



THE HARVEY NASH IR35 SURVEY 2019:
CONCERN AND UNCERTAINTY REMAIN

The Harvey Nash IR35 Survey 2019: Concern And Uncertainty Remain

IR35 legislation is about to open a new chapter that is likely to have a lasting, and some say controversial, effect on the contingent workforce across the UK.

The latest survey by technology talent recruiters Harvey Nash reveals this soon-to-be-updated regulation continues to cause alarm, confusion and uncertainty for both contractors and the companies that hire them.

60%

of contractors are negative about IR35,

and a further
28%
are confused about its implications.

83%

of businesses say IR35 will impact negatively on their industry.

We asked for insight from over 1,100 contractors and the businesses that rely on them for success and growth. Against a backdrop of economic instability and political turmoil, they shared their concerns, opinions and future plans.

The results highlight IR35's ongoing unpopularity among the contractor community and point to imminent changes that may have an impact on project delivery, not to mention contractors' livelihoods.

Foreword

This Harvey Nash sentiment survey is spot on and confirms what Bauer & Cottrell are seeing every day since the new rules were announced. There is concern and uncertainty for all in the contractual chain. Perhaps the most worrying finding is the 50% of businesses that are not prepared. Many of these have been waiting for the Budget and the governments response to the draft legislation and publication of the final legislation, which were all expected this month but we are now looking at a General Election, which means the dissolution of parliament and all the bills (including the Finance Bill) being put on hold. No one can afford to wait for the detail and must prepare now based on what we know thus far. The parliamentary situation is just adding to the stress and worry found by this excellent survey.

Kate Cottrell, Founder, Bauer & Cottrell.

AT A GLANCE



83%

of businesses say IR35 will **impact negatively** on their industry



6 in 10

contractors are **stressed or worried** about IR35



17%

plan on **raising their rates** to cover the tax burden



> 50%

of businesses state they are **not prepared** for the change in legislation



1 in 5

businesses **considering cutting the use of contractors** completely



68%

of contractors believe IR35 will **hurt UK plc competitiveness**

HOW IR35 IS ABOUT TO CHANGE

What is IR35?

IR35 is tax legislation that is designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. Such workers are called 'disguised employees' by Her Majesty's Revenue and Customs (HMRC).

IR35: The new rules

In April 2017, the government replaced the original regulation with the 'off-payroll working rules' (IR35), a separate piece of tax legislation that applies to the public sector.

Currently, it's the client's responsibility to decide on a contractor's employment status. In the private sector, the responsibility still lies with the intermediary.

But these rules are set to change in the private sector from 6th April 2020.

From then, all public sector authorities along with all medium and large-sized private sector clients will have to decide if their contractors fall within or outside IR35. A change that could leave many contractors out of pocket and companies without the skills or capacity to deliver against business demand.

Companies that rely heavily on contractors are already rumoured to be taking steps to avoid the potential financial implications of the new legislation by switching all contractors to a PAYE system. Steps that could backfire if contractors decide to abandon them and seek outside-IR35 roles instead.

IR35: CONTRACTOR INSIGHTS

Contractors concerned

Harvey Nash's 2019 IR35 survey quizzed hundreds of contractors working in both the public and private sectors.

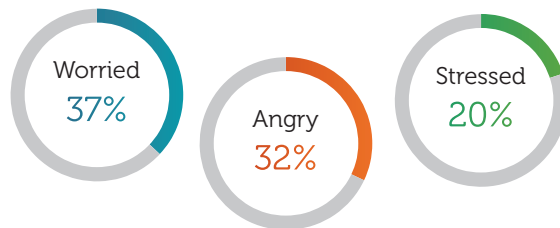
Perhaps unsurprisingly, contractors are overwhelmingly negative about IR35; few see an upside to the legislation. When asked how they felt about the impact IR35 might have on their livelihood, over nine in ten chose negative emotions, of which six in ten felt either worried or stressed. The following is a representative snapshot of comments:

"Unfair, limiting and stressful."

