



Budget 2018: Behind the Headlines

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IR35 to move into private sector

April 2020



— Autumn Budget 2018

Chancellor Philip Hammond announced in his second budget yesterday that the era of austerity was coming to an end and that this would be a “budget for hardworking families”. He used the windfall from better tax receipts to invest in the NHS, improve universal credit and make income tax cuts. So how did contractors fare? We take a look into those announcements that will have a direct effect on the hardworking contractor community.

— Off-Payroll rules (IR35) in the Private Sector

As expected, the chancellor announced that there would be increased compliance with the existing off-payroll rules (known as IR35) in the Private Sector. Implementation would largely replicate the rules implemented in the Public Sector in April 2017, but would only apply to medium to large sized businesses (end clients). The contractor community was fearful that these rules would be implemented as soon as April 2019 but the Chancellor has listened to lobbying industry parties and delayed implementation until April 2020.

The off-payroll rules initially made public sector end-clients (government departments and public authorities) responsible for determining whether a worker who operates through a personal service company, or other intermediary, is caught by IR35 or is genuinely self-employed. Where the worker is caught by IR35, the rules also makes the fee payer responsible for deducting and paying the worker's tax, NI and employer's NI.

The actual detail will be part of an industry consultation, from which it is hoped that all medium to large businesses will have a clearer idea of how to implement the rules, which should enable them to manage the new rules through their internal processes and IT systems.

The public sector reform has not gone smoothly and before implementation into the private sector lessons have to be taken on board. Many contractors have opted into umbrella companies to secure contracts in the public sector or have decided to work in the private sector to protect their earnings. IR35 is a flawed regulation and it is hoped that between now and the 2020 deadline, HMRC puts the necessary resources into making the adjustments to support, not hinder, the UK's business and contractor communities. Contractors must engage and be aware of the substantial changes afoot, the financial risks they face and the co-operation needed with the recruitment industry and end clients to safeguard their situation to maintain their independent status if they wish to retain working through their limited company.

Personal Tax

The Chancellor followed through on a Manifesto pledge to increase the Personal Allowance one year earlier than planned. The Personal Allowance will increase to £12,500 and the higher rate tax threshold to £50,000 in April 2019. The thresholds will remain at the same levels in 2020-21 and then increase by CPI. It is not only good news for workers paying PAYE but also for contractors who receive dividends. This will mean that they can potentially declare more dividends at the lower 7.5% rate of tax.



VAT

Ahead of the budget there was concern that the Chancellor would substantially reduce the VAT registration threshold to £50,000. However, the Budget revealed that the VAT threshold will be maintained at £85,000 for a further 2 years until April 2022. This will be good news for contractors working through their own limited company whose turnover is under the VAT threshold. The government did say that they will look at a smoothing mechanism once the terms of Brexit are clear. Some industry commentators have suggested that they would like the VAT threshold increased in line with the Retail Price Index. Any changes to VAT would have wider repercussions as there are implications for all consumers.

Work related training costs

The Government is maintaining the scope of tax relief currently available to employees and the self-employed for work-related training costs. It will be launching the National Retraining Scheme and skills pilots to help those in work, including the self-employed, develop the skills they need.



Pensions and Savings

The Budget revealed that the lifetime allowance for pensions will rise to £1,055,000, in line with CPI for 2019-20. The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2019-20. The adult ISA annual subscription limit for 2019-20 will remain unchanged at £20,000.

Corporation Tax

The existing legislation will see a reduction of CT to 17% in 2020. So for contractors working through their own limited company they will continue to pay less tax on their profits. The Budget announced that from April 2020 the government will introduce a new 2% tax on the revenues of certain digital businesses. The tax will:

- Apply to revenues generated from the provision of search engines, social media platforms and online marketplaces
- Apply to revenues from activities related to the participation of UK users
- Only apply to groups that generate global revenues with activities in excess of £500million per annum



Some of the other measures announced by the chancellor included:

- The minimum qualifying period for Entrepreneur's Relief will be extended from 12 months to 24 months with effect from 6 April 2019
- Small businesses' contribution to the Apprenticeship Levy to be cut from 10% to 5%
- Business rates bill for companies with a rateable value of £51k or less to be cut by a third over two years
- £900m in business rates relief for small businesses
- A minimum extra £2bn a year for mental health services, with a new mental health crisis centre providing support in every accident and emergency unit in the country
- A £30bn package for England's roads, which will include repairs to motorways and potholes
- A 30% increase in infrastructure spending
- A renewed remit for the Low Pay Commission beyond 2020

If you would like further information relating to the Budget and how it could affect you,
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