



IR35 - THE END OF CONTRACTING? CWJOBS REPORT 2017



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THE TAXING QUESTION OF NEW CONTRACT WORK

Over 1,000 respondents, from a variety of organisations and skill sets. Searching questions, revealing answers. At CWJobs, we wanted to get to the bottom of the changes facing contractors. We wanted to know, from those on the front line, how the IR35 initiatives were perceived to help both contractors and recruiters plot a course through the confusion.

Just mentioning 'IR35' in a room full of contractors will get one of three responses; fury, resigned acceptance or indifference depending on how they think they'll be affected. But the questions are far broader for recruiters. Will more people be looking to move or will they be staying put? Will the private sector benefit at the public sector's expense? Which organisations face the biggest threats and the biggest opportunities?

We started by sending out a survey to CWJobs users, driving response from a cross-section of talent in the industry. 72% are working in the private sector, with 28% in the public sector. The majority (60%) of our respondents are also in contractor positions, with only 40% in permanent roles. There were some fascinating insights to address, but suffice to say the industry is aware of IR35 and has some clear ideas what that means for them. But are these notions correct?

So, what is IR35? We asked Dominic Harvey, Sales Director at CWJobs to explain the basics of IR35 and how it might affect contractors and organisations.

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It's essentially a way of HMRC preventing what's called 'disguised employment'. That is to say contractors who work for the same employer for extended periods of time but get a preferential deal from the taxman by being self-employed.

The bottom line is that they want to claw back some of this tax and they are going to start with the area they can best control: the public sector. The obvious outcome might be a brain drain from the public sector to the private sector which will remain untouched. For now.

”





IS THE PUBLIC SECTOR DOOMED?

This could seemingly have a negative impact on the public sector. Do you expect a rush for the door?



In reality I expect that drain, if it even develops at all, to be a drip rather than a flood. But be under no illusion if you are a public sector recruiter, you will be facing some tough questions from candidates. The people you want to hire will have choices, better paid choices, and you'll need to make an even stronger case.



So you see it as a threat to public sector recruitment and great news for the private sector?



That's many people's assumption but, equally, if you are a private sector recruiter you could be looking at a potential surplus of talent wanting to work for you. Identifying the best candidates and dealing with downward pressure on salaries in a buyers' market – these could be real challenges.

Add in the fact that we are hearing that HMRC and the NHS might be ring-fencing their staff to avoid disruption, there could be a quiet stampede toward certain roles, away from others and even resentment between colleagues who report through different lines. You must look internally at what's happening, not just externally.

And, whilst this initiative is currently aimed at public sector organisations, I would say to the private sector 'it's in the post'. It will certainly pay to keep abreast of developments and be well prepared for what may or may not affect your organisations or your pay packet.

Wise recruiters would do well to be on top of developments as they happen. One of the first things you can do as an individual is use the Employment Status Tool.



THE EMPLOYMENT STATUS TOOL, PROBLEM SOLVED?

Nick Winwright, Programme Delivery Manager at Totaljobs Group and regular recruiter of contract talent, was a little more circumspect.



The Employment Status Tool is an interesting one. You are not obliged to use it, but once you do, the outcome is binding. My honest advice would be to hold fire and have all your paperwork in order in case you are challenged. Make sure your contract and confirmation of arrangements are in order and very clear.



He agreed that employers need to be aware of the changes, and that longevity could be a thing of the past.



Nobody wants technology to start falling over, but these changes will presumably make recruiting into the private sector far easier. The ‘sell’ is obvious. We know that the primary driving force when contractors change roles is ‘salary’, so the initial conversation about moving from post-IR35 public sector to private should be an easy one. People will be moving around more, which happens whenever there are changes. This will make recruiters ‘busier’ but the battle lines will have moved. From a personal perspective, I would argue that the private sector is more exciting and it is a long way off facing this kind of change.



CONTRACTORS MAY SUFFER UNNECESSARILY

Roy Dungworth, Managing Director at Montash (multi-award winning global technology recruitment business), has spotted another potential flaw to be wary of.



Strictly speaking, the criteria used to determine the IR35 status has not changed. Those workers that previously fell outside of the rules will still fall outside. The main difference is that the control is taken away from the worker.

As the agency is liable should any tax not be deducted when it is due, they may take the extreme course of determining all their workers to be inside the IR35 rules and make a withholding regardless of the situation. This would protect them from liability but would cause many workers to suffer a deduction that is not justified.