"A confusing trap."

"A constant threat hanging over me."

With the imminent changes to how IR35 is determined within the private sector, their fears are also evident in their response to one crucial question, "When you think about the impact of IR35 on your livelihood, what best describes the way it makes you feel?":



Less than 1% feel either hopeful or excited about it. Instead, they're genuinely and significantly concerned about what the future holds for them in its wake.

This concern extends to how often these contractors talk about IR35. Almost 40% have discussed the issue with peers every week over the last year. It's a hot topic.

And during these discussions, 60% described the attitude towards it as negative and more than a quarter (27%) as confusing.

Logically, contractors are thinking ahead to how they'll deal with the challenge of IR35 in the private sector. While 51% are wisely considering seeking contracts outside IR35 beyond April 2020, a further one in five (17%) are planning to increase rates to plug the profit shortfall (if an inside verdict is made). A step that will create an inevitable knock-on effect for the businesses they work for, as project budgets will need to be increased.

Indeed, the fear of IR35 potentially reducing their income by 30%, since inside contractors would be subject to PAYE taxes, is leading one in ten (10%) contractors to consider stopping and seeking full-time employment instead. This figure compares to just 3% last year - evidence that concerns are growing. And a further 6% will be looking for opportunities abroad to avoid the issue altogether.

A threat to the economy

Beyond their own professional security, contractors believe the changes to IR35 will be detrimental to the wider business landscape.

88% believe it will have a negative effect on the economy, 91% on productivity and 84% on innovation.

"Why, when we are about to complete Brexit, are Government sabotaging the very workforce that will be needed to help get us through it. It's calamity."
Dave Chaplin, CEO of contracting authority ContractorCalculator and IR35 Shield

Contractors also believe that the potential talent drain is not being taken seriously by HMRC. One-third of contractors say they need more information to fully understand IR35 and only 5% cite HMRC as their most reliable source of these facts. Instead, they're turning to external experts (22%) and the industry press (21%) to enlighten them.

Indeed, one respondent describes it as "a war on the freelance sector which will have a serious impact on the UK economy".

And when it comes to the government's online tool CEST (Check Employment Status for Tax), which is supposed to provide a conclusive and accurate IR35 determination, more than half (54%) of the 42% who've used it felt it wasn't useful or accurate.

The message from contractors is clear. IR35 changes appear flawed to them and have the potential to seriously affect their livelihoods.

As we can tell from the research, uncertainty, confusion and fear continues to impact contractors and the businesses that engage these workers.

