

The **ipse** Tax Manifesto



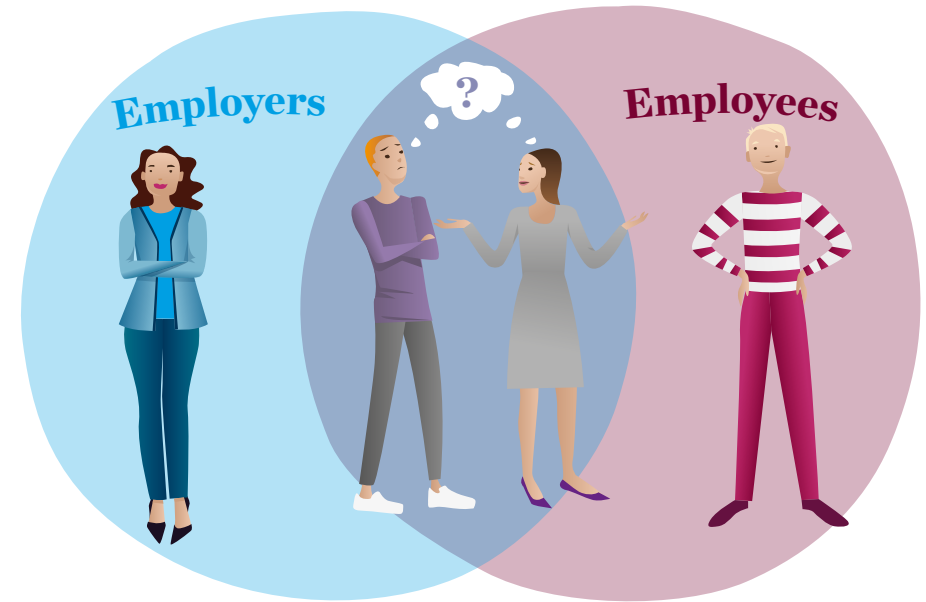
A Fairer, More Efficient Tax System



The number of self-employed people in the UK has risen by 47 per cent since 2001.

It's a staggering increase and one which has brought tremendous benefits to our economy. Successive governments have praised the self-employed for their contribution, innovation and drive, yet at the same time struggled with how to tax this vibrant part of our labour market. The result has been increasingly complex tax legislation which is designed to fit a square peg in a round hole. The time has come for a fresh approach.

This tax manifesto expands on some of the points in our main manifesto, 'A Contract with the Self-Employed'. We look forward to working with the next government to address the increasingly urgent need for a fairer, more efficient tax system for the UK's 4.8 million self-employed.



An independent review of the tax system

Our tax system is no longer fit for purpose. It is based on the traditional employer/employee model, and as self-employment continues to grow the problems with our model become clearer. Government's attempts to address this question have not been joined-up and have resulted in misjudged and ill-conceived policy.

The Government should commission a fundamental strategic review of the tax system.

The review should be chaired by an independent expert and informed by key stakeholders. Particular attention should be given to the growing number of taxpayers who are neither employees or employers. The review should make recommendations aimed at making simplifications for taxpayers.

The review should consider all options to ensure taxation is fair, simple to comply with and protects revenue for the Exchequer. Without fundamental change to existing tax structures, businesses will continue to be blighted by bewildering tax policies which are designed to cram modern working practices into a rapidly aging tax system.



IR35

The change to IR35 in the public sector is a prime example of ill-judged policy making. By shifting the IR35 burden up the chain to the agency and end client, the Government has made working on public sector contracts significantly less attractive for genuine freelancers. Many have terminated their contracts early and moved to the private sector. Public sector projects are stalling as a direct result of this measure.

What could the Government do to ease the damage?

If the public sector body determines in advance that the role is inside IR35, they should offer the role as an employment.

Many new roles have already been advertised as 'inside' IR35.

This is oxymoronic. Either this is an employment role or it isn't. Roles should be advertised as such.