A mass move away from public sector work would likely result in a shift in payment rates. Additional skilled workers moving into the private sector will have the result of lowering rates due to excessive supply. At the same time, a move away from public sector work will create a demand that needs to be filled; this means that higher rates will need to be offered. If the government is unable to compete with the uplift then the level of skill of the workers they retain or obtain will drop. If the level of skill is lower, then an inadequate service is likely to result. This could lead to more issues and additional cost to the government and ultimately the tax payer.





The predictions and expectations from recruiters are varied. However, the core advice remains consistent: stay on top of your paperwork and keep detailed records.



WHAT DO CONTRACTORS THINK AND WHAT DOES THAT MEAN FOR RECRUITERS?

What are the key findings from our research? Three quarters of the contractors we surveyed feared reduced income. Perhaps more worrying for organisations is that nearly two thirds (62%) think that project delivery will be adversely affected.

In addition, recruiters are already reporting issues due to the impact of IR35. 57% are saying that it is now harder to recruit the same quality and quantity of staff. To mitigate this, a similar number are saying that they are having to offer higher rates.

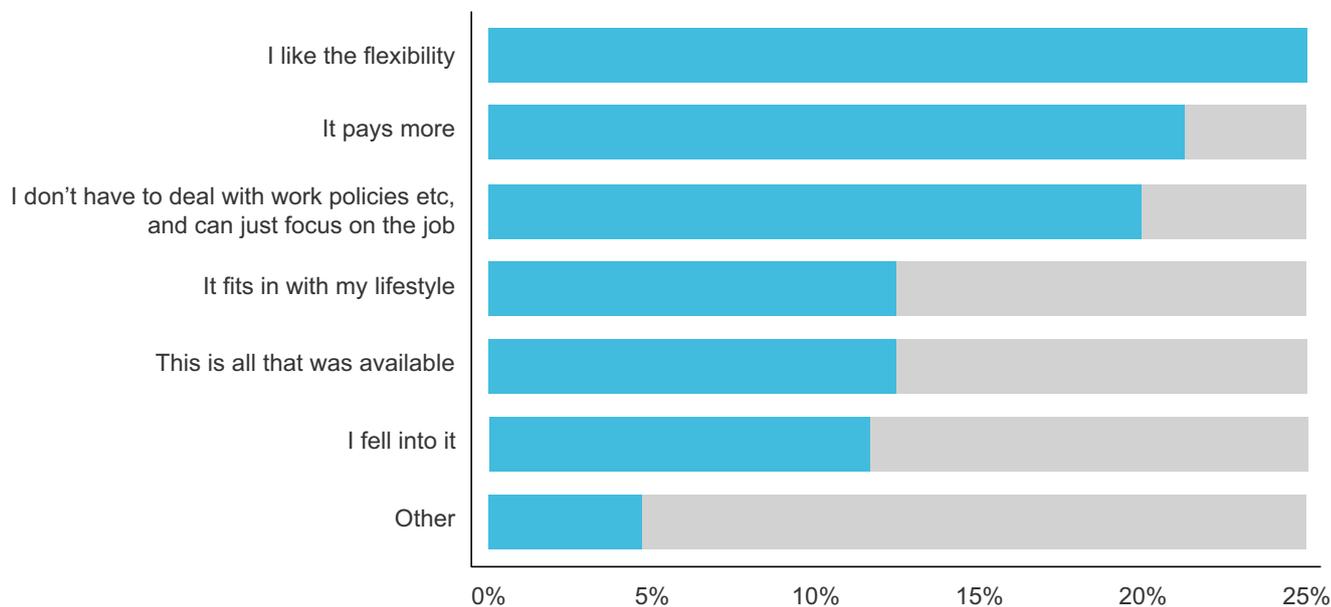
Our research confirms the reasons why tech talent chooses to contract, why they may choose to look for new opportunities, and how they perceive IR35 will impact their careers. We hope to enlighten recruiters on the best ways of attracting, reassuring and retaining this talent through this complex regulation.

We began by asking why candidates contract in the first place. The single biggest reason was 'flexibility'. The public sector is in a strong position here -their reputation for work/life balance, support and good employment practices is something recruiters can use when hiring in this sector.





WHY DO YOU CONTRACT?

