

Budget 2016: What does it mean for the self-employed?

Written by Andy Chamberlain, IPSE Deputy Director of Policy on 22 March 2016



Last week's Budget was a rather mixed bag for the UK's 4.6 million self-employed workers. The abolition of Class 2 NICs, cuts to corporation tax and pledges for housebuilding and infrastructure were great news. However, thousands of contractors using "personal service companies" in the public sector will be feeling betrayed as new rules were announced which will have a dramatic effect on their businesses. The 270,000 freelancing mums will also be disappointed to learn that inexplicably, they still won't receive the same amount of maternity pay as employees.

Here's a little more detail on what the Budget means for the self-employed:

Personal Services Companies (PSCs) in the public sector

The Government is to "clamp down" on anybody working through their own limited company for a public sector client. Departments and agencies will be made liable for tax which previously was the responsibility of the contractor. But there are several problems. This is intended to tackle tax

avoiders, but the vast majority of 'PSC' users are genuine contractors who have chosen to work flexibly and independently, not as employees. The new rules will likely discourage many contractors from taking on large-scale public sector contracts (like HS2 and Crossrail 2, which depend on contractors' specialist skills) so the Government will be forced to use the big, vastly expensive consultancies instead.

HMRC are consulting on the changes and IPSE will be very much involved. One thing we do have assurance on is that the changes will apply only to the public sector. The rules in the private sector – IR35 – will remain unchanged.

Maternity pay

This was the perfect opportunity for the Chancellor to get behind freelancing mums in the UK. This way of working fits in well with parenthood; flexible hours and a better work-life balance means there's more time to spend with the kids. The recent Self Employment Review made an explicit recommendation for maternity pay for the self-employed to be brought in line with that of employees – yet these freelancing mums have been overlooked. IPSE will continue to campaign on this issue.

Corporation tax & raising of the Personal Allowance

Some good news for those working for their own limited company is the promise of a reduction in Corporation Tax to 17%. However, please note this won't be coming in until 2020. Also welcome is the raising of the Personal Allowance to £11,500 from 2017.

Class 2 NICs

This has been in the pipeline for some time, and it's good to see it confirmed that Class 2 NICs will be abolished. This should save around £134 per year, and more than that, it will significantly simplify the tax system for sole traders.

Infrastructure spend and the Northern Powerhouse agenda

Pushing on with large-scale infrastructure projects will doubtless improve the UK's productivity, and the specialist skills and expertise of the self-employed are invaluable in making them happen. However, the new rules around PSCs in the public sector may well impact on the Government's ability to deliver them on time and on budget – a point we will be making robustly in the many conversations we will have with officials over the next year.

Tax increases on insurance premiums

One of the biggest costs of running a business is insurance. Today's announcement on insurance premium tax is likely to drive up the costs of insurance policies, which will increase the overheads of many small businesses. It's a policy which seems at odds with the Government's rhetoric on helping small businesses.

Lifetime ISA

This is a really positive development that addresses one of the biggest concerns for self-employed savers. When you're self-employed your income can fluctuate, so the self-employed will be glad to learn the Lifetime ISA won't overly penalise people for removing money if they put it back in at a later date. It's a big step forward in helping the self-employed to save for the future.

Fuel duty freeze

Finally, the Chancellor surprised us all today by freezing duty for the sixth year in a row. The self-employed often travel hundreds of miles for work and so this announcement will come as a relief to those looking to keep business costs down.

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