

## News

## Four-fifths of contractors would exit public sector if subject to IR35

6 Apr 2017

By **Annie Makoff**

Experts warn of 'disaster' for public sector and possibility that HMRC could extend rules to the private sector

The public sector could face a mass "contractor walk out" as new research warns that 85 per cent of contractors would stop working in the public sector if they were caught by the IR35 tax regulations that come into force today (6 April)

The new regulations, introduced to prevent individuals from avoiding paying the correct rate of tax, puts the onus on public sector employers to deduct tax and national insurance contributions (NICs) from contractors' pay at source – rather than allowing freelance contractors to claim tax breaks and falsely identifying themselves as employees.

Public sector contractors who fail to meet HMRC's definition of self-employment will be affected by the changes.

Research carried out by contractor tax specialists Qdos Contractor revealed that 95 per cent of contractors predict a public sector crisis as a result of the IR35 change, with major public sector projects being the hardest hit.

More than four-fifths (85 per cent) of the 2,000 contractors surveyed said they were ready to stop working in the sector if they were found 'inside' IR35, while another 80 per cent said their public sector clients were unprepared for the new regulations. A vast majority (95 per cent) of those surveyed said they believed that the benefits of self-employment were being reduced.

Seb Maley, CEO at Qdos Contractor, said: "Several public sector bodies have already made blanket decisions when it comes to determining IR35 status under the new rules. This contradicts the 'Reasonable Care' clause, outlined in the final IR35 legislation. For the public sector to avoid the disaster of a contractor walkout, it's vital that accurate IR35 decisions are made – with the input from contractors and agencies. A one-size-fits all, or blanket approach, simply won't do."

Anthony Sherick of ContractorUK said public sector contractors were looking to use their skills in the private sector because their take home pay was taking a "big hit in one go" and warned that the walkout would harm the delivery of government projects including the NHS, resulting in "massive" skills shortages.

In February, People Management reported that the NHS could lose out on key talent because of IR35, while freelance contractors were likely to become more expensive.

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with vast amount of IT contractors who manage their tax systems? These two public bodies are already struggling to meet their own service targets.”

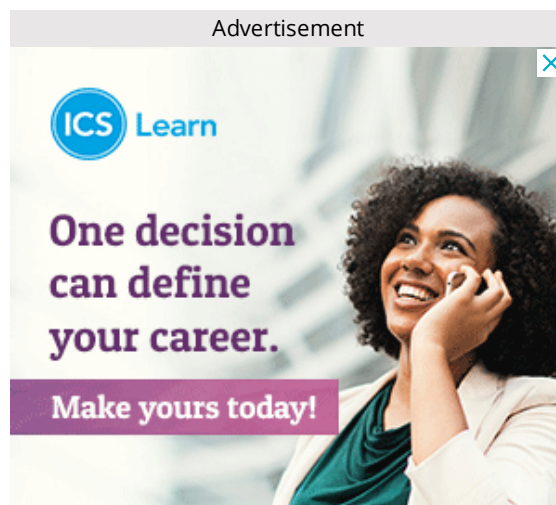
But Grant Speed, managing director at Odgers Interim, insisted the key issue was the general lack of awareness and understanding of what the legislation means for the public sector. Poor communication from HMRC and the fact that **it’s online tool** – which determines whether or not an individual is covered by the tax changes – is still in beta testing were adding to the confusion, said Speed.

Both contractors and public sector organisations were likely to “end up out of pocket,” with public sector employers paying 13.8 per cent employers’ national insurance and, in some cases, the apprenticeship levy in addition to providing benefits for permanent employees such as holiday, sick pay and pension contributions, Speed added.

The Qdos Contractor research follows industry warnings of a “**mass exodus” of public sector contractors leading to skills shortages in vital public services**. Recruitment agency Randstad predicted that IR35 could see contractors’ net take-home pay drop by 20 per cent.

Meanwhile, Louise Gapp, director at recruitment specialist Cedar, told People Management that IR35 was a short-term fix which would create more problems in the long run. But with many contractors “jumping ship”, is worried that HMRC may consider rolling out IR35 into the private sector at some point in the future.

“If this happen, we will kiss goodbye to the independent contracting industry as we know it,” she said.





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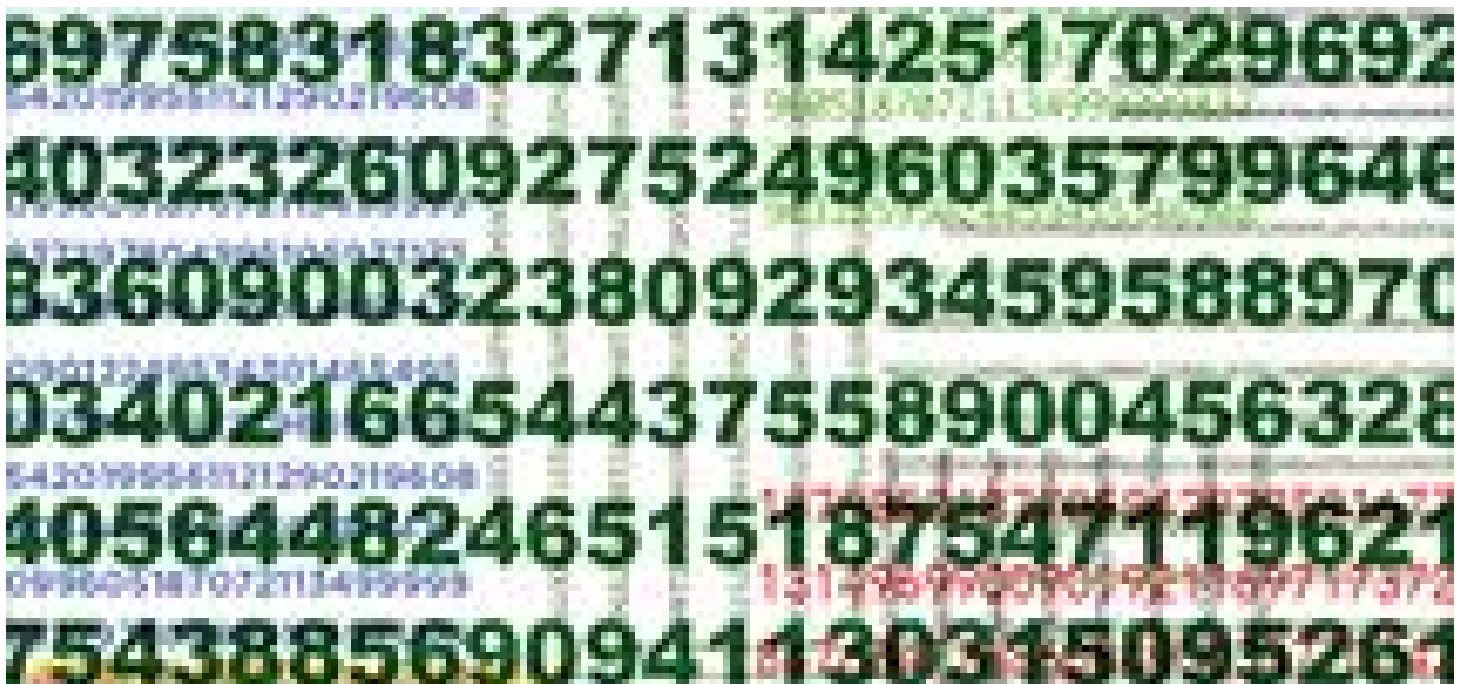
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