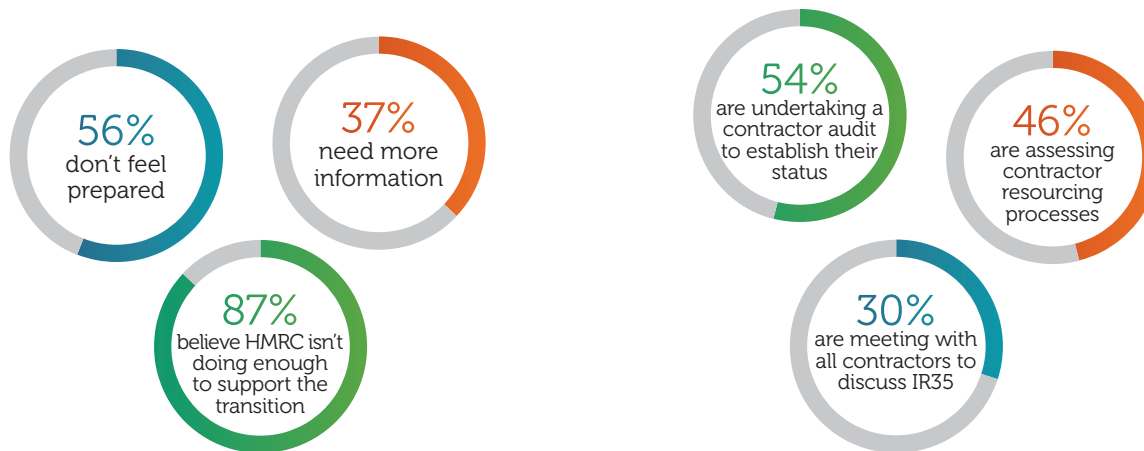
Seb Maley, CEO of IR35 expert, Qdos

IR35: BUSINESS SENTIMENT INSIGHTS

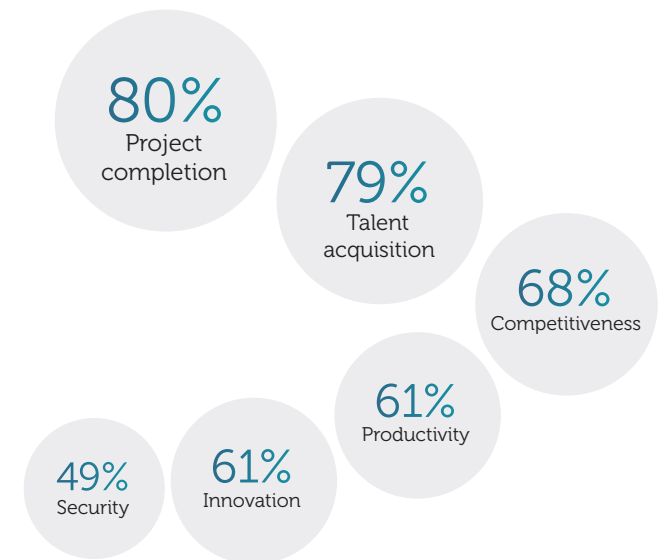
Private sector businesses will also soon feel the effects of the new IR35 legislation. Respondents here anticipate problems.

When businesses were asked who should be responsible for deciding if IR35 applies, 42% say the contractor and 40% say the organisation they're working for.

Many of them are also ill-prepared:



When it comes to predicting the impact of the changes next year, businesses are cautious with high numbers expecting this to be mildly or very negative across a range of areas:



Like their contractor colleagues, the private sector is approaching the changes to IR35 with a sense of trepidation.

"HMRC claim they are going to provide extensive help to businesses, yet have only published measly guidance which does not tell businesses how to prepare. It's no wonder 87% of firms don't feel HMRC are doing enough."

Dave Chaplin, CEO of contracting authority ContractorCalculator and IR35 Shield

WHAT THE EXPERTS SAY

Colin Morley, Professional Services Director at Harvey Nash, said:

"This insight from both contractors and private sector businesses points to a perfect storm on the horizon.

"Both sides in the contractor-client relationship will be affected. It's vital that all those involved prepare themselves now and mitigate their risk from the potential repercussions.

"Contractors need to establish their status and take the necessary steps to secure their livelihood. And businesses need to make their IR35 strategy crystal clear to the contractors who rely on them."

Will Jones, Director of Portfolio Solutions at Harvey Nash, adds:

"Contractors, in their efficiency and expertise, are the grease that keeps the engine running for many UK businesses.

"As organisations navigate the unfamiliar territory of the 4th industrial revolution, speed and agility are key to carving out a competitive advantage. The contingent workforce is more crucial than ever in providing them with the agility to adapt to the rapidly changing digital environment.

"At a time when Government should be doing everything it can to support British business, the feedback from respondents is that HMRC is not doing nearly enough to smooth the transition. What we need now is for HMRC to help us all by giving clear and precise guidance to remove ambiguity."

"Sadly, the well-documented experiences of the public sector, suggest such help will not be forthcoming in time for April 2020. Private sector companies must start planning now."

Harvey Nash's **internal experts** can guide you through the intricacies of IR35. We'll inform, discuss and ease uncertainty.

To find out more, or to book a Discovery Meeting please contact:

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