

# PCG Recommendations for Budget 2006

## Introduction

The Professional Contractors Group is the not-for-profit trade association representing freelance consultants and contractors in the UK. PCG's members are knowledge-based workers, neither employers nor employees. They market their services to a range of clients, typically operating through a limited company and operate in IT, engineering, oil and gas extraction, management, marketing, advertising and many other sectors.

There are an estimated one million people working freelance in the UK. They include many of the country's most experienced and knowledgeable workers. This highly skilled, highly mobile and highly flexible workforce is growing, a trend that is likely to continue.

Globally, the UK model of freelancing is one of a kind and is one of the UK's greatest economic assets. The UK's economy has clearly been out-performing its European competitors in recent years. The presence of a much greater degree of flexibility within its workforce must surely be a substantial contributory factor to this. It is therefore unsurprising that similar models are developing in countries across Europe.

Freelance contractors are a true twenty-first century workforce, but the relative newness of the phenomenon has led some institutions and groups to misunderstand freelancing or be suspicious of it. PCG wants to ensure that freelancing is fully understood and accepted by all economic players. As the smallest of small businesses, contractors have specific needs which are not fully catered for by any other trade organisation. PCG exists to meet these needs.

PCG has surveyed its members to find out what they would like the Chancellor to deliver in his Budget this year. The top priorities for the UK's freelancers are set out below.

## Complexity of tax system

Over 40 per cent of PCG members surveyed identified the ever-growing complexity of the tax system as the issue they would most like the Chancellor to address. With the Red Book now three times thicker every year than ten years ago, the burden falls most heavily on the smallest businesses; as one or two person companies, freelance consultants and contractors have no option but to grapple with this themselves.

This was a far more pressing issue for members than tax rates: it is clear that small businesses would be more pleased to have simplicity and clarity in the tax system than tax cuts. It is time for a full overhaul of the system to be undertaken to ensure root and branch simplification. The last thing business needs from this year's Budget is yet more complication.

## HMRC's relationship with business

When asked what issue they would most like the Chancellor to address, members' clear second choice was the conduct of HMRC and its relationships with businesses. With HMRC adopting an increasingly aggressive and invasive stance when dealing with small businesses, it is clear that the trust between businesses and the tax authorities is in sharp decline. Continued efforts by both HMRC and the Treasury to conflate evasion

and avoidance are exacerbating this. One suggestion from members was that an independent complaints authority should exist to give taxpayers redress over improper investigations. In addition to this, PCG would like to see the creation of a high-level forum to improve relations between HMRC and business and tax bodies.

HMRC clearly does not understand freelance ways of working or small businesses generally. PCG would like to see preference given to people with experience of the private sector when inspectors are recruited, and certainly when senior tax inspectors are appointed. This would allow HMRC to implement tax law with commercial insight and common sense, instead of the current heavy-handedness. On the positive side, PCG is pleased to see that HMRC's current anti-evasion campaign has removed the implication, seen in earlier advertisements, that small business owners systematically evade tax, following complaints from PCG and others.

### IR35

IR35 has been a comprehensive failure and its repeal or reform was by far the single most urgent measure demanded by PCG members. The sheer uncertainty of the measure has tied up thousands of law-abiding businesses in red tape, seeking to ensure they are not unfairly penalised by IR35, undermining the competitive advantage afforded to the UK's economy by its uniquely sophisticated freelancing model. There is no evidence that it is generating any new revenue for the Government. PCG's success rate in defending IR35 investigations – its suppliers have defended 1,211 successfully and only 3 unsuccessfully – suggests that the measure is so hopelessly unclear that even HMRC cannot administer it correctly. It has also failed to redress the initial problem identified by the Government: companies are still hiring workers as contractors and then forcing them to work as de facto employees, except now it is not a grey area but an officially-sanctioned form of exploitation. The case for change is clear and urgent.

### Settlements legislation

PCG was disappointed to learn that HMRC will be seeking leave to appeal the Arctic Systems case, which PCG won comprehensively at the Court of Appeal last year. It is the hope of freelancers that the Chancellor will use his Budget to reverse this attack on family businesses.

### Education and lifelong learning

The UK's freelance contractors and consultants represent a highly skilled workforce, and take responsibility for keeping their skills up to date. Current tax arrangements place them at a disadvantage in this respect relative to their larger competitors: big consultancy companies can train their employees. Under IR35, contractors are given only a 5 per cent allowance for business expenses, and this includes training. This must be reversed and new tax breaks for small businesses' training introduced.

### Tax treatment of working from home

Many freelance contractors maintain an office in their home and do at least some of their work there. Working from home gives the economy greater flexibility, reduces pressure on the transport infrastructure and benefits the environment by reducing the need for new build. The tax treatment of such working is, however, highly complex and offers no significant incentive for people to work at home. The system should be simplified and incentives introduced.