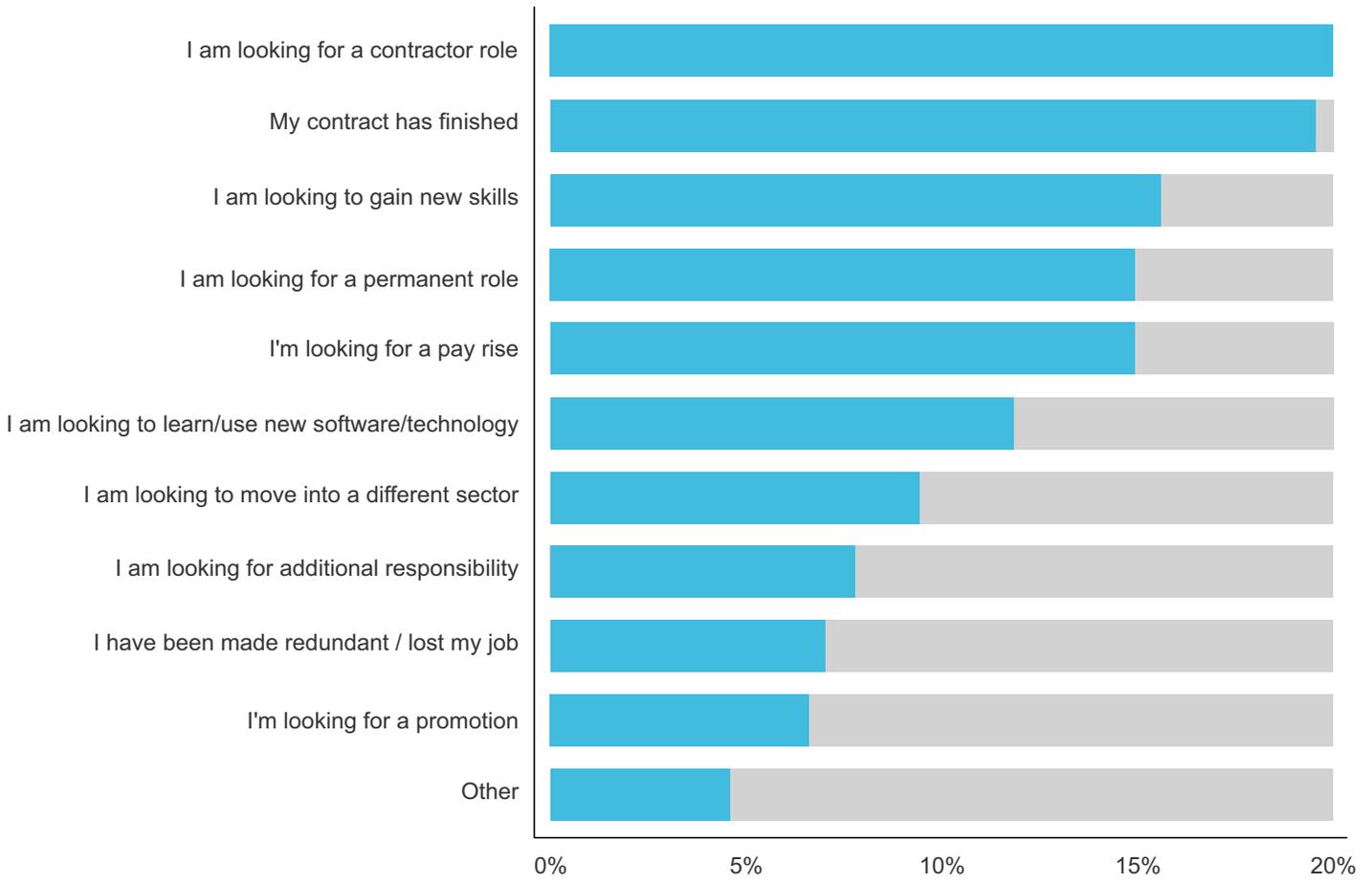


We also asked job seekers why they were looking for work. This threw up some expected, but also unexpected results.

