



inni Accounts

Off-payroll working: impact research

12th Feb 2020

- Exodus of contractors and consultants in next 8 weeks
- £2.2bn immediate economic impact
- 15% of contractors' and consultants' homes at risk

Summary of findings

- Half of contractors and consultants will leave clients in next 8 weeks, leaving projects in disarray
 - £2.2bn immediate cost to economy due to lost productivity
 - 61% in banking, finance and insurance have seen regulatory projects at risk
 - 74% in defence and aerospace have seen nationally important client projects at risk
 - 47% have seen offshoring of work as a result
 - 15% are set to default on mortgages or are in the process of selling homes
 - 9.5% of those surveyed use contracting and consulting to overcome disabilities or health issues, or to give them flexibility as carers
 - Fear of brain drain is widespread, which will lead to a short term and long term economic impact that could outweigh HMRC's business case
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“Drop in productivity and programmes are slipping as contractors have withdrawn discretionary effort”

“Not enough [aerospace] engineers to certify work. Work signed off without being seen.”

“[I’ve witnessed a] security risk for major law enforcement agency as delays in upgrading to supported platform”

“I’m currently considering early retirement as I’ve had it with being treated like a criminal. I’ve previously been investigated for IR35 and been found outside so to be incorrectly or blanket assessed really infuriates me.”

“Will be forced to fold business because I live in the North of England and most of my clients are south as far as Portsmouth.”

“I’ll be happy to take some time out until the market invariably stabilises and suitable contracts become available again”

“Very stressed, depressed and demoralised. I have worked hard to build a business and work with multiple clients at the same time all of which have now cancelled my contracts. I have 5 kids and a wife that can’t work I do not know how I will survive after April. I am now out of work.”

“I am open to any role at the moment as I have bills to pay, though I must admit I will not be as motivated and committed to my job as when I was freelancing.”

“Lost for words at how incompetent the Government have been in handling this aggressive stance by HMRC. Sleepless nights, running down savings.”

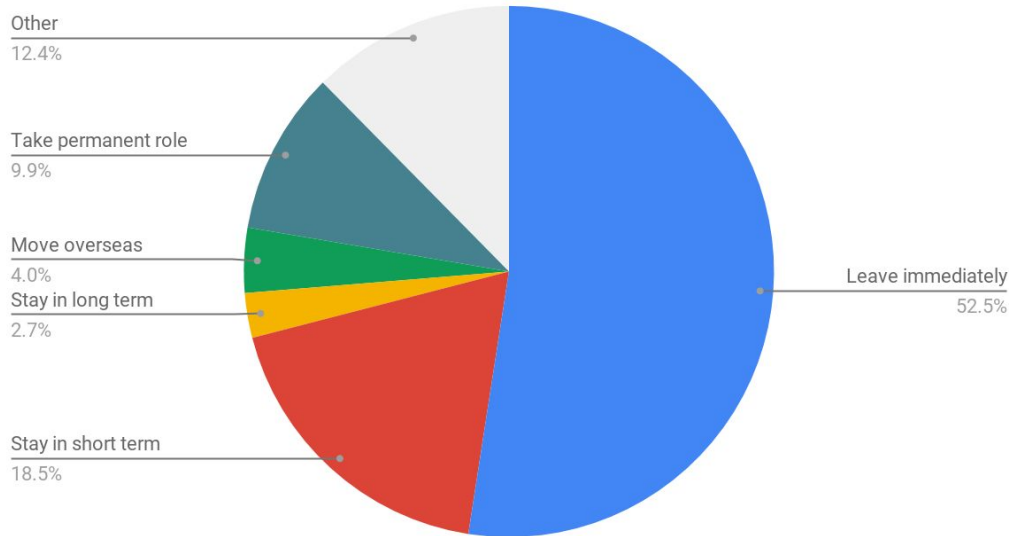
Off-payroll changes: summary

- From April 2020, large and medium organisations (“clients”) engaging self-employed business owners (such as contractors, consultants and freelancers) must assess and determine if they are acting as genuinely self employed, or “deemed employees”
- Previously, self-employed business owners were responsible for determining the status of the engagement

Business owner	Deemed employee
“Outside IR35”	“Inside IR35”
Uses business tax regime	Subject to employment taxes

The majority of self-employed individuals will abandon their clients by the end of March 2020, leaving projects in disarray

What is your most likely next course of action?



