

PCG CALLS FOR SMALL BUSINESS RECOGNITION IN BUDGET

Submitted by: Webtastic

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The Professional Contractors Group (PCG) called on the Chancellor, Gordon Brown, to use the Budget to help small businesses operate with confidence and remove the climate of uncertainty which currently blights the sector.

The PCG, which represents the interests of 14,000 small businesses in the knowledge-based sector, became the latest representative body to ask the Chancellor to use the Budget to benefit small businesses, not just the large companies.

The PCG cited the so-called stealth tax, IR35, as the main factor in creating an uncertain climate for knowledge-based businesses.

Chairman of the PCG, Jane Akshar said: "Many of our members are closing down their small businesses and others are contemplating doing so because they cannot continue to operate in a climate where over burdensome regulations and unclear legislation have created a miasma of uncertainty.

"Small companies have been the corner-stone of businesses in the UK for generations, yet this Government is presiding over the demise of the small, entrepreneurial venture. They are finding themselves either strangled with Red Tape or forced into submission by an uncertain operating climate. The introduction of IR35 has meant that tens of thousands of small businesses in the knowledge-based sector cannot plan for the future or make commercial decisions as they are unsure where the boundaries are.

"What small businesses want and deserve from the Government is a business environment where they can develop with a clear understanding of the potential risks and rewards. At the moment, there are so many grey areas that operating a small business is like entering a lottery."

Under the IR35 legislation, small businesses in the knowledge-based sector, particularly IT and engineering, have to assess whether the Inland Revenue will treat them as genuine businesses or 'disguised employees' for tax and NI purposes. This has already forced many small businesses to leave the country or close down and now, many more are finding the lack of clarity makes it impossible to operate.

Ms Akshar of the PCG said: "There can be no dispute that the practicalities of implementing IR35 and operating within it have led to an unacceptable degree of confusion. Four High Court judges, tens of

thousands of small businesses, accountants and their representative bodies, lawyers, industry and small business groups and even Inland Revenue staff have been critical about or confused by the uncertainty of trying to operate in IR35."

In its letter to the Chancellor, the PCG pointed out that:

'IR35 was ill-conceived and poorly drafted legislation. There is considerable confusion at many levels:

- The lack of relevant case law to determine status is leading to conflicting decisions;
- Small businesses are operating without certainty and even the Revenue's own guidance recognises a situation where the status is unclear;
- Despite this acknowledged climate of uncertainty, there is still the threat of penalties if the contractor gets it wrong;
- Accounting and legal experts are unable to find common ground;
- IR35 causes confusion as it corrupts the traditional boundaries between personal and corporate taxation;
- The creation of an artificial person, that of a 'disguised employee' where the contractor is deemed to be an employee for one purpose (tax and NI) but not for another (statutory and discretionary benefits).'

The main reason for the uncertainty is that the legislation requires contractors to assess their status under existing case law. But in some cases this case law dates back more than 100 years and is applicable to skill-based workers such as manufacturers or skilled tradesmen, and not to the knowledge-based workers of the 21st century who sell their experience and technical know-how.

IR35 was announced in a press notice after the March 1999 Budget. It treats small businesses in the knowledge-based sector as 'disguised employees' for tax and NI purposes, thereby preventing them from operating on similar terms to their larger competitors.

Notes to Editors:

1. The Professional Contractors Group was formed in May 1999 to lobby against the Government's IR35 proposals. It is a non-party political group and its patrons are cross-bench peer, Lord Weatherill, former Speaker of the House of Commons; and industry guru Sir John Harvey-Jones. Since its formation it

has evolved into the representative body for independent contractors from many disciplines including IT and engineering on many issues affecting the knowledge-based sector.

2. The PCG's aim is to work for proper recognition of independent contractors as a genuine and valuable sector of the economy, generating wealth and employment, providing industry with a flexible workforce. The Internet has been the PCG's primary resource, providing fast, effective communication.

3. For further information: <http://www.pcggroup.org.uk>

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