

The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

22 September 2017

Dear Chancellor

IPSE's Budget Submission

Freelancer confidence is at an all-time low. The UK's smallest businesses feel persecuted by government policy and they are worried about the impact of Brexit. This Budget submission sets out the concerns of independent professionals and the self-employed, and calls for policies to restore confidence in this vital sector of the labour market.

Introduction

The Association of Independent Professionals and the Self Employed (IPSE) represents the 4.85 million individuals working for themselves in the UK. Of this population, around two million are professional, highly skilled, knowledge-based workers. Often referred to as freelancers, contractors, consultants and nano-businesses, independent professionals are specialists supplying their expertise on a flexible basis to a variety of businesses - from large companies to SMEs. These professionals contribute £119 billion to the economy, which is almost £50 billion more than the entire automotive industry.

IPSE has 68,000 members and associates, 96% of which work through their own limited companies. We therefore represent the very smallest enterprises in the UK, which are essential to the UK economy.

IPSE believes this is a crucial time for independent professionals and the self-employed. These workers play an increasingly important role in our economy, while at the same time the way they work has never been so heavily scrutinised. The Government must take great care to ensure any measures it introduces will not diminish the vital contribution made by freelancers and the self-employed.

Business Confidence in Tax Policy Making

In 2013, IPSE was asked by the Bank of England to run a quarterly survey to track the economic outlook of its members. The Freelancer Confidence Index (FCI) measures overall trends in the market for freelancers in order to identify inflationary pressures, business confidence, and an overview of freelancers' perception of general economic conditions.

The results from Q2 2017 show freelancer confidence is at its lowest since the survey has been running. Two factors stand out as significant drags on freelancer confidence: Brexit and Government policy towards the freelance community. Uncertainty about access to the single market and the impact on the economy is likely to be a major factor in freelancers' concerns about Brexit.

On Government policy, changes to IR35 legislation in the public sector had begun to bite when the survey was taken, with reports of many freelancers walking away from contracts. These changes have fuelled a significant pessimism and uncertainty, which is reflected in the survey results. It is essential the

Government recognises the value of the freelance workforce and ensures it is encouraged, rather than denigrated.

IR35

IPSE is extremely concerned the recent changes to the way IR35 works in the public sector could be extended to the private sector. The legislation has caused significant disruption in the public sector. Were a similar rule to be introduced in the private sector, it will damage UK businesses, job creation and the economy as a whole. This cannot and should not be the Government's aim.

We ask that Government recognise and champion the self-employed

The UK's independent workforce is one of its greatest assets and our comparatively liberal employment laws are extremely attractive to foreign investors. As we negotiate our exit from the EU, it is imperative we do not destabilise these arrangements by placing burdensome requirements on companies that want to engage specialists on a flexible basis. At the current time, companies are making investment decisions that will affect the UK economy over the next five to ten years. They are nervous about Brexit negotiations. Introducing an obligation to determine the IR35 status of independent contractors may increase their reluctance to commit to investment in the UK.

Independent research by Professor Andrew Burke of Trinity College Dublin has shown independent professionals play a critical role in our economy by enabling companies to be more innovative, maximise performance across peaks and troughs in demand, and ultimately create jobs by opening up new areas of activity for businesses. Our record low unemployment figures are in a large part attributable to the vibrancy of the self-employed sector.

Independent working is also an important route into the labour market for women. The number of self-employed women has grown by 75 per cent over the last 15 years, reaching 1.5 million. Women choose freelancing as it helps them to fit work around their other responsibilities. For many self-employed women (and self-employed men) incorporation is the best option as their clients insist on it and it protects their personal assets.

In the public sector, freelancers have been effectively forced out of their limited companies and pushed into an umbrella arrangement. This means the protective veil of incorporation has been removed, often for no other reason than that the public sector organisation doesn't understand the IR35 rules and doesn't want to risk the possibility of becoming liable for tax. As a result, these individuals are paying significantly more tax than they should do, and are naturally reconsidering whether to continue with their business. Were these damaging rules to be extended to the private sector too, many would close their businesses and the labour market would lose one of its most important sectors.

The Freelancer Limited Company (FLC)

IPSE recognises that the Exchequer is concerned about the impact of increasing incorporations on tax receipts, as was highlighted in the OBR's Autumn Statement report last year. In order to address these concerns IPSE developed a new concept with EY called the Freelancer Limited Company (FLC). The OTS gave the concept its support in its Small Business Taxation report.