Statement to public sector organisations and engagers.

Government should urgently issue a statement to public sector hirers explaining that the new legislation does not impose a requirement to curb the use of contractors, but rather is aimed at ensuring IR35 is being complied with. Public sector bodies must take reasonable care in assessing IR35 status and not impose blanket decisions that all engagements are 'inside' IR35.

Public sector clients must have an internal appeals process.

To assist accurate determinations, there must be an internal appeals process for contractors who disagree with the determination.

An amnesty on tax investigation on engagements prior to April 2017.

Contractors are very concerned about retrospective investigation of the engagement before April. An amnesty would help to ease the transition to the new regime, making it easier for public sector bodies to retain key staff.

Commit to a review every six months.

Government must closely monitor the impact of the legislation. It should report every six months on:

- How many engagements have been deemed to be 'inside' IR35
- How many engagements have been prematurely terminated as a result
- How has the cost of engaging those with the necessary skills been affected
- Whether the use of 'Big Four' consultancies has increased or decreased
- Whether projects have been delayed as a result of the measure.

Government should also report at the earliest opportunity on how much, if any, additional tax has been generated by the measure and whether this exceeded the costs of implementation. The Government predicts the measure will generate £185m in the first year.

The Government must learn lessons from the disruption caused by the IR35 public sector measure and must not consider rolling out a similar measure in the private sector, as many independent experts have predicted. Such a move would have a calamitous effect on the UK economy.



Freelancer Limited Company

Instead of tinkering with unpopular measures like IR35, government should create a bespoke tax system for freelancers – the **'Freelancer Limited Company' (FLC)**.

The FLC would deliver clarity of employment and tax status for independent professionals. It would be a specific, opt-in structure, open only to independent professionals, not large companies, which would exempt them from IR35 and treat them as a business.

In order to protect the Exchequer, businesses would have to meet certain criteria before qualifying for FLC status, thus ensuring the correct taxes are applied.

IPSE first called for the FLC in our 2015 manifesto. Since then we have engaged EY to help develop the concept further and it has been recommended for further consideration by the Office of Tax Simplification. The government should prioritise implementing the FLC in the next parliament.

Making Tax Digital

IPSE is relieved the plans to push ahead with the implementation of Making Tax Digital (MTD) have been put temporarily on hold as a result of the General Election.

The timetable for MTD was too ambitious and has drawn a great deal of criticism, notably from the Treasury Select Committee.

The next government should take this opportunity to look afresh at the MTD proposal with a view to the implementing the following points:

Introduce MTD over a longer timescale.

MTD should not be made mandatory until 2025 at the earliest. It can be introduced on a voluntary basis before then.

Target the largest businesses first.

These businesses will typically already be keeping digital records so compliance is likely to be less onerous. Once this first phase of onboarding is complete MTD can be rolled out to SMEs, but businesses under the VAT turnover threshold should be exempt, at least in the short and medium term.

Remove the requirement to report at least quarterly.

Quarterly reporting is one of the main features of MTD but it is not clear why. Moving businesses onto digital record keeping has clear benefits but there is no obvious reason why this should be coupled with more frequent reporting which will increase compliance and accountancy costs for business, and will result in additional administrative burdens, particularly for the smallest businesses.

