HM TREASURY

(Pre-Budget Report Analysis)

Newsletter – Nov 08

With the emphasis of the 2008 pre budget report being 'Act Now!' or suffer a prolonged recession the Chancellor has intimated immediate financial help for the UK's economy but to bring with it massive borrowing, the likes of which our country has never witnessed before. The overwhelming message is that of short term reductions or postponements to direct taxes with the promise of rises over the next 2 to 5 years.

What does this mean for Recruitment Businesses and Contractors? By and Large, very little change initially! Below we have detailed our views on the specific points raised.

Tax relief for travel expenses: ... Stay of Execution?

UK contractors working via umbrella companies, who were threatened with HM Treasury's initial intention to prevent contractors being able to claim travel expenses, there has been a 'stay of execution'. The report suggests:

"Following the consultation *Tax relief for travel expenses: temporary workers and overarching employment contracts*, the Government has decided to leave the **current rules unchanged**. However, in the light of evidence from the consultation confirming poor levels of compliance in this area **HMRC will refocus its efforts to ensure that the current regime is properly applied**. If compliance does not improve, the Government may return to this at a later date".

"The government is concerned at the growing use of structures, such as "umbrella companies" or overarching contracts of employment with employment businesses, to obtain tax relief for travel expenses that would not be available to other workers. **It will monitor the use of these structures** and, **if necessary, consider action in the future**."

What this means: ... Check compliance or face the consequences!

To do this, please follow the indicators below with your current Umbrella Company providers:

- Ensure that your Providers **ARE** compliant and do not advertise dispensations as direct tax savings.
- Ask them what measures they have taken / or take, to police non-incurred expenses?
- Do they rely on receipted items only or market non-receipted items?
- Have they had an independent audit review, both legally and financially?
- Are they able to ride the credit crunch – is your contractors' money safe?
- Are they offering 'round-sum' allowances daily or weekly?
- Are they based off-shore?
- Do they offer incentives to consultants for direct referrals?
- What would they do if a debt transfer case were to arise?

Gain assurance with AEMC audited Umbrella Members – **www.a-emc.com**

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Corporation Tax ... Rate Freeze

Back in 2007, Gordon Brown (as chancellor) announced that the rate of corporation tax for small firms would rise to 22% by April 2009.

This increase has now been deferred until 2010, and the small firms' rate will remain at 21% until then.

What this means: ... Better Off!

- This will help contractors running their own limited companies. But not by very much!

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False Self-Employment ... The Construction Industry

The Treasury has major concerns over "false self-employment" in the construction industry. RACS feels that the Government needs to define what actually constitutes 'a worker who is in business on their own account' so that they may continue to be recognised as such for tax and other regulatory purposes. Our CIS scheme encourages just that under their Own Limited Company (CIS) structure.

VAT ... 13 month reduction

"The temporary reduction in the standard rate of VAT to 15 per cent, set out in detail in Chapter 2 (of the report), will increase economic activity, support employment, contribute to business and encourage economic recovery. To ensure maximum impact, the Government is introducing this 15 per cent rate from 1 December 2008".

What this means: ... Better Off!

- This will only aid cash-flow for Recruitment Businesses and reduce the overall cost(s) to end clients for a short period.
- Sadly, it mentioned nothing about the Staff Hire Concession as previously thought! This again confirms the position surrounding the changes in April 2009 where VAT must be applied to the total invoice value of any placement within the public sector - including both the wages element and the agency fee.
- RACS can assist your business in retaining the status quo – if you deal with public sector clients ask us how!
- Changes to VAT won't really affect contractors, after all they simply collect the VAT and pass it on to HMRC

HMRC ... New powers and accountability

The Government has announced that the new Charter for HMRC will have legislative authority, via an enabling clause in next year's Finance Bill. This will enable greater powers and greater transparency for this government agency.

In the Future ... Tax Bands and National Insurance (2011)

- The National Insurance changes will mainly effect contractors under PAYE or Umbrella Company solutions, but for those with their own limited companies the effect will be insignificant
- Income tax rising to 45% in 2011 for those earning more than £150k will affect a small number of contractors, and even that higher rate will only be applicable to the proportion of their income over £150k . Again, greater flexibility and benefits to those who have their own limited companies.

RACS Group offers the following MSC compliant services through our third party professional partners:

- ✓ Full limited company formation
- ✓ Payroll
- ✓ Company and simple personal tax returns
- ✓ Annual accounts / year end
- ✓ Routine tax queries and administration
- ✓ Processing of expenses
- ✓ IR35 contract reviews and advice though PCG
- ✓ VAT returns and registration
- ✓ Company secretarial duties
- ✓ Companies House returns
- ✓ Invoicing services to your employment business
- ✓ Payments to HMRC (TAX, NIC)
- ✓ Day-to-day assistance with your PSC
- ✓ Corporation tax returns

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