



The voice of freelancing

Select highlights from initial House of Commons Budget debates on the “income shifting” Family Business Tax proposals

Adjournment and General debate, Monday 17 March 2008

Mr. Henry Bellingham (North-West Norfolk) (Con):

Small firms also have bearing down on them like an express train the Government's plans to hit income shifting or income splitting. Of course I welcome the delay until next year and the fact that there will be further consultation, but surely after all the Government have done to try and encourage husband and wife businesses and small businesses to incorporate, that is exactly what the Government should not be doing.

[...]

Mr. Mark Prisk (Hertford and Stortford) (Con):

Hon. Members will know that until 1997 there was tax avoidance and there was tax evasion; one was legal, the other was not. The Prime Minister, when he was Chancellor, rejected that approach. He believed that too many people were abusing the system and not paying what he thought that they should. He therefore devised the new notion of tax abuse, which sits somewhere between evasion and avoidance and, peculiarly, straddles both legal and illegal activity.

For example, the IR35 rules were brought in to tackle freelancers who the Prime Minister, when he was Chancellor, thought were abusing the system. We were told that millions of pounds of taxpayers' money would be recovered, but the reality is very different. For example, of the 1,400 cases taken out against freelance members of the Professional Contractors Group—a body that represents just one part of the marketplace—only three have been prosecuted successfully by the taxman.

The same misguided thinking can be seen in the so-called “income shifting” proposals. Over the last few years, Her Majesty's Revenue and Customs—sanctioned by Ministers—has spent nearly £500,000 on a single vindictive case against Mr. & Mrs. Jones of the Arctic Corporation, over an alleged liability of only £40,000. There was a good use of public money: spending £500,000 on a case to reclaim a £40,000 alleged irregularity! Ministers lost the case, both on appeal and in the High Court, so what did they do? They decided to change the law, with the result that they now seek to interfere in every family business and to decide the value of what different owners bring to that business.

Mr. Jeremy Browne: Does the hon. Gentleman share my grave concern that if the family business is a farm, it is very difficult to quantify what each member brings to it? There is the farmer, and his wife may help with bread and breakfast, while his son, daughter or son-in-law may help with mending farm machinery or with the harvest at the appropriate time of year. The Government have deferred implementing the proposal for a year, but they have not scrapped it altogether. The problem is that it will be massively intrusive, and will lead to a huge rise in bureaucracy for small businesses.

Mr. Prisk: I agree with my hon. Friend—I mean with the hon. Member for Taunton (Mr. Browne), although he has been present in this debate for so long that he is becoming a friend to those of us on the Conservative Benches. The hon. Gentleman is right: how will the Government implement that proposal, other than by using clipboards and intruding unnecessarily into every family business?

I welcome the decision by the Chancellor to delay the proposals by a year, but it would be far better if common sense prevailed and they were dropped altogether. The perceived abuse is smaller than Ministers have been told, and as the hon. Member for Taunton suggested, the costs of trying to resolve the problem—economically and, if I may say so to the Chief Secretary, politically—will prove far greater than the benefits the Government seek. Rather than creating a vicious circle by creating new laws and then trying to clamp down on the changes that are made as a result, Ministers should make our tax laws simple, clear and constant. By doing that, they would tackle the root of the problem; they would remove the



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desire and the opportunity to evade one's obligations. A simpler and fairer tax system is what the UK needs, and I am pleased to say that that is what my party is proposing.

[...]

Mr. Philip Hammond (Runnymede and Weybridge) (Con): ...

The rest was a rehash of the Chancellor's predecessor's Budget announcement and the flotsam that survived the storm provoked by the PBR with a climbdown on non-dom tax, a U-turn on capital gains tax on business and a merciful postponement of the income shifting proposals. The only things that survived intact were the watered-down Conservative policies on inheritance tax and air passenger duty.

Uncorrected transcript of oral evidence to the Treasury Select Committee, Tuesday 18 March 2008

Giving evidence on behalf of HM Treasury and HM Revenue and Customs: MR DAVE RAMSDEN, MR MIKE WILLIAMS, MR EDWARD TROUP, MS SARAH MULLEN, MR CHRIS MARTIN and MR SIMON GALLAGHER

Q277 John Thurso: So a reasonable sized team. What estimates have they made of the amount of revenue being lost through income shifting?

Mr Troup: The estimates of revenue are done by Her Majesty's Revenue and Customs in the usual way and, as you will have seen from the Pre-Budget Report, we expect the introduction of income shifting rules, once they are agreed, to produce about £260 million.

Q278 John Thurso: We have had estimates that it will cost as much as that to administer it. What estimates have you made about that?

Mr Troup: Our estimates are much lower because I think there has been a considerable misunderstanding as to the number of businesses that will actually be affected. The costings are based on the assumption that 85,000 business will be affected. One of the things that has come out of the excellent consultation that we have had on this, and we had over 260 responses, was that there are a lot more businesses out there which are concerned that the legislation might apply to them and from whom I think some of the wilder figures that we have seen about the potential costs have been derived.

[...]

What is important to get right in the implementation of these rules is to ensure that they act as a deterrent for those who are setting out to mitigate tax in a way which the Government does not intend and not as an administrative burden for ordinary small businesses.

[...]

Q283 John Thurso: Could it be that the small business team have not thought this through and they need to go back and look at it a lot harder?

Mr Troup: The team have thought it through extremely well. We do want to make sure that small businesses, where both the husband and wife or both partners are contributing, are not adversely affected by this if all they are doing is entering into ordinary commercial arrangements.

Q285 John Thurso: Is it because there was nobody with qualified competence on small businesses when this was first put forward?



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Mr Troup: No, I do not think that is true at all.

Q286 John Thurso: That is what we think.

Mr Troup: I think what has come out is that because of the diversity of small businesses and the significant number of small businesses we have to consult widely and that consultation has been very useful.

Q287 John Thurso: It was described as a "sticking plaster solution" by John Whiting.

Mr Troup: Yes, I saw that comment and I did not agree.

Q288 John Thurso: I thought he was being generous.