Less than 3% of the self-employed accept this as the “new normal”

Those leaving immediately are either moving to new clients (even inside IR35 to avoid HMRC retrospective action) or taking a break.

Those staying short term are either waiting for assessments, or waiting for an outside IR35 role.

Many of those taking permanent roles are waiting for the contracting market to pick up.

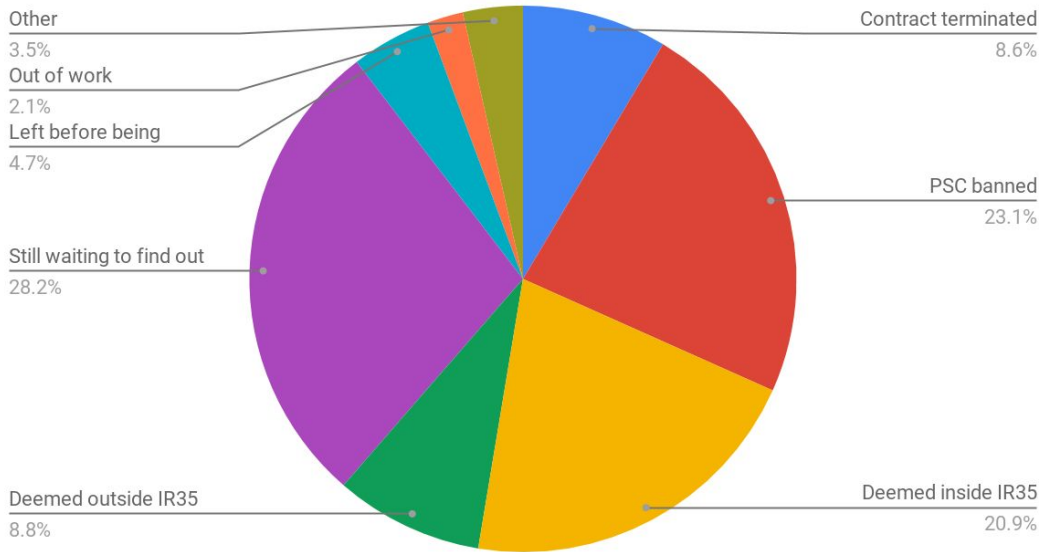
This mass departure of the self-employed can be attributed to four key drivers

Mistrust of HMRC	“War Chests”	Legal advice	Market confidence
91% do not trust HMRC’s stated policy	85% of those leaving have cash reserves	44% have advice that confirms status	77% think the market will return
They think that staying with the same client puts them at risk of a retrospective tax investigation.	They have set aside earnings for this situation and have enough reserves to last beyond April.	They are confident that they are self-employed, and the client assessments are flawed.	They think the outside IR35 market will return, they are confident that they are self-employed and will find work.

Businesses have underestimated the power of these drivers, leading to higher than expected churn of self-employed contractors and consultants

Clients are being over-cautious and either refusing to engage the self-employed, or not assessing inline with HMRC's forecast

What's your current situation?



So far, only 9% have been deemed outside IR35, despite HMRC stating 66% would be outside IR35

23% have been banned by clients, without assessment, and 28% are still waiting to find out, with less than 8 weeks to go

"I feel that although the HMRC changes were intended to be good I have been penalised as a genuine Consultant, with multiple clients. My clients have been scared into making blanket inside IR35 judgements and are not assessing roles correctly."

Businesses have been unable to mitigate risks

Insights from project & programme managers responsible for delivery show that:

- 85% think mitigations are not sufficient to deal with risk of leavers
- 52% think more self-employed are leaving than expected
- 44% think scale of impact is not yet apparent to the SMT / C-suite

£2.2bn productivity gap in H1 2020

Turnover of self-employed leaving and being replaced alone will create an immediate £2.2bn productivity gap, excluding knock-on project impacts.

