

In this article we summarise the key points of the Chancellor's Budget and highlight their relevance to contractors.

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Budget Summary

As expected the 2009 Budget, from a contractors perspective, contains little news or surprises.

We have previously reported on a number of occasions the Government's drive to eradicate tax avoidance in the UK, this was supported by further announcements in the Budget.

Whilst income shifting was mentioned, it was no more than a passing comment, confirming that it is still under review. Expect more on this when the economy strengthens.

The Budget also confirmed increases in taxes, widely expected, although most experts seem to agree the real increases are yet to come.

There was no specific mention on expenses abuse although we will be watching further developments, as history has taught us that some news follows these statements when the detail is provided.

Tax Avoidance

The Chancellor made very clear the Government's view on tax avoidance and the objective to ensure that all individuals and businesses pay their fair share of tax. These views were supported by the announcement of a series of new measures specifically aimed at this aspect.

When tax avoidance is mentioned most people instantly relate this to off-shore schemes or elaborate tax arrangements, however these new proposals could be far wider spread. The two key statements are:

1. The Government will legislate for the publication by HMRC of the names of both corporate and individual taxpayers who incur a penalty because they have deliberately understated more than £25,000 of tax.

2. HMRC will require those who have incurred a penalty for deliberate understatement of over £5,000 of tax to provide more information about their tax affairs for up to five years to ensure they have proper systems to be able to make a correct tax return.

The new reasonable care penalty regime that came into effect in April 2009 could lead to a significant number of contractors being caught by these proposed rules.

As we have previously reported, the onus is now on contractors to demonstrate they have taken reasonable care in assessing their IR35 status; where a contractor is unable to demonstrate this penalties of up to 100% of tax assessed could apply.

In many cases this will be in excess of the £5,000, leading to the potential of having to provide significantly more information to HMRC over the following 5 years; with the additional costs associated with that.

Furthermore in the few cases where the understated tax exceeds the £25,000 threshold this could lead to contractors being named publicly on the proposed list. Without seeing the detail there are obvious concerns that this raises as this list could effectively become a black list used by end clients, especially in sensitive areas such as banking and finance.

We will be reviewing the detail as it emerges and certainly seek to gain a full understanding of the potential impact to contractors. We will issue updates through our website and future newsletters as these details are clarified.

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Tax Rates Increase

From April 2010 the following tax increases will apply and these will affect contractors at the higher income levels as well as those operating through their own limited companies.

An additional rate of income tax of 50% on income over £150,000.

[In the 2008 Pre Budget report, the proposal was a rate of 45% from April 2011, this new announcement replaces that statement.]

Dividend tax at 42.5% on income over £150,000.

[The current highest rate is 32.5%]

The personal allowance will reduce by £1 for every £2 of income over £100,000 until it is completely withdrawn.

There are also proposals to restrict the amount of high rate tax relief that can be claimed on pension contributions for individuals with income over £150,000.

Small companies corporation tax rate remains at 21% for the 2009/10 tax year.

From the 1st of May 2009 the VAT registration threshold increases from £67,000 to £68,000.

Income Shifting

There was a short and simple statement that confirmed this area is still being considered.

We are certain that as the economic outlook improves this is an area that will be subject to new legislation.

We also believe that the area of expense abuse will re-emerge at the same time.

New website in May

Our new look, simple to use and highly informative web site is in the final stage of completion and will go live in May.

Professional Passport enables you get on with your job, without having to worry about things like tax and compliance risks, insurance and contract legalities.

We are independent of providers, agencies and end clients, so we give you unbiased help and a set of easy-to-use tools to make sense of the tangled web of constantly changing legislation.

Want to know the latest industry issues? Read our hot topics. Not sure about the best operating structure for your business? We can help. Already running a limited company? Use our unique risk profilers to assess your exposure to MSC legislation and IR35 so you can optimise your remuneration strategy. We can assess your contracts too.