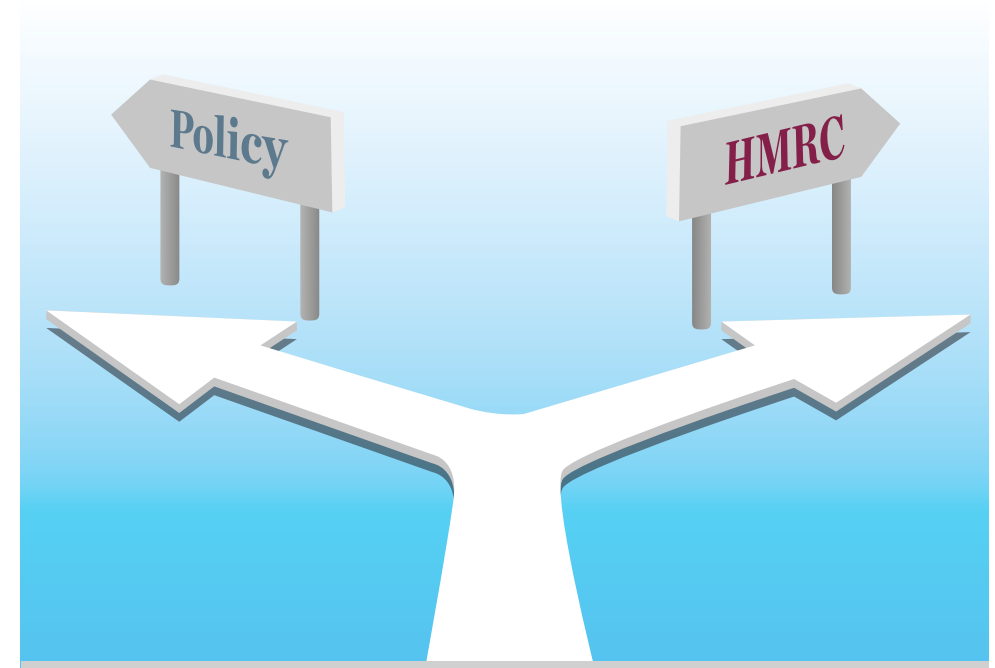
National Insurance Contributions for the self-employed

The next government should commit to maintaining (not raising) the rate of Class 4 National Insurance Contributions (NICs), which is paid by the self-employed.

The attempt to raise Class 4 NICs at the last Budget was met with fierce resistance from both inside and outside Parliament. It will not be any more popular after the General Election.

By working flexibly, the self-employed absorb their clients' risks, allowing them to respond rapidly to peaks and troughs in demand and encouraging innovation by providing expertise on an ad-hoc basis.

The slightly more advantageous tax regime enjoyed by the self-employed is a reward for taking on this risk, which benefits UK business and the economy as a whole.



HMRC and tax policy making

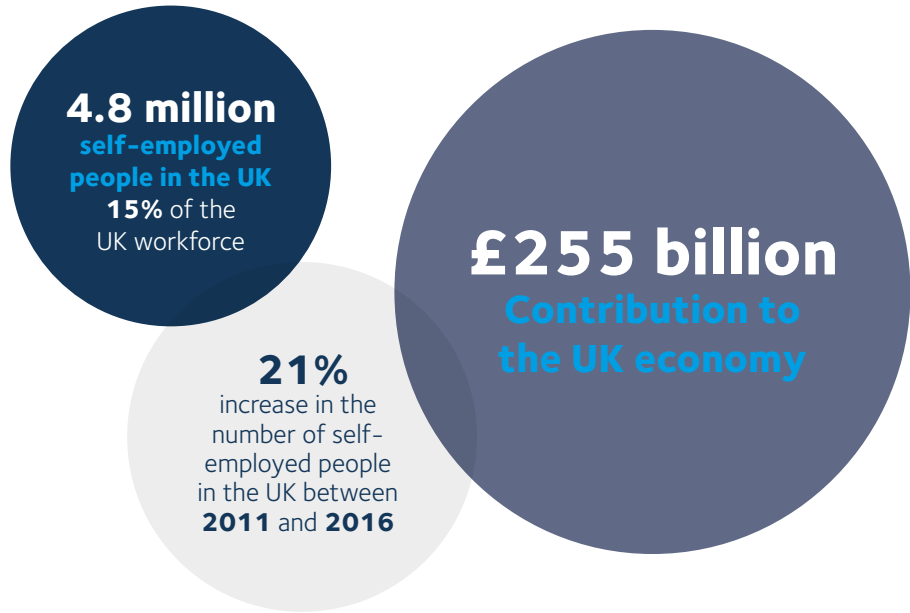
Responsibility for tax policy making should be removed from HMRC entirely.