### Combining PAYE and NICs

There is no meaningful distinction between income tax and national insurance in terms of how the revenue is raised or treated. It would be sensible, therefore, for the two measures to be combined to enhance transparency and ease the burden of self-assessment. This would also allow for there to be one administrative system instead of two.

### Transport

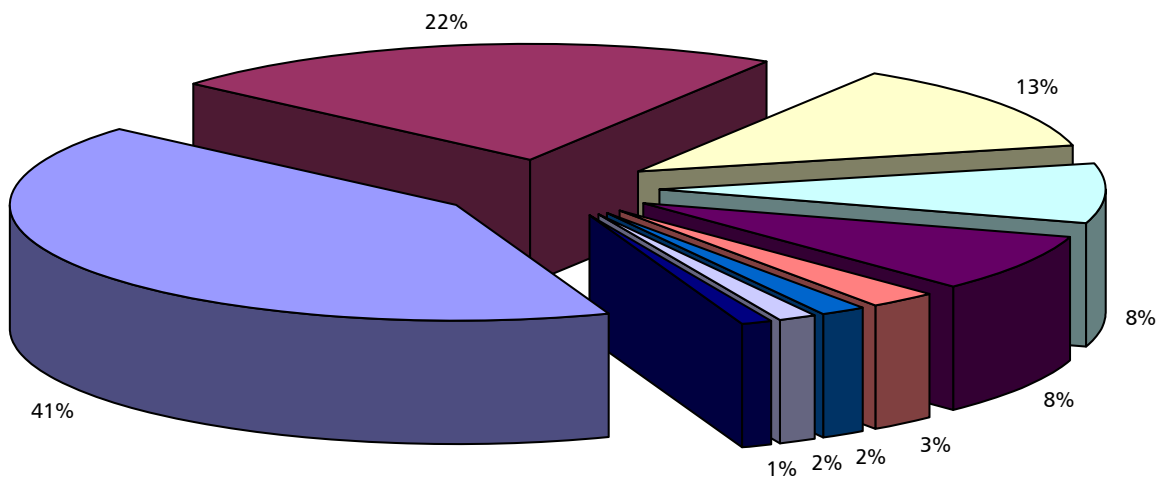
Transport was clearly identified as the area in which freelancers would most like to see the Chancellor increase public spending; it was selected by more than twice as many respondents than any other area of spending. This strongly suggests that the UK's infrastructure still represents one of the key concerns for freelance businesses, and that they feel that the Government has a clear role to play in this. If the Government can provide an infrastructure that is fit for purpose, businesses can be allowed to get on with generating wealth and driving the economy.

### The Budget and the economy

The UK's freelancers proved pessimistic about the Budget: 75 per cent expected it to have a negative impact on their business, with 24 per cent expecting it to have no impact. Only 1 per cent expected it to have a positive impact. The survey also showed that 65 per cent of freelance consultants and contractors feel that economic conditions for their business have deteriorated over the last five years; only 9 per cent perceived an improvement. In spite of this, 34 per cent reported that the performance of their business had improved over the same timeframe; 37 per cent reported no change and only 29 per cent reported a deterioration. The picture is therefore one of the freelance sector continuing to perform well despite more hostile conditions.

## Selected survey responses

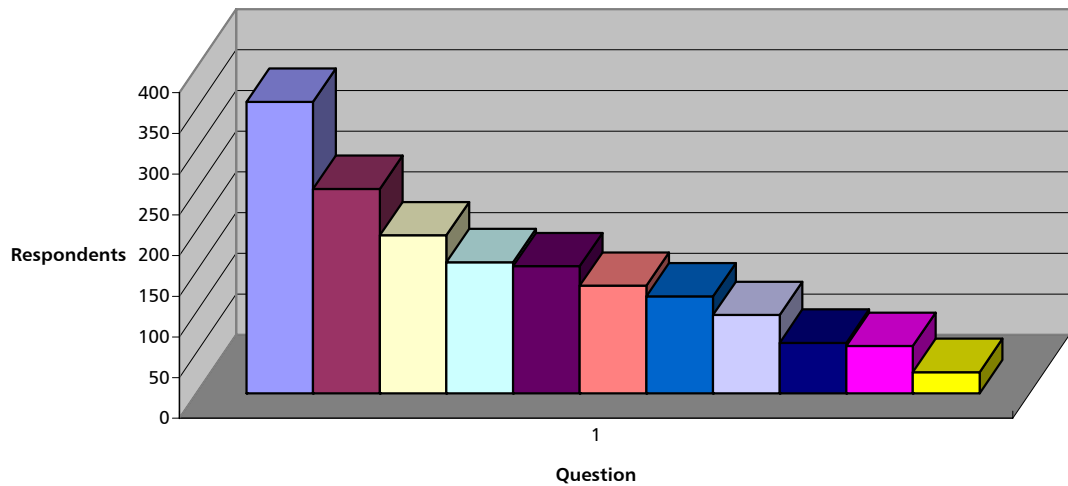
Which one of the following issues would you most like the Chancellor to address in his Budget?  
Tick one box only.



