proposed changes after the Chancellor's speech on 18 March.

"We are concerned that there may be wholesale changes coming through without further consideration of HMRC's proposals. There does need to be further consideration, and with the Budget next week we wanted to influence people now in case there are measures included."

Face-to-face briefing with MPs

According to Kermode, representatives from a consortium of 38 of the leading [umbrella companies](#), including FCSA members, attended the MP's briefing to discuss the merits of umbrella working and to discuss HMRC's proposals.

Over 100 MPs and advisers were invited, and 12 MPs from all party backgrounds were present during the day to receive a detailed factsheet about the UK contingent workforce and the benefits umbrella companies deliver. Kermode was encouraged by this high turnout so close to a General Election when MPs have so many other priorities.

The factsheet also detailed the threat posed to tax collection if umbrella companies were no longer attractive for workers, who would then turn to [personal service companies](#) and other forms of trading as a result.

HMRC's umbrella expenses proposals 'unworkable' and 'unfair'

"We don't believe that HMRC's proposals to change the existing travel and subsistence's expenses regime are workable and we have proposed alternatives that we wished to share with MPs," continues Kermode.

"There were some misunderstandings that were more difficult to rectify. There is a perception that contractors should not benefit from a tax deduction for home to work commuting because permanent employees don't have that benefit.

"But of course umbrella contractors are travelling each day to a temporary workplace, and permanent employees can claim tax deductions for journeys of this type. It would be unfair to specify that umbrella contractors should have this benefit withdrawn when permanent employees can still benefit."

Dispelling the myths about umbrella companies

Kermode added that speaking directly to MPs provided umbrella service providers with the opportunity to dispel some myths. "Another message we tried to get across is that umbrella companies are not all about tax avoidance, even though the sector seems to have been tarnished with that label. Umbrella company contractors only receive the same benefits and entitlements as anyone.

"Furthermore, umbrella companies are not a loophole designed to exploit workers. There is a broad spectrum of contingent workers who use umbrellas. It is the low paid ones that receive the attention, but our research shows that 85% of them are on an hourly rate of £10 or more."

In fact, the factsheet provided to MPs shows the income distribution of umbrella company contractors to be much higher – nearly a third are earning above £20 per hour.

HMRC's quick win is based on a false premise

"My worry is that the Treasury has looked at HMRC's consultation and concluded that clamping down on umbrella company expenses is an easy win to generate £400m a year if they end tax deductible travel and subsistence expenses," warns Kermode.

"Our research shows that there is nothing like that level of tax not being paid as a result of expenses. Over 50% of umbrella contractors do not claim travel and subsistence expenses and 40% claim no expenses at all."

Kermode concludes: "If measures are included in the Budget that make umbrella companies obsolete, the briefing we gave MPs shows that the Treasury will most likely lose significant tax revenues. This is the message we wanted to communicate to MPs, hoping that they can influence the outcome next week."

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