

PCG Response to Budget 2005

Summary

Gordon Brown's ninth Budget made friendly noises toward small businesses, but contained few substantial developments for freelancers, even though the Chancellor acknowledged the growth in the self-employed and small business sectors since 1997.

Regulatory reform

PCG welcomes today's major announcements regarding regulatory reform, assuming that they are implemented effectively. PCG members have long complained about the sheer volume of regulation, and the recommendation of the [Arculus Report](#) to cut red tape, in imitation of the Dutch "one in, one out" system, should be extremely helpful. The decision to implement the [Hampton Report](#) recommendations in full is to be applauded. PCG is pleased that the Government is cutting the number of regulatory bodies and simplifying form-filling for small businesses - though we note the "perhaps" attached to the laudable figure of 25%. PCG will contribute fully to the implementation of these proposals as opportunities arise.

Training and skills

The Chancellor's emphasis on the importance of skills in the modern economy, coupled with scholarships for young British entrepreneurs, is to be welcomed. PCG is disappointed, however, that freelancers caught under IR35 are not able to offset training costs against tax while their larger competitors reap the benefits of the current tax legislation.

Anti-avoidance

PCG continues to support anti-avoidance measures in principle and we hope that the implementation of those announced today does not end up impeding normal commercial decision-making as IR35 has done. While the [Pre-Budget Report's consultation document](#) on small business taxation expressed concern at businesses altering their commercial decision-making for tax reasons, a recent survey showed that 62% of PCG members had felt obliged to do exactly this. This Budget represents a lost opportunity to clarify the tax system so that it is transparent, consistent and fair.

Section 660A

The Budget's consideration of the recently-created status of civil partner has made it clear that same-sex couples registered under the Civil Partnerships Act of 2004 are now at risk of being penalised under [Section 660A](#) of the settlements legislation. Companies based around civil partnerships are now endangered by this grossly unfair measure in exactly the same way as businesses established by married couples. PCG has been campaigning against the Inland Revenue's new interpretation of this since it was first applied and is currently taking [the case of Arctic Systems to the High Court](#). In a recent survey, PCG found that 40% of freelance businesses are potentially at risk from the S660 legislation.

HM Revenue and Customs

PCG also welcomes the opening of a full consultation on the operation of Her Majesty's Revenue and Customs, formed from the merger of the Inland Revenue and Customs and Excise. We welcome the opportunity for a single tax account for small business and we note that the consultation will focus on minimising compliance costs and making it easier for small businesses to understand the new body. We will of course contribute fully to this consultation.

Public sector research contracts

Elsewhere in the Budget, the guarantee to small technology-intensive companies of a £100 million share of public sector research contracts will be welcomed by our members. It still falls short, however, of the decisive step required to open up public sector procurement as a whole to small businesses, which we believe would be beneficial, given the considerable expertise in the UK's pool of independent professional freelancers.

EU legislation

The proposals to tackle so-called "goldplating" - over-enthusiasm in the incorporation of EU legislation into UK law - were among the few welcome surprises to emerge from the Budget. PCG approves strongly of the starting premise that EU legislation should be implemented in the least burdensome way possible and over-implementation avoided. We will scrutinise the guidelines in detail and respond to them in due course.

PCG on Bank of England Advisory Panel

PCG has recently been invited to contribute to a new panel advising the Bank of England, as part of the consultation process for the setting of interest rates. We would therefore like to ask our members to contribute to this by completing a brief survey about their views of the economic factors affecting freelance business.

New tax rates and allowances

New tax rates and allowances were announced in the Budget and may be found on the [Treasury website](#).

PCG would like to thank Michael Linden of Nyman Linden Chartered Accountants and David Whiscombe of Berg Kaprow Lewis for their assistance in compiling this analysis.

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