- 500k contractors and consultants
- 52.5% leaving in near term and need replacing
- 4 weeks minimum for replacement to achieve delivery productivity
- £512 average daily rate

500k x 52.5% x 4 weeks x 5 days x £512

“There is a brain drain: all knowledge built up over the last few years will be lost”

- Pharmaceutical / medical research professional

Significant material impact on value creation

Self-employed contractors and consultants are predominantly engaged to deliver specific projects. When asked about their current project, observations recorded were:

- 59% delivery later than expected
- 17% miss regulatory deadlines
- 25% receive late delivery penalties
- 11% postponed
- 4% cancelled

In banking/finance/insurance

61%

Have seen regulatory projects at risk

“Subject matter experts are no longer available. Specialist and regulatory projects will be difficult to deliver”

In retail

59%

Have seen digital transformation projects at risk

“The knowledge and key skill sets are walking out of the door. That can't be replaced”

In aerospace & defence

74%

Have seen customer projects at risk

“National defence projects are being delayed”

47% have seen offshoring as a result

Of the self-employed who took part in the research:

- 4% have seen thousands of roles being offshored
- 10% have seen hundreds of roles
- 9% have seen dozens of roles

Clients are failing to take “reasonable care” to assess self-employed status, despite proposed legislation

[Under the proposed legislation, clients must: take “reasonable care” when determining employment status; issue an SDS (status determination statement) and provide a route to allow the outcome to be challenged.]

- 47% of the self-employed are unclear how the determination was made
 - Only 13% have been provided with an SDS
 - 23% of those deemed inside IR35 have been told they cannot challenge the outcome
 - Just 6% think the process was clear and transparent
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Those who have been deemed inside IR35 are facing cuts to net pay, and 15% are already facing financial distress

For those deemed inside IR35 or facing a PSC ban, 90% will experience a reduction in net pay

- 34% are expecting a reduction of 21-30%
- 29% are expecting a reduction of 31-40%
- 17% are expecting a reduction of >40%

Whilst many have “war chests” for situations like this, others are facing financial distress

- 7% will default on their mortgage before April
 - 8% are already preparing to sell their house
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Trust of HMRC amongst the self-employed is low, and the majority fear they will embark on retrospective tax investigations

Despite HMRC's reassurances to the contrary, 91% don't trust HMRC and think they will start retrospective tax investigations. 69% think the scale of an investigation could be similar to the loan charge

If pursued for retrospective taxes:

- 25% would declare bankrupt
- 7% would sell their house
- 5% would use savings
- 3% would raid pensions
- 45% have no idea how they would respond

31% have taken out tax insurance, with a further 12% about to

Off-payroll is impacting the mental health of the self-employed, and groups with protected characteristics are affected

“Many patients come to us in crisis due to social uncertainty like this”
- *Psychiatrist at NHS crisis unit serving city.*

- 51% are coping, but starting to worry
 - 31% have deteriorating mental health
 - 5% have visited their GP for anxiety or suicidal thoughts

 - 9.5% are self-employed to overcome their own disability or illness, or to give them flexibility as carers
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“[My two children are disabled and] freelancing is a vital part of me being able to manage them, their schools and my own coping mechanism, without becoming overwhelmed and being of no use to anyone”

“Fearful for my family. My young daughter is disabled and my wife does not work to care for her. Losing our home is a very real outcome unless wholly unfair IR35 reform is halted or unless I conceive of and succeed quickly on a different path.”

“Frequently having chest pains, and not sleeping. Added pressure of wife not coping well due to fear of losing family home. Trying to remain calm, but frequently having suicidal thoughts”

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Appendix



About inniAccounts

- Accountancy firm that specialises in supporting small service businesses
 - Team of 24, privately owned, UK based
- Founded in 2006 by former self-employed contractors and consultants
- Campaigning for fair treatment of the self-employed via offpayroll.org.uk sister site
 - 1.8m views of social media content in last 5 weeks



Research background

- Research to understand impact of April 2020's off-payroll working reform
 - Fieldwork undertaken 7/2/2020 to 10/2/2020
 - 1,485 responses from self-employed freelancers, contractors and consultants spanning 19 economic sectors
 - Additional information and insight is available for over 500 end clients at www.offpayroll.org.uk
 - Updates are published on LinkedIn at <https://www.linkedin.com/company/offpayroll/>
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Which sector is your client in?

	Response Percent
Aerospace & defence	6.97%
Automotive	1.44%
Chemicals, mining and materials	0.64%
Construction & materials	1.84%
Consumer goods	2.00%
Electronic engineering	0.32%
Finance, banking & insurance	34.99%
Healthcare	2.80%
Industrial engineering	1.12%
Media	1.52%
Oil, gas and energy	8.25%
Pharmaceuticals & biotechnology	3.36%
Retail	4.48%
Support services	1.44%
Technology (software & hardware)	8.73%
Telecoms	4.32%
Transport	3.04%
Travel & leisure	0.48%
Utilities	2.32%
Other (Please specify)	9.93%
