

News

Chancellor 'will increase tax for the self-employed'

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By Annie Makoff

Hike of 3 per cent is a 'near certainty', say experts, but employers may not escape unscathed

The self-employed are widely expected to be hit by a significant increase in personal taxes in tomorrow's budget, amid concerns from the Treasury that changing working patterns are costing the country billions of pounds in tax.

Intended to tackle the growing rates of self-employment and the so-called tax gap, rumours have been circulating that chancellor Philip Hammond will announce a national insurance increase for the self-employed, from the current 9 per cent to the 12 per cent paid by employees.

According to the Financial Times, "tax advantages" for the self-employed rose 59 per cent to £5.1bn in 2016-17 compared to the previous year.

But Julia Kermode, chief executive of the Freelancer & Contractor Services Association, told People Management she did not accept there was a tax gap, particularly as self-employment has remained at 15 per cent of the workforce while permanent employment continued to rise.

She said: "Lots of people bang on about the rise of self-employment and how this is a real concern, but this rise is actually in line with the rest of workforce. The problem is not with the individual choosing to become self-employed and then not paying tax, the problem is with unscrupulous employers self-employing their staff and exploiting them.

"Individuals are paying tax at the correct rate; no one goes into self-employment to pay less tax. In fact, BIS research in 2016 found that just 1 per cent of respondents cited tax as their main reason for choosing self-employment. So these measures are actually targeting the wrong people."

While some employers are likely to be relieved that the self-employed, rather than businesses, appear to be taking on a greater tax burden, there will inevitably be fears that increased costs will be passed on in the form of pay rises for contractors and freelance staff, and that firms that rely heavily on a contingent workforce of the self-employed may find their business models undermined.

Tim Stovold, head of tax at Kingston Smith, said it was a "near certainty" that the chancellor would announce an increase in class 4 national insurance. He calculated that raising it to 12 per cent would cost workers up to £1,105 a year. "This is the first volley from the chancellor in the move to narrow the gap between employees and self-employed workers," he added.

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It's not the first time the government has put forward measures to address self-employment tax liability. In January, People Management reported on changes to IR35 legislation that would place the onus on public sector employers rather than individuals to assess the self-employed status of their contractors and, in 2016, NIC employment allowance was withdrawn for one-person businesses.

Meanwhile, a series of tribunal cases involving couriers and Uber drivers have led to calls for greater clarity around self-employed status, and the potential creation of a new status that recognises the growing gig economy.

Iain McCluskey, partner at PwC, said the rise of the gig economy and the greater numbers of self-employed workers had the potential to "nibble away" at the chancellor's national insurance revenues, and called for a government consultation on the tax system for the self-employed.

"This would get the balance right between encouraging entrepreneurs and discouraging those who are, to all intents and purposes, employees, but are still able to benefit from lower national insurance rates. That balance will be very difficult to strike and it is important therefore that the government consults on this," he said.



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