

Why I quit contracting: the human impact of the IR35 changes



With more than a year to go until Government plans to introduce Off-Payroll to the private sector, the rules are already taking their toll. The threat of unjust taxation has caused some of the UK's contingent workforce to ponder exiting the contracting sector, while its prospective fiscal impact has placed many under severe mental strain.

One such contractor, IT professional, Steve Childs – whose name has been changed to protect his anonymity - made the decision to quit contracting shortly after the [2018 Budget announcement](#), citing the impact the uncertainty had on his mental health as the reason:

“Given the sparsity of local contracts, I would have had to consider opportunities further afield. If a contract is deemed to be ‘inside IR35’, and I can also no longer claim relief on travel expenses, all of a sudden, I’m making a huge loss.

“For the sake of my health, I cannot continue as a contractor for the next five years with all the uncertainty that Off-Payroll will bring. I always went to great pains to ensure I did everything by the book when contracting. But when it comes to IR35, I can’t see any organisation taking any more risk than they absolutely have to, and it’s the contractors who will bear the brunt.”

Decision to contract ‘borne out of necessity’

Despite reservations, Childs had made the move into contracting five years ago, following a change in circumstances that required him to capitalise on his earning potential.

“I had contractor friends who encouraged me to make the switch, but I was always concerned about the potential insecurity,” notes Childs. “However, getting engaged to be married prompted me to rethink. I knew I would struggle to buy a ring, pay for a wedding and – in the longer term – buy a house on the salary I was on. So, I took the plunge.

“Had this not been the case, I probably would have remained in permanent employment, as I enjoyed the stability, and wasn’t keen on the additional work that running a company entails.”

He adds: “Though ultimately I made a success of it, my contracting career was borne out of necessity – not as a means of avoiding tax. The plan was to contract for another five years to make some significant mortgage repayments. But, the way Off-Payroll is geared, I anticipate most contracts will soon be untenable.”

Public sector non-compliance a sign of things to come

Childs’ scepticism is justified. He narrowly avoided first-hand experience of non-compliance with Off-Payroll in the public sector, after completing a contract with a branch of the Ministry of Defence (MoD) shortly before it began preparing for the changes.

“When I first began my contract, all contractors asked to get their contracts professionally reviewed and provide written evidence confirming that they were outside of IR35. We all provided written proof and they were happy with it.”

Though Childs departed in May 2016, many of his contracting colleagues went on to renew their contracts. However, shortly after, the MoD began to [apply some familiar measures](#) in preparation for the impending legislative changes.

“Not long after my former colleagues had renewed, they were informed that they were all to be treated as employed for tax purposes, and that the organisation wasn’t willing to compensate them with a rate increase. This came just months after the client had accepted written proof that the contractors were outside of IR35.”

Non-compliance cost public sector client majority of workforce

According to Childs’ colleagues, the decision to blanket assess contractors meant the MoD branch lost the vast majority of its contingent workforce overnight. Childs confirmed that he also would have abandoned the project had his contract still been running at the time.

This is unsurprising, considering the prospective impact of Off-Payroll on his earnings. Over the course of a year, ContractorCalculator estimates that the impact of a blanket assessment on Childs’ engagement would have reduced his income by circa £9,500.

Had the client unlawfully deducted its employer’s National Insurance (NI) costs from the contract rate – as has proven common in the public sector – this figure would have risen to £20,000.

Off-Payroll announcement aftermath causes contractor to quit

Two years after his near-miss in the public sector, Childs purchased and moved into a new house in Exeter, the same month that Off-Payroll in the private sector was announced in the Budget. Several weeks later, his contract was terminated, triggering a recurrence of his anxiety.

“Being a week before Christmas, and having just bought a house that had taken most of my reserves of cash to buy, I began to fixate on the changes,” notes Childs. “The only conclusions I could draw were that companies wouldn’t be willing to take risks with IR35. I thought they would either blanket assess contractors, as had happened in the public sector, or offer them fixed-term contracts.”

For Childs, who would often have to seek contract opportunities further afield, the prospect of operating inside of IR35 is not a viable one, due in large part to the withdrawal of relief on travel expenses.

“It’s unlikely that companies will increase rates enough to compensate, and doubtless some will attempt to pass on the employer’s NI liability to contractors as well. Since you cannot claim travel expenses when inside IR35, you can’t really afford to take on a contract that isn’t local while still being able to put aside anything for the war chest unless a client is willing to almost double your rate.

“I have been in contact with agencies who claim to be exploring solutions to enable contractors to continue working as they do now, following Off-Payroll,” he adds.

“No doubt, there will also be some well-resourced firms that recognise the value of contractors, who will take the necessary compliance measures to retain their contingent workers. However, I fear these firms will be scarce, and will ultimately do little to mitigate the likely impact of the changes.”

‘Treatment of contractors as tax avoiders ground me down’

Having decided to return to permanent employment to pay off his mortgage, Childs says he feels a sense of relief, but expresses concern for contractors who Off-Payroll threatens to force into similarly precarious positions:

“The punitive treatment of contractors as tax avoiders, and the gradual erosion of their ability to put by money for the bad times or to invest, has just ground me down,” he says.

“HMRC will get its wish and I’ll be on a payroll, but at least I’ll be getting employment benefits as well. Whether HMRC receives more tax out of my employment is questionable, but one certainty is that there’s now one less flexible worker available to help deliver new projects.”

He concludes: “Ultimately, I just want to protect my health. I’ll bet a lot of contractors out there are suffering in a similar fashion, but that doesn’t bother the taxman. HMRC doesn’t care that this will affect families. It just sees a soft target.”

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