- |  |   |
|--|---|
| <input type="checkbox"/> Complexity of tax system                | <input type="checkbox"/> HMRC's conduct towards, and relationships with, businesses |
| <input type="checkbox"/> Rates of taxation                       | <input type="checkbox"/> Burden of regulation                                       |
| <input type="checkbox"/> Economic impact of offshoring on the UK | <input type="checkbox"/> Competitiveness of the UK                                  |
| <input type="checkbox"/> Other (please specify)                  | <input type="checkbox"/> General economic conditions                                |
| <input type="checkbox"/> Skills and training                     |   |

## Selected survey responses

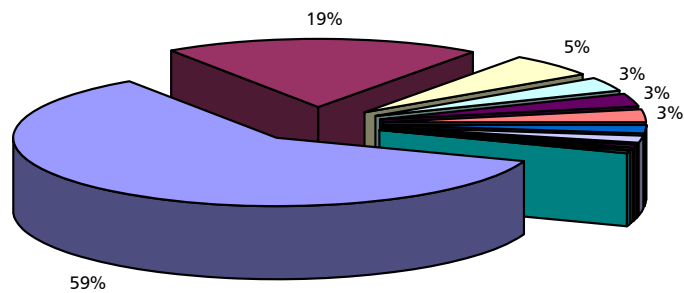
**What specific measures would you like the Chancellor to announce in his Budget?**  
Tick as many boxes as you like.



- ☐ Reform or repeal of IR35
- ☐ Reversal of attempts to reinterpret settlements legislation (S660A)
- ☐ Tax breaks for training / lifelong learning
- ☐ Improve tax relief available for working from home
- ☐ Combining PAYE and employees' NICs / self-employed NICs
- ☐ New business support scheme aimed at freelance contractors and consultants
- ☐ Establish a high-level Tax Forum to improve relations between HMRC, HMT, tax bodies and business
- ☐ Abolish inheritance tax on business assets
- ☐ Remove tax barriers when transferring businesses from one generation to next
- ☐ Lower VAT threshold to reduce competition from black economy
- ☐ Other (please specify)

## Selected survey responses

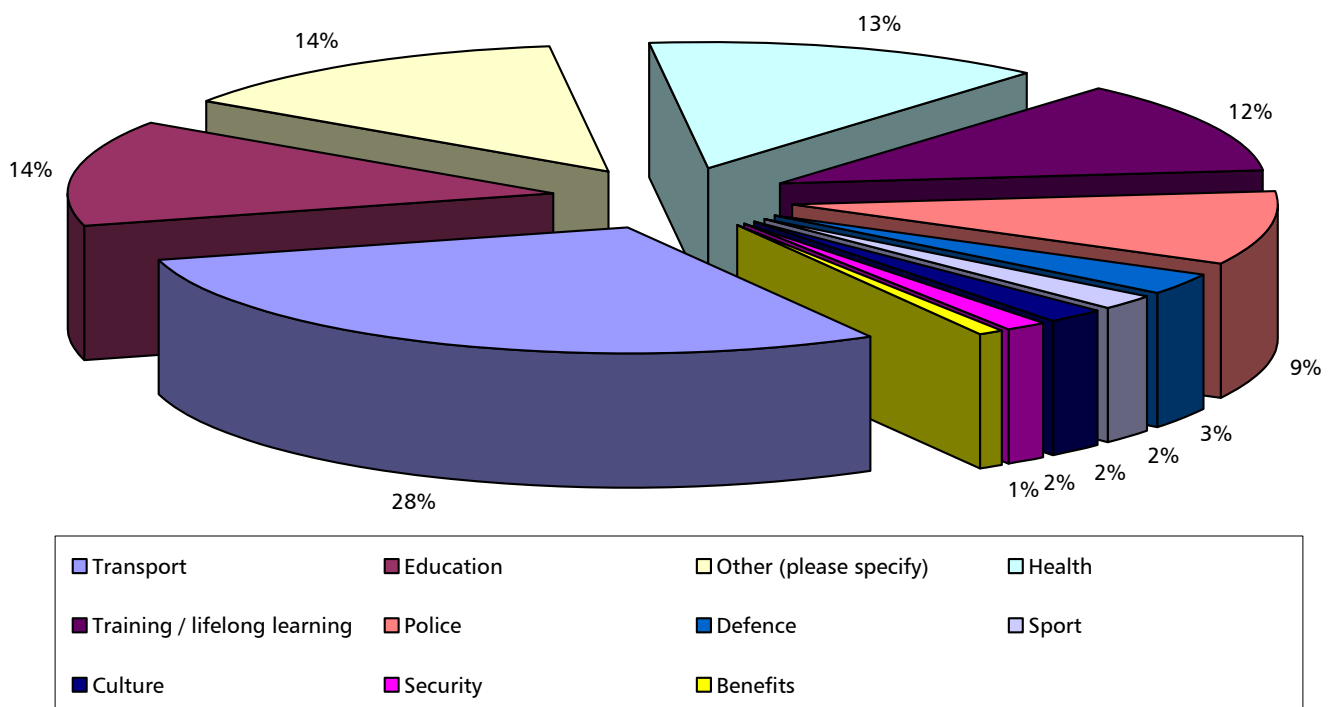
Which single specific measure would you most like the Chancellor to introduce in his Budget? Tick one box only.



