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Budget Summary

George Osbourne delivered his budget statement today at 12.30; we summarise the key points that may affect contractors and look at some of the implications.

IR35 Stays

Following the report and recommendations submitted by the OTS the Chancellor ***“has decided to retain IR35, as abolition would put substantial revenue at risk.”***

What they have committed to is making ***“clear improvements in the way IR35 is administered.”***

The improvements will include setting up a dedicated helpline staffed by specialists as well as publishing guidance on those types of cases HMRC view as outside the scope of IR35. They have also confirmed that they will focus compliance activity to **‘high risk cases’** and this will be monitored by a new IR35 Forum.

So what does all this really mean?

As with all these things the devil will be in the detail and, right now, there is little detail.

George Osbourne confirmed that if IR35 was abolished it would put substantial revenue at risk; whilst the OTS was unable to identify the exact amount of revenue generated by IR35 it is clear that the Government feels this is significantly more than some may suggest.

Whilst everyone would welcome clear improvements in the way IR35

is administered this must be considered alongside the very different landscape that now exists. The word ‘administered’, in reality, probably means enforced as later in the paragraph it specifically states that compliance activity will be focused on ‘high risk cases’; so what is a high risk case? Is it one where there is a lot of income and so a valuable prize if HMRC win or, is it one of the lower paid workers where there would be little gain? - only the detail will reveal this definition.

Whatever the definition contractors must remember that IR35 is still in force and if challenged you must be able to demonstrate that you took due diligence in deciding your status; whilst ‘due diligence’ has never formally been defined it has become accepted to mean that both the contract and associated working arrangements were reviewed with a report produced documenting the key points that resulted in that conclusion being reached. If you are unable to demonstrate you took due diligence at outset HMRC does have the ability to apply penalties of up to 100% of the additional tax assessed.

Furthermore, new name and shame rules came in to force in 2010 allowing HMRC to publically name any tax payer who is shown to have deliberately avoided tax over £25,000 of tax by understating their position. This would be most of the contractors caught by IR35 who had not taken reasonable care.

There was also the announcement that the OTS will be tasked with a long term review on the merger of tax and NI. This will be an incredibly complex piece of work and probably take years to complete so announcements on the death of IR35 are premature.

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Provider Compliance

Our audited and approved
accountancy service providers
have all been checked against
the MSC legislation.

Our audited and approved
umbrella providers have also
been checked against
appropriate legislation.

Business Mileage Rates Up 12%

Whether you operate through an umbrella company or your own limited company the news that, at long last, the rate you can claim for business mileage will be increased from 40p per mile for the first 10,000 miles to 45p.

This coupled with the changes to fuel taxation will be welcome news to all those contractors using their own vehicles for company business.

Corporation Tax - [Read the small print](#)

All limited company contractors listening to the statement could have been forgiven at getting excited at the announcements of further reductions in corporation tax, on close inspection these announcements are on the main rate only; although the previously announced reduction of 1% will still apply to the small companies rate, the rate that almost all contractors companies will pay.

This could give a clue to the future direction for Corporation Tax and one that has not been kept secret although it has not been shouted about.

Successive Governments have had ambitions to align the rate of Corporation Tax removing the complexity of two rates and the issues that arise with associated companies. We would suggest the announcements made in today's Budget take a large step towards

this with the main rate being on 3% above the smaller companies rate from April 2014.

Long term we are likely the merger of these two rates; this was also highlighted by the OTS as a potential form of simplification.

War on Tax Avoidance Continues

Once again the Budget contained strong words around the area of tax avoidance with the Chancellor specifically highlighting schemes that have been quite prevalent in the contracting market.

We believe that the likelihood of being better off in the long term having used a manufactured tax avoidance mechanism is further reduced; in fact in many cases you will actually be worse off than if you paid the tax in the year it fell due originally.

Contractors must take great care in this complex area and not just take at face value the many claims made by the providers.

The first clue is where an arrangement is supported by a Barristers opinion, a Barristers opinion would only be needed if the scheme operates in the grey areas of tax law - a high risk play ground!

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Personal Allowances Change

The Chancellor announced an increase to the personal allowances in 2012-13 of £630 taking them to £8,105 and at the same time a decrease in the basic rate tax limit of £630 taking it down to £34,370.

This has a neutral effect if you are a high rate tax payer and basic rate tax payers will be slightly better off.

If you operate through your own limited company it does give you some options to consider on how you take your income.

Investment limits have also been raised for both private and corporate investors.

Business Premises Renovation Allowance, due to end April 2012 has been extended for another 5 years. This is great news for investors as a number of these projects have already delivered great results.

VAT Threshold Increased

The threshold for VAT registration was increased to £73,000 with the de-registration threshold taken to £71,000.

Corporate Investment

For those looking to manage their personal and corporate finances effectively the budget contained a few welcome surprises:

An increase in the rate of income tax relief through an EIS, or VCT, to 30% from April 2011.