

Fairness, clarity, recognition: Manifesto for freelancing



Professional Contractors Group Ltd
Heathrow Boulevard
280 Bath Road
West Drayton
UB7 0DQ

T +44 (0)208 897 9970
www.pcg.org.uk



The voice of freelancing



The voice of freelancing

Foreword

PCG believes that the next Government has a great opportunity to take bold steps to enhance freelancing as a vital and vibrant part of the UK's economic landscape.

In the last decade there has been an unwarranted and massive growth in burdensome over-regulation and unfair taxation hindering our competitive advantage. The next Government can and must move forward from this situation and should act to ensure that the UK is the model for freelancing in Europe.

In this document, PCG's first manifesto, we are calling for fairness, clarity and recognition in five key areas:

- Recognition of freelancing as a valid way of working
- Fairer taxation
- Better regulation
- Easier access to the market
- Future of freelancing

The next five years must see the Government embrace freelancing as a flexible and innovative way of working, which brings substantial benefits to the UK economy. The Government should recognise that freelancing is a sustainable career and lifestyle choice which, despite the personal risk, is an increasingly popular way of working in the 21st Century.

We look forward to working closely with the next Government to create the right environment for freelancers and indeed the UK economy to thrive.



Chris Bryce
Chairman, PCG

Introduction



Freelancers represent a significant and growing part of the UK workforce. Their numbers have increased by 14% in a decade to 1.4 million. The freelance way of working is relatively uncommon within Europe. The competitive advantage afforded the UK by its highly skilled, mobile and flexible freelance workforce must be nurtured and protected.

There is no such thing as a "typical freelancer". Freelancers are an extremely diverse group, working across the business world, in fact anyone who is working independently in a knowledge-based industry.

Freelancers:

- Are highly skilled knowledge workers
- Supply services to a range or succession of clients
- Are neither employers nor employees
- Have commercial ("self-employed") relationships with their clients
- Work for a fee

Many different terms are used to describe the freelance workforce, including "freelancer", "independent worker", "contractor", "interim", "portfolio worker", "consultant", "own account worker" and many more.

The value of freelancing to the economy

“PCG, with more than 18,500 members, is the association that represents freelancers in the UK.”

Freelance businesses use a range of legal forms, including limited companies, sole traderships, partnerships, umbrella companies and others. Many work through agencies, others direct for clients.

PCG, with more than 18,500 members, is the association that represents freelancers in the UK. Its mission is supporting and promoting the freelance community, with specific attention to the needs of those freelancers who are members of PCG. We are the ultimate authority on the issues that affect the freelance community and strive for freelancing to be valued and respected as a legitimate option and a vital force for the UK economy.

“Freelancers in managerial, professional and semi-professional occupations contributed £82 billion to UK GDP in 2008.”

Estimates of the size of the freelance workforce and its impact on the UK's economy vary with the definition of freelance status adopted, and the data sources used to derive them.

- Freelancing is a way of life for many. Freelancers include self-employed workers, directors of limited companies without employees, and those working under PAYE umbrella arrangements.
- Of these, 1.4 million work in Standard Occupational Classification (SOC) groups 1-3, which are primarily managerial, professional, and technical occupations.
- Freelancing is becoming increasingly popular. The number of freelancers has increased by 14% in the past decade.
- Freelancers in managerial, professional and semi-professional occupations contributed **£82 billion** to UK GDP in 2008.
- If these freelancers were employees, they would have contributed just £61 billion. The flexibility contractors provide to the economy can therefore be valued at £21 billion.

“91% of PCG members polled stated they would vote for a party committed to abolishing IR35.”

- Freelancers work in a variety of sectors for a diverse range of clients, including IT, financial services, the public sector, telecoms, manufacturing, defence, health, aerospace, the media, and creative sectors.
- The iniquitous IR35 tax legislation, which unfairly targets freelancers, has cost the economy an estimated £1.2 billion a year since its introduction.
- 91% of PCG members polled stated they would vote for a party committed to abolishing IR35.

