

Government likely to slash its own tax income through new attack on contractor and freelance expenses

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“The government could be about to score a spectacular own goal,” warns ContractorCalculator (<http://www.contractorcalculator.co.uk>) CEO Dave Chaplin, discussing HM Treasury plans to further burden the contracting sector costs.

“The latest consultation from the Treasury is asking whether contractors who work for umbrella companies as employees should lose their right to claim travel expenses,” explains Chaplin. “Our business models, based on nearly a decade of contracting industry experience, suggest that the net contribution to the public sector will fall if contractors lose their rights to claim for travel expenses.”

The very real fear is that, faced with a loss of income as a result of having their travel allowances cut, contractors will their leave umbrella companies -which bring in huge sums of PAYE income tax, National Insurance Contributions (NICs) and VAT for HMRC - and start working through their own limited companies.

Chaplin, a mathematician, IT specialist and contracting sector guru, has crunched some serious numbers to prove to the Treasury that their plans are flawed: “Contractors working through umbrella companies and claiming expenses typically pay 37% of their income in tax. Yet contractors outside of IR35 who operate via limited companies pay approximately 25% of their income in tax. Which would the Exchequer rather have? It seems crazy that they actually want to push people into paying less tax!”

And the government would not only lose out on direct payments from contractors, but forcing contractors to work through limited companies would also effectively destroy the umbrella company sector. The result would be thousands of jobs lost and recruitment agencies finding themselves with unsustainably large administration and bank charges that they simply don't have the capacity to handle.

“There are around 120 compliant umbrella companies employing 100,000 highly skilled flexible workers,” continues Chaplin. “Shutting down 120 companies and putting thousands of people out of work – with the loss of PAYE income and corporation tax revenue – in order to claw back a spuriously estimated £300m in tax relief does not sound like a great deal for UK taxpayers.”

The agency sector would also suffer as a result of tens of thousands more transactions. “Right now, the umbrella companies will send a single invoice to an agency on behalf of thousands of contractors. Then the umbrella company does what its core competence is and pays its workers what they have earned,” says Chaplin. “Imagine thousands of invoices coming into an agency every week from contractors with their own limited companies? It would be an administrative nightmare and cost a fortune.”

Chaplin, along with many industry commentators, hopes that the contracting sector moves to respond to the Treasury with one voice and with hard facts will carry the argument for not cutting contractor expenses

claims.

“We’ve made huge strides in the contracting industry in the last decade by improving compliance and standards,” concludes Chaplin, “It would be tragic if the government were responsible for a return to the bad old days through their lack of understanding of how contractors work.”

Notes to editors

ContractorCalculator is a leading website for the UK contracting industry--most of whom are highly skilled workers in information technology, engineering, electronics, and construction. An audit by ABCe in March 2008 showed ContractorCalculator was visited by over 100,000 readers.

There are approaching one million such workers in the UK today who prefer to run their own businesses and work under contract rather than become employees of specific companies. Their contribution to the economy is crucial to keeping our business competitive. ContractorCalculator has tracked this industry since 1999.

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