

Public sector bearing brunt of new tax rules

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- 70% of recruiters say contract placements in the public sector have dropped
- 45% report charge rates for contractors working in the public sector are increasing
- 78% believe extending rules to the private sector will impact UK economy's ability to source flexible labour

Public sector organisations are shouldering the costs of recent changes to legislation around 'Off-Payroll' working. That is according to the latest research from The Association of Professional Staffing Companies (APSCo).

Since April this year, hirers in the public sector have been responsible for determining the status of an assignment to supply services through a Personal Services Company (PSC). Contractors deemed to be working 'inside' IR35 legislation are taxed in the same way as employees, even though professionals operating through this model have no employment protection rights and have no certainty of continuity of work.

Those responsible for deciding status within the public sector often have little visibility over how the contractor works, and so are arguably not best placed to make the determination. As the organisations fear liability for any outstanding employment taxes or National Insurance contributions, many 'err on the side of caution' and automatically place assignments 'inside'.

A recent survey of the trade association's membership of professional recruitment consultancies found that 45% have witnessed the costs of resourcing contractors increasing since the new rules were introduced. Of these, 46% reported that rate rises were in excess of 15%.

As well as increasing spend, public sector organisations are also having to contend with shrinking talent pools, with the majority (70%) of respondents reporting that contract numbers in the public sector have decreased since April 2017.

In April 2016, more than 50% of APSCo respondents said that over 75% of their public sector contractors were working through their own PSC. By August 2017, this figure had dropped to 20%.

When asked about their perceptions of how public sector organisations are managing changes, over half (51%) said that clients have not got access to the tools and expertise necessary to make the correct determination, while 43% said that, in their opinion, the HMRC employment status tool does not generally produce reasonable status decisions.

A robust 78% of respondents agreed that the extension of the IR35 Off Payroll rules to the private sector will impact the ability of the UK economy to source flexible labour.

Commenting on the findings, Samantha Hurley, Director of Operations at APSCo, said:

"As we feared, it seems that these changes have had an adverse effect on the supply of contractors to the public sector. The increase in rates which has been noted can be attributed to two factors: the

scarcity of resource created by candidates moving into the private sector and the market adjusting by passing on additional tax and NI costs to the public sector client.”

“As APSCo warned, it would appear that HMRC’s calculations of anticipated savings, which didn’t take into account additional expense to the public sector, will be over ambitious.”

“There are fewer contractors now being supplied through PSCs and there is an obvious consensus on the increase of use of umbrella employed contractors, with 82% recording a rise. This is a trend our members anticipate to be ongoing.”

“We assume that HMRC is continuing to consider an extension of the Off Payroll rules into the private sector. Like our members, we believe that this will have an adverse impact on the strength of the UK’s labour market and wider economy.”

“The rise of professional contracting delivers multiple benefits to the UK economy through a highly productive and skilled labour force available on demand. Introducing the Off Payroll rules into the private sector without a full understanding of the market and the impact that an increase in costs will have on private sector productivity could have a devastating effect on UK competitiveness.”

Ends

Notes to Editors

APSCo is the membership body that is dedicated to representing professional recruitment in the UK. It was formed to give all firms involved in the recruitment of professional talent who have a commitment to excellence, the specialist support and distinctive voice they need to be successful. It gives candidates and employers a trusted badge of quality whilst providing member firms with an innovative range of services designed for them by recruitment experts. These services, combined with its growing international profile, commitment to Corporate Social Responsibility and opportunities for professional networking give APSCo members a unique opportunity to develop their businesses and gain competitive advantage (<http://www.apsco.org> (<http://www.apsco.org>)).

APSCo sent the survey to 1494 professional recruitment members in July 2017 to determine how their clients have been impacted by changes to off payroll IR35 legislation. The majority of respondents supply contractors into central and local government and non-medical, non-clinical healthcare. They work in a broad range of professional sectors. The top three skills respondents place into the public sector are: IT & IT digital, social worker professional and general professionals. All these sectors have been impacted by the changes.

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