Sources:

Kitching, J. and Smallbone, D. (2008) *Defining and Estimating the Size of the UK Freelance Workforce*, Kingston University, Small Business Research Centre. A report for PCG, using statistics from the Department for Business, Innovation and Skills and from Labour Force Survey Data

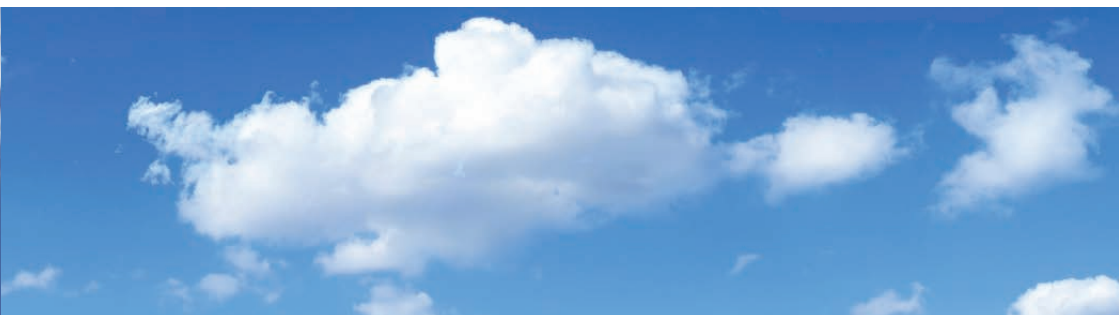
Oxford Economics (2009) *The Economic Impact of IR35 – A study conducted for PCG.*

Comres and PCG (June 2009) *PCG Membership Survey Results*

Key messages

- Recognition of freelancing as a valid way of working
- Fairer taxation
- Better regulation
- Easier access to the market
- Future of freelancing

Recognition of freelancing as a valid way of working



The key to understanding freelancing lies in disregarding the various legal forms that freelancers use, the functions they exercise and the sectors they work in. The best starting-point is to consider the relationship between the freelancer and the organisation that pays for their services.

PCG believes the Government needs to:

Define employment in statute

Freelancers provide services to a range or a succession of clients on a commercial basis. Duration of their engagement can vary from hours to several years. As a result, a clear distinction must be drawn between a “contract of service” and a “contract for services”, which IR35 fails to do. Clarity about employment status is imperative and needs to be defined in statute, so that there is an obvious distinction of who is, and who is not, an employee.

Freelancers should be recognised as nano-businesses

Freelancers are a unique sub-set of self-employed workers and without employees. Their business model rests on supplying their expertise to clients without necessarily seeking to grow and take on permanent staff. Therefore they should be recognised as a legitimate business model and be included in the small business agenda, rather than the employment and social agenda.

Provide legal clarity and oppose disguised employment

Working as a freelancer is a legitimate and valid business model. Unfortunately, the law in this area is unclear, meaning freelancers all too often find their employment status questioned. The Government should provide legal clarity in order to assure freedom to freelancers who genuinely wish to enter into business whilst, at the same time, oppose disguised employment.

Recognise freelancers as businesses that take risks

Like any other business, freelancers are exposed to commercial risk. However they are neither employers nor employees. They work from home or at their clients’ premises. They often do not rely on credit and, if they fail, are left with no income and no safety net. The Government should ensure a level playing field for freelancers with other businesses.

Appoint a Minister with responsibility for nano-enterprises

Entrepreneurship and a flexible labour force represent a vital strategic asset for Britain’s future global competitiveness. This needs to be recognised with the appointment of a Minister with responsibility for the flourishing freelance community, to act as a champion and ambassador of the model nationally and abroad.

Fairer taxation

“IR35 is rarely successful, often ending up in the courts, with the overwhelming majority of HMRC investigations failing.”

PCG believes in a fairer and less complex tax system for all small businesses, and would support an overall review of taxation for all small businesses in the next Parliament. It is vital that those businesses can operate on a sound commercial footing, which requires a tax system that is clear, consistent and easy to comply with.

