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September 25 2014

Issued by Mattison Public Relations on behalf of NoPalaver

Labour Party proposals to clampdown on umbrella companies risk creating more confusion in temporary employment market

- **Umbrella companies provide important service by collecting tax on income in a way that is easy for HMRC to administer**

Plans announced by the Labour Party to clampdown on umbrella companies risk damaging the UK's flexible labour market and could make it harder for HMRC to collect tax on income, warns the NoPalaver Group, a leading provider of accounting services to contractors.

Umbrella companies provide payroll services to contractors who are working for a business through a recruitment agency. Umbrella companies are helpful because they allow contractors to share a back office and accounts function, making it simpler for HMRC, recruitment agencies and businesses to process their pay and tax.

Initial announcements from the Labour Party suggest that it wants to cut the tax relief for travel and subsistence expenses that temporary workers using umbrella companies are entitled to.

Graham Jenner, Director at NoPalaver, says: "The UK system for taxing the flexible workforce is already far too complex and any further changes risk making it even worse. This means that genuine mistakes get made and increases the opportunity for people to try and manipulate the system."

"Flexible workers and the businesses that use them have been hit by a string of regulatory changes, from the managed services company legislation to changes to the agency workers regulations. What is needed is stability, not more change."

"Umbrella companies provide a very useful service by providing an efficient way for income tax and National Insurance Contributions to be collected from large numbers of workers by one company. This makes it much easier for HMRC to administer the tax of large numbers of self-employed people."

NoPalaver explains that removing the tax relief on expenses like travel would mean that umbrella companies would be uneconomic to run.

Graham Jenner continues: "Getting rid of umbrella companies could encourage more self-employed people to set up as limited company contractors, which are much harder for HMRC to police for any tax discrepancies. Jeopardising what has proven to be an effective and efficient

way to collect income tax and national insurance contributions is a big risk to take for the small reward of bringing in a marginal amount of extra income from expenses deductions.”

“The assumption that people employed by umbrella companies should not be entitled to tax deductible expenses should be challenged. Flexible workers paid through an umbrella company are not like full time employees – for example, they don’t travel to the same job in the same place every day. Removing this allowance may make it uneconomic for them to work as contractors, and the businesses that benefit from access to a flexible skills base will be the losers.”

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About NoPalaver

The NoPalaver Group provides umbrella services to contractors and personal service companies. The NoPalaver Group includes:

- NoPalaver Accountants, which provides specialist accountancy support to contractors working through limited companies
- NoPalaver Umbrella, which helps contractors in all sectors run their personal service company
- NoPalaver CIS, which helps sub-contractors in the construction industry maintain self-employment status, and simplifies payroll issues for agencies and contractors. NoPalaver CIS looks after sub-contractors’ invoicing, payment, and CIS tax issues.
- NoPalaver Contractors, which enables contractors in other industries to maintain self-employment status through a personalised weekly payment administration service

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