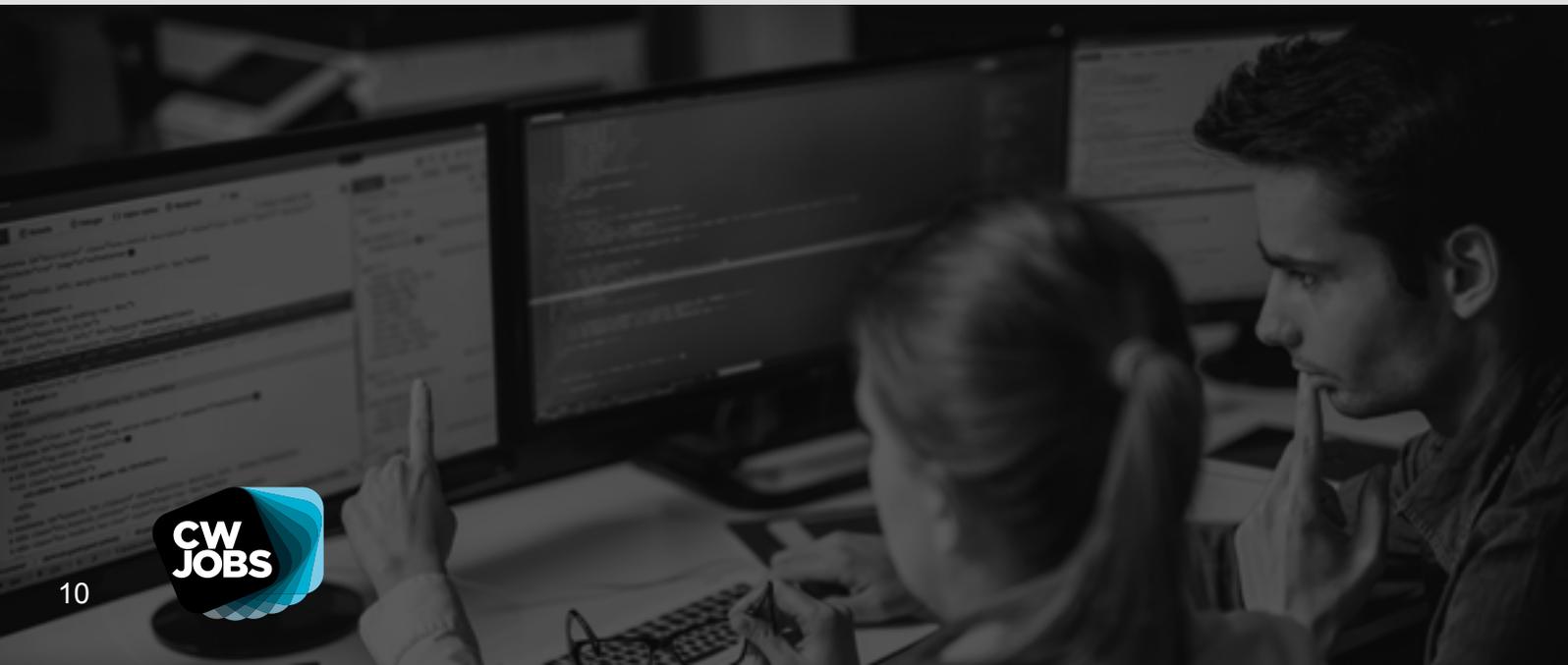
The two largest groups said they were looking for a new contract (16%) or that one had recently finished (15%). No surprises there. But the third largest group (13%) was looking to gain new skills.

A significant proportion of respondents were also looking to learn or use new software and technology (9%). The public sector offers this in abundance. The scale of data, the investment in huge technology roll-outs, and the sheer size of projects simply can't be beaten. Again, this is an opportunity for public sector recruiters.

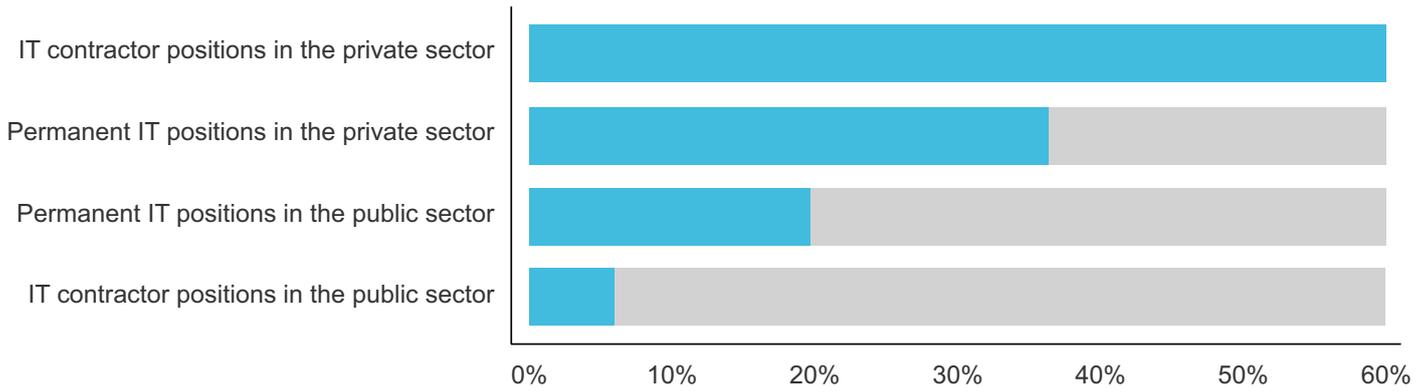
WHY ARE YOU LOOKING FOR A NEW ROLE?