PCG would also support an independent body such as the suggested 'office of tax simplification' which would bring experts from accountancy bodies, business and academia together to look at all proposed taxation for small business to ensure it was fair and transparent and did not create additional administrative burdens before it was enacted.

PCG believes that the Government must never see hard work and enterprise as a soft target for tax investigations. PCG wants to see HM Revenue & Customs (HMRC) adopt a new and improved attitude. One where they see their role as neutral gatherers of the right amount of tax, not the largest. One where they act as the respected executors of Government policy, not driving Government policy.

IR35 is seriously flawed because;

- It is difficult to apply and so most freelancers don't know if they are within it or not.
- It is burdensome for HMRC to implement.
- It is rarely successful, often ending up in the courts, with the overwhelming majority of HMRC investigations failing.
- It raises almost no money – probably less than it costs to implement.
- The stress and burden it puts on freelancers who are genuine businesses is unreasonable.

PCG has two immediate priorities for the next Government:

Repeal the Intermediaries Legislation (IR35) in the first Finance Act of the Parliament

It is complex, unfair, uncertain, and raises almost no revenue. Freelancers are usually both incorporated and providing services. They have to consider, in relation to every contract they accept, whether or not it is caught by IR35.

Further, PCG wants to see the repeal of sections 44-47 of the Income Tax (Earnings and Pensions) Act 2003 – which effectively force a nano-business to operate on a corporate basis, denying freelancers the opportunity to be truly self-employed.

The proposed 'Income Shifting' legislation (the 'Family Business Tax') should be dropped with immediate effect

This was an attempt by the Government to treat jointly-owned businesses differently from normal businesses, wishing to tax people for their contribution (labour) to the business rather than recognising that the profits from the business are a reward for risk. This would have affected thousands of companies across the country.

Better regulation

“In future all Government departments will have to ensure that 10% of their procurement budgets will go to nano-businesses.”

As the smallest of small businesses, it is vitally important for freelancers that regulation is clear, accessible and not unduly burdensome.

PCG believes that to help make Britain a better place to do business the next Government needs:

- A binding undertaking that businesses cannot be penalised for acting in accordance with official guidance from the Government.
- Mandatory post-implementation impact assessment of all legislation and regulations at UK and EU level.
- Regulatory Impact Assessments to be carried out on EU proposals.
- Policy costs of regulation to be measured as well as administrative costs.
- A central portal, within which all regulations are visible, to be established.
- Sunset clauses in all new regulations so that the desirability of any single regulation has to be examined periodically.



- A commitment that in future all Government departments will have to ensure that 10% of their procurement budgets will go to nano-businesses.
- The Information Commissioner’s Office (ICO) to ensure freelancers’ personal data is adequately protected.
- A commitment to ensure regulation such as the Agency Workers Directive, does not impact upon genuine freelancers, in business on their own account.

“As the smallest of small businesses, it is vitally important for freelancers that regulation is clear, accessible and not unduly burdensome.”

Freelancers need easier access to the market for their services

“The Government needs to ensure regulatory barriers, burdens and costs to tendering are reduced, so freelancers can truly compete with larger businesses.”

PCG believes that:

Freelancers need fair access to Government procurement contracts.

The Government needs to:

- Ensure regulatory barriers, burdens and costs to tendering are reduced, so freelancers can truly compete with larger businesses.

The current system deters small companies from bidding, by imposing numerous administrative and regulatory burdens only large “prime contractors” can possibly meet.

- Split Government procurement contracts into smaller components.

This would avoid problematic “super contracts” and give freelancers a better opportunity to deliver their services, directly rather than being subcontracted via a “prime contractor”.

The Government must ensure freelancers have fair access to contracts requiring security clearance. Government departments and their contractors must not discriminate against freelancers who do not have pre-existing security clearance.

“Government departments and their contractors must not discriminate against freelancers who do not have pre-existing security clearance.”