HMRC should concentrate on enforcement, collecting revenue and handling taxpayer enquiries – an area which has drawn significant criticism in recent years.

HMRC is not properly overseen by a Ministerial team. For this reason, it is inappropriate for HMRC to play such a prominent role in the formation of tax policy. By freeing HMRC staff from the burden of developing policy, more resource can be focused on customer care and enforcing legislation.

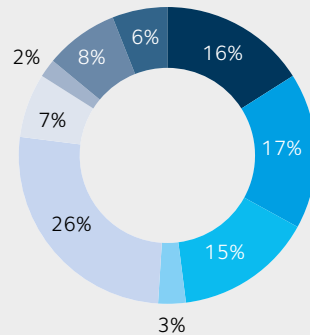
Tax policy making should rest with HM Treasury (HMT) where it can be properly overseen by Ministers, who have a formally recognised role in the Department. In order to assist HMT with the additional work load, more tax expertise should be drawn from external secondments which will help to ensure better scrutiny of tax policy by business.

Who are the self-employed?

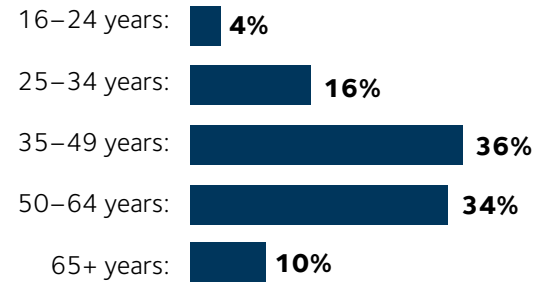


Occupational profile

- Managers, directors and senior officials
- Professional occupations
- Associate professional and technical occupations
- Administrative and secretarial occupations
- Skilled trades occupations
- Caring, leisure and other service occupations
- Sales and customer service occupations
- Process, plant and machine operatives
- Elementary occupations

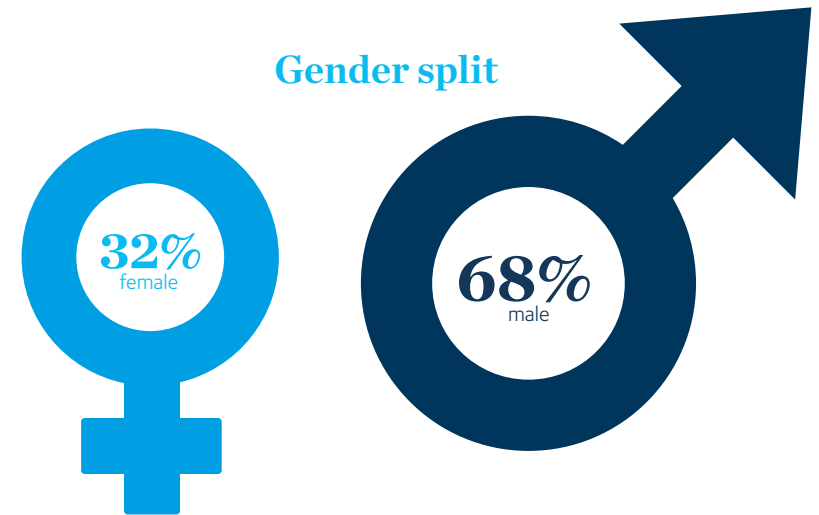


Age distribution of freelancers



Growth in self-employment has been strongest among the **youngest** and **oldest** self-employed people

Gender split



75%

increase in the number of females in self-employment since 2001—growing at a faster rate than males

About IPSE

IPSE is the largest association of independent professionals in the EU, representing over 68,000 freelancers, contractors and consultants from every sector of the economy. It's a not-for-profit organisation owned and run by its members.

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