

## IR35 reforms will decimate Government projects, survey shows

Government services will be decimated if [proposed reforms to IR35 in the public sector](#) go through, with 80% of contractors planning on abandoning the sector rather than accepting a contract inside IR35. The real danger for all contractors, is that these measures could be subsequently rolled out to the private sector the following year.

Whilst [HMRC are ploughing ahead with these reforms](#) there is still the opportunity for you to lobby your MP prior to the Autumn Statement to help reject this legislation, which looks set to have severe consequences not only for contractors, but for the economy as a whole.

The warning comes as a result of a survey of over 500 contractors by ContractorCalculator ([see survey report](#)) that also found that forcing contractors into fixed term employment contracts would actually reduce HMRC's overall tax take by an estimated £115m. This is in stark contrast to the £400m extra taxes HMRC is claiming it will generate.

"We've always said that the proposed measures are fundamentally flawed and now we have the figures to prove it," comments ContractorCalculator CEO Dave Chaplin. "HMRC's naive conviction that contractors are going to roll over and accept these new conditions is going to have disastrous unintended consequences."

### Four in five contractors plan to abandon public sector

HMRC's proposed reforms hang on the premise that contractors will happily accept having the same amount of tax deducted as employees, without receiving any employment benefits such as sick and holiday pay.

"No contractor would agree to conduct themselves like this, neither would any accountant advise them to go down this route," notes Chaplin, whose claims have been vindicated by 80% of respondents who say they would turn down an inside-IR35 role and seek other opportunities.

The exodus would severely intensify already acute skills shortages in the public sector, with a National Audit Office (NAO) report earlier this year acknowledging that [Government projects heavily depend on contractor expertise](#).

### Government project spend to rise by more than half a billion

The only other logical alternative for contractors is to ramp up their daily rates for contracts inside IR35 to compensate for the extra tax. ContractorCalculator has previously warned HMRC of this outcome which 59% of respondents claim they would push for.

The overall cost to Government in terms of keeping projects running would be far more drastic as a result. A typical contractor would have to increase their fees by 30% to earn the same income if deemed to be inside IR35.

Based on the fees reported by survey respondents, rate hikes across the 20,000 contractors HMRC believes will be impacted by the changes would see the Government facing a £610m rise in annual costs for hiring the same people.

Given that the Government has placed so much emphasis on reducing spend on contingent staff over the past few years, this isn't an outcome that would suit either party. If you're a public sector contractor, you may want to consider a contingency plan if your public sector organisation doesn't agree to your increased rates.

### Contractors earn more taxable income

HMRC claims the reforms will yield an additional £400m in tax over the coming tax year from 20,000 contractors. What it fails to account for is the disparity in terms of taxable income earned by contractors and employees.

In response to the survey, 89% of contractors said they earn either the same or more than they would do in permanent employment. Overall, the expected combined total salaries of all respondents if placed in permanent roles amounted to £31.7m, compared to £50.3m in combined gross fees as contractors - a 58% increase in taxable income earned via contracting.

### HMRC facing tax loss of £115m

Contrary to its anticipated £400m tax gain, HMRC faces losing £115m in tax each year by forcing contractors into employment. ContractorCalculator totted up the combined taxes due on the £50.3m contracting earnings of its survey respondents, arriving at £16.8m.

Moving these contractors into permanent employment on lower salaries would result in a tax yield of £13.9m for HMRC from the £31.7m combined earnings - a 17% reduction of £2.9m. However, assuming this trend is consistent across the public sector contracting workforce, the consequences for HMRC become far more severe.

"If the public sector forced its estimated 20,000 contractors that will be affected into fixed term employment contracts paying a market salary, the total tax loss to HMRC would be £115m, a far cry from the £400m it thinks it's going to reel in," explains Chaplin.

## Reforms will stunt post-Brexit recovery

"The reforms are quite simply unworkable, as proven by [HMRC's own recent report](#)," adds Chaplin, who also points out the impracticalities surrounding the [proposals for contractor agencies to adopt real time information \(RTI\) solutions](#) to deduct tax.

The proposals also come during a critical juncture for the UK economy. HMRC's consultation rolls on amidst a wave of uncertainty caused by Britain's decision to leave the EU. The full extent of its economic impact is yet to be felt, making the timing of the proposals all the more risky.

"Contractors were instrumental in helping drag the UK economy out of recession following the 2008-09 financial crisis," notes Chaplin. "The UK labour market needs the flexibility and expertise provided by the contract sector. Now is not the time to be alienating a critical part of the workforce."

## Trade body IPSE foresees multiple damage

Andy Chamberlain, Deputy Director of [IPSE](#) commented: "The findings make for stark reading. As expected, if the proposal is implemented, contractors will have no choice but to look for work outside the public sector. A contractor cannot be expected to be taxed like an employee but receive no employee rights.

"Public services will obviously be affected, with public sector bodies having to look elsewhere to find highly skilled flexible workers for their projects. This will come at a significant cost, where expensive consultancies will have to be brought in to fill the void. It is the government that will ultimately lose out.

"Make no mistake. This proposal will damage contractors, recruitment firms and worst of all, the public sector itself. It is therefore vital HMRC listens to these concerns now. "IPSE will publish the results of our member survey on the proposal later this month."

## Act now to fight damaging proposals

"The whole point of hiring contractors via personal service companies (PSCs) is the public sector wants contractors, not employees, for short-term expertise on-demand," he concludes. "The proposed reforms will cause fallout and damage for all involved."

[HMRC's consultation](#) runs until 18 August 2016 but it has already confirmed its plans to go ahead with the legislation, in spite of the warnings of numerous tax and IR35 experts.

If you're a contractor, help raise awareness of the damage that the reforms will cause by sharing these findings and [lobbying your local MP](#) ahead of the Autumn Statement. The alternative is a sharp reduction in the amount of available public sector contract opportunities and permanent damage to the UK labour market.

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