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Nasa Consulting Industry Update November 2008

Pre-Budget Report 2008 - how does it affect agencies and contractors?

In this month's industry update we summarise yesterday's much awaited Pre-Budget report. In what has been hailed as a budget for small businesses, the finer detail has brought to light some areas that will certainly affect contractors and agencies. We've sifted through the PBR to bring you the points that matter to you.

From this PBR we will see the models of umbrella and accountancy service providers benefit greatly over the next 18 months. This will allow better service offerings for contract workers right from the low to the high end of the market.

Umbrella Companies - Travel Expenses

Back in July, increasing evidence came to the attention of HMRC that many umbrella companies were flaunting HMRC dispensations for expenses. In some cases, they were openly being misrepresented and mis-marketed. It was in the opinion of the Treasury that this action was bringing about a perceived loss to the exchequer. A Treasury Consultation into this followed swiftly.

It was with a collective sigh of relief from umbrella companies and their contractors that yesterday's PBR revealed that there won't be any action taken regarding the travel expense consultation.

This is a plus for the industry as a whole. Umbrella companies can continue to service Agencies, saving them time and money in payrolling their contractors. Contractors are still able to save money with tax relief on their travel and subsistence costs.

There will however be stepping up of efforts regarding dispensation compliance, with the ultimate aim to ensure travel expenses are not misused by umbrella companies. They have stated that if umbrella companies do continue with a course of non-compliance, this will be revisited in future where a much tougher course of action can certainly be expected.

It is of course always advisable for agencies to check that the umbrella company they are working with is operating compliantly and not offering 'unreceipted expenses'. These may of course inadvertently lead to tax being evaded by contract workers. This can be a downside to umbrella companies using their expenses dispensation as a blatant sales tool.

Other major points

VAT

The other big news from the PBR is that VAT is temporarily being reduced to 15% for 13 months from 1st December. Whilst this won't have a huge effect on most agencies, some clients will benefit, particularly those in the banking sector as they are unable to claim back VAT.

Umbrella and Limited Company contractors invoicing agencies will need to invoice with the new rate of 15% from Monday 1st December.

Corporation Tax

The anticipated increase to 22% as announced in the budget 2007 has been delayed until April 2010 meaning that the Small Companies Rate for Corporation Tax remains at 21%.

Family Business Tax

Also known as 'Income Shifting' or 'Section 660a', this proposed legislation dealing with the shifting of income become husband & wife businesses in order take advantage of a spouses unused lower rate tax bands. After unsuccessful attacks in the courts by HMRC over the last few years, proposed legislation was deferred in 2008/09 and again yesterday for 2009/10 and will be reviewed in future.

If you would like to find out further information about the Pre-Budget Report 2008 please don't hesitate to contact us here at Nasa Consulting as we'll be happy to help. Alternatively you can find the full PBR and associated documentation at www.treasury.gov.uk.

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