- ☐ Reform or repeal of IR35
- ☐ Reversal of attempts to reinterpret settlements legislation (S660A)
- ☐ Combining PAYE and employees' NICs / self-employed NICs
- ☐ Other (please specify)
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- ☐ Raise VAT threshold to assist small businesses
- ☐ Lower VAT threshold, to reduce competition from black economy
- ☐ Abolish inheritance tax on business assets
- ☐ Remove tax barriers when transferring businesses from one generation to next

### Selected survey responses

**In which area would you most like to see the Chancellor increase public spending?**  
Tick one box only.



**1. Which one of the following issues would you most like the Chancellor to address in his Budget?**

**Tick one box only.**

- ☐ HMRC's conduct towards, and relationships with, businesses
- ☐ Competitiveness of the UK
- ☐ Rates of taxation
- ☐ Skills and training
- ☐ Economic impact of offshoring on the UK
- ☐ General economic conditions
- ☐ Complexity of tax system
- ☐ Burden of regulation
- ☐ Other (please specify)

**2. What specific measures would you like the Chancellor to announce in his Budget? Tick as many boxes as you like.**

- ☐ Tax breaks for training / lifelong learning
- ☐ Reversal of attempts to reinterpret settlements legislation (S660A)
- ☐ Improve tax relief available for working from home
- ☐ Combining PAYE and employees' NICs / self-employed NICs
- ☐ Abolish inheritance tax on business assets
- ☐ Remove tax barriers when transferring businesses from one generation to next
- ☐ Lower VAT threshold, to reduce competition from "black economy"
- ☐ Reform or repeal of IR35
- ☐ New business support scheme aimed at freelance contractors and consultants
- ☐ Establish a high-level Tax Forum to improve relations between HMRC, HMT, tax bodies and business
- ☐ Other (please specify)

**3. Which single specific measure would you most like the Chancellor to introduce in his Budget?**

**Tick one box only.**

- ☐ New business support scheme aimed at freelance contractors and consultants
- ☐ Reform or repeal of IR35
- ☐ Combining PAYE and employees' NICs / self-employed NICs
- ☐ Establish a high-level Tax Forum to improve relations between HMRC, HMT, tax bodies and business
- ☐ Remove tax barriers when transferring businesses from one generation to next
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- ☐ Tax breaks for training / lifelong learning
- ☐ Other (please specify)



**4. Do you expect this year's Budget to have:**

- ☐ a positive impact on your business?
- ☐ a negative impact on your business?
- ☐ no impact on your business?

**5. Over the last five years, have economic conditions for your business**

- ☐ improved?
- ☐ deteriorated?
- ☐ remained the same?

**6. Over the last five years has the performance of your business**

- ☐ improved?
- ☐ deteriorated?
- ☐ remained the same?

**7. In which area would you most like to see the Chancellor increase public spending? Tick one box only.**

- ☐ Sport
- ☐ Security
- ☐ Transport
- ☐ Defence
- ☐ Training / lifelong learning
- ☐ Benefits
- ☐ Police
- ☐ Health
- ☐ Culture
- ☐ Education
- ☐ Other (please specify)

8. In which area would you most like to see the Chancellor decrease public spending? Tick one box only.

- ☐ Sport
- ☐ Security
- ☐ Transport
- ☐ Defence
- ☐ Training / lifelong learning
- ☐ Benefits
- ☐ Police
- ☐ Health
- ☐ Culture
- ☐ Education
- ☐ Other (please specify)