The FLC would be an optional structure for those businesses that meet the qualifying criteria. We believe this would provide clarity of status for the freelancer while protecting revenue for the Exchequer and we would be very interested to resume the talks we held with Government on this prior to the EU referendum. A paper outlining how the FLC would work is attached to this letter and we request a meeting with you and your senior officials to further explore the concept.

Taylor review on modern working practices

The past few years have seen dramatic shifts in the structure of our labour market and the Government is right to try and grapple with the challenges this has presented. The Taylor Review presented a vital opportunity to provide clarity around how modern employment relationships should be treated in the employment, welfare and tax systems, but it largely failed to do so. We encourage a very long and thorough consultation period, to allow for comprehensive consideration of the many issues arising from in Matthew Taylor's report.

In addition to the IR35 changes, independent professionals and the self-employed have had to adapt to a particularly high level of new tax proposals, regulations and legislation over recent years. These include:

- the onshore and offshore intermediaries legislation;
- the changes to tax relief for travel and subsistence tax relief;
- the introduction, and then swift reduction of, the tax free allowance on dividends;
- the change to the VAT flat rate scheme;
- the consideration given to raising Class 4 NICs;
- the EU VAT place of supply rules;

Any attempts to bring about further measures are likely to prolong the negative sentiment toward Government policy, expressed in IPSE's FCI. With so much legislative change to cope with in recent years, it has been very difficult for the UK smallest businesses to remain compliant. A period of genuine and full consultation must be undertaken with no further changes implemented until this is complete.

Pensions

Pensions are a major issue for the self-employed. Auto-enrolment has been introduced to aid those in employment, yet the self-employed have been left behind. A looming pensions disaster is on the horizon and the Government must set up an independent review as a matter of urgency. IPSE has ideas on how to mitigate the issue and would gladly participate in the review.

Further to this, Clause 12 of the Finance Bill 2017 introduces a new income tax exemption on pensions advice provided to an employee (including former and prospective employees) in a tax year. In comparison, self-employed individuals cannot benefit from pensions advice as a tax exemption as it is not wholly and exclusively for the purposes of trade.

IPSE urges the Government to rethink Clause 12 from the perspective of self-employment. The income tax exemption on pensions advice should be available to those that are self-employed to ensure that the growing population of self-employed people are not left behind when it comes to saving for later life.

Making Tax Digital

We are very pleased with the new timetable for implementing Making Tax Digital, and the revised threshold beyond which the new requirements apply. We are grateful to the Government for listening to the concerns of business on this issue.

IPSE remains broadly supportive of encouraging businesses to keep digital records, and we can see how more automated reporting could make life easier for businesses. However, we remain concerned about the requirement to report quarterly, which is not necessitated by the move to digital, and seems likely to increase administrative burden.

Infrastructure

We commend the Government's commitment to improve infrastructure spending. Independent professionals and the self-employed need access to world-class infrastructure, including fibre to the home (FTTH) broadband access. We welcomed the decision by Ofcom that Openreach should be more independent of BT, which we hoped would lead to increased competition and therefore a better service to consumers. However, it is not clear whether competition has increased at the rate it was supposed to and we would urge the Government to look again at this issue.

Construction and home building

IPSE shares the Government's ambition to increase the supply of new homes. Many of those who work in the construction industry are self-employed and it is these workers that government will call upon to ensure this target is met. IPSE is concerned the training needs of the construction work force, including the self-employed, are not being met, as set out by Mark Farmer in his report 'Modernise or Die'.

The skills problem in the construction industry has worsened despite the continued existence of the Construction Industry Training Board (CITB). We would urge the Government to ensure the CITB undergo the reform it has been asked to by the Minister for Apprenticeships and Skills to ensure it can provide self-employed construction workers with the skills the industry needs, rather than continue to effectively be a 'cash cow' for the major construction firms.

Maternity and Paternity Pay

We were encouraged by the pledge at the last Budget to equalise maternity and paternity pay for employees and the self-employed. We hope this will include shared parental leave, which currently allows employed parents to share the benefit in order to care for newborn children. By extending the right to shared leave to the self-employed, many women will be able to sustain and grow their businesses in the months directly after childbirth. It will also give self-employed men the chance to spend time with their children.

Training and skills

We urge the Government to change the tax treatment of training for the self-employed: The tax system, perversely, does not reward the self-employed for training in the same way as employees. Training for new skills is not tax-deductible, but training for improving existing skills is. They should both be treated in the same way.

I am very grateful for this opportunity to contribute to your Budget considerations and I would welcome the chance to discuss any of the points raised in this submission in more detail.

Yours sincerely



Chris Bryce, CEO
IPSE