Recruiters must also be under no illusion as to the challenge they face overcoming a certain level of negativity toward the public sector. Only 6% of our respondents said that contractor roles in the public sector are attractive. There is an image problem. But the fact that public sector contracts are not 'obviously' appealing, doesn't mean that they can't be presented positively when the facts are laid out clearly.



WHICH POSITION DO YOU THINK IS MOST ATTRACTIVE?



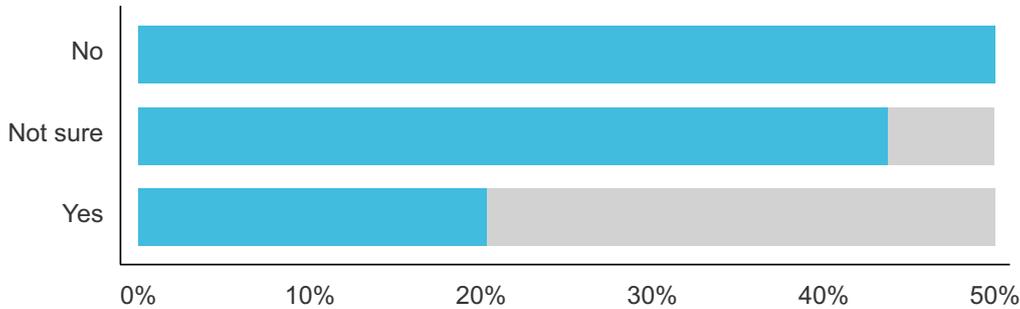
That said, there is a broad acceptance, that the public sector needs new skills. Again, this appears negative but can be turned to public sector recruiters' advantage. Skilled contractors will be very welcome, influencing and working on high end projects. The rewards for 'a job well done' are second-to-none.

The survey also shows that most candidates predict the new regulations will be rolled out in the private sector. There seems to be an acceptance that this is the new reality. It may be that more people stay put in the public sector than we think, and that the grass may not be greener for long.

Finally, it seems there is a feeling that IR35 will not pose an existential threat to contracting. Our research shows that the majority (44%) do not believe that IR35 will lead to the end of contracting, with the second largest group (39%) being unsure. Continued reassurance from recruiters that contractors are valued and have a long-term future – that there's far more to the 'deal' than money – could form part of a strong attraction strategy.

STRATEGIES FOR RECRUITERS

DO YOU THINK THE NEW IR35 REGULATIONS WILL LEAD TO THE END OF IT CONTRACTORS?



In addition to surveying our jobseeker audience, we also conducted research with 40 recruiters. These employers shared their tactics to ensuring they remain attracting top-quality contractors. Large numbers are increasing pay to public sector contractors, offering permanent roles or longer contracts, and even being more flexible on required skill sets.

This is an opportunity for organisations, but also for contractors, to broaden their horizons. Different types of people in different types of role is good for the technology gene pool and will provide new insights in organisations. It also offers new opportunities for previously pigeonholed talent.

So, the message to public sector recruiters is clear - play to your strengths. You are unlikely to win talent purely on salary, but for someone looking to build skills and develop a future-proof CV, the public sector has a compelling offer.



CONCLUSION



In summary, IR35 is causing ripples in the industry. It is already having an impact on perception (if not reality) and this is both a challenge and an opportunity for recruiters. By focusing on the projects available, the scale, the opportunity for personal growth and the work/life balance, recruiters can present public sector contracting in a different way. Money is always going to be a driving force for contractors, and there are some signs that there will, in time, be an upward pressure on rates. The reverse could even be true in the private sector as talent supply outstrips, or at least approaches, demand.

The picture is, at best, unclear. But the rewards in terms of skills and personal growth are there in the public sector today. And the best advice from all quarters is to be on top of your paperwork, both as an employer and as a contractor. Take advice from accountants if you can and make sure, if challenged, that you can provide contracts and records.

ABOUT CWJOBS

CWJobs is the UK's leading specialist tech recruitment website for both permanent and contract jobseekers across all sectors. We offer recruiters a fast and effective recruitment solution for their next recruitment campaign.

Each month, over 40% of the UK's tech professionals visit our site generating over 380,000 job applications to the UK's top tech employers. At any one time, we advertise over 10,000 jobs on behalf of over 800 companies. These vacancies reach our visitors and CV database of over 960,000 tech professionals.

We focus purely on acquiring tech candidates to our community of jobseekers through a variety of IT and tech partnerships, guaranteeing you a high calibre response to your job listings.

For more information about CWJobs or our research, get in touch today.





Speak to one of our team on **0333 0145 111**



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