

## Contractors rates could decrease when HMRC withdraws clients' VAT concessions in 2009

Concerns are growing that contracting rates may be hit when end-user clients in many sectors find their costs rising significantly, following the Government's [2008 Budget decision to withdraw the VAT Staff Hire Concession](#) from April 2009.

The concessions currently allow employment businesses to exclude VAT from the wages element of the costs they charge clients for supplying workers where the clients cannot reclaim the VAT.

Hardest hit will be the finance sector, healthcare, education and some charities, as well as parts of the public sector, like social housing organisations. The reason is that all these sectors are unable to reclaim VAT on costs, or have restrictions.

### Who foots the bill?

The additional cost to employers is estimated by the Recruitment and Employment Confederation ([REC](#)) to be in excess of £400m, and those affected have only had a year's notice of the change.

It is unlikely that employers will totally absorb the additional costs, particularly in sectors like finance, which is reeling from the impact of successive banking crises. In fact, the REC's estimate of additional staffing costs for investment banks tops £50m.

According to REC Chief Executive Kevin Green: "The net result of having to add VAT to the overall cost of taking on temporary and contract workers is likely to be less flexibility, higher costs for UK businesses and fewer jobs available.

"We are looking for constructive discussions on how we can avoid the fallout from the added costs that the removal of this concession will lead to, at a time when the UK economy can least afford it."

### Reduced rates and fewer contracts

If contractors start costing their clients an additional 17.5%, it is likely that there will be fewer contracts available and/or reduced rates of pay in those sectors hardest hit. Clients' budgets are, after all, finite.

So far most sectors within contracting have weathered the economic downturn well, with many end-user clients viewing contractors as an alternative low risk, flexible and highly skilled resource to recruiting permanent employees.

Construction contractors, hardest hit so far this year, may be in for an even worse time if the social housing sector and those parts of the public sector still investing in infrastructure projects cut contractor numbers in the face of increased costs.

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Kevin Green, Chief Executive, REC

### Taking action

In an attempt to prevent the removal of the concession in April 2009, the REC is actively lobbying government, proposing a variety of alternative business models that would allow the VAT exemption to remain.

However, it seems highly unlikely that the Treasury will respond positively, as most of the estimated £400m of additional costs as a result of VAT will go straight into the exchequer to help prop up increasingly fragile public finances.

Contractors working in the sectors affected who are looking to maintain or increase their rates would be wise to start negotiations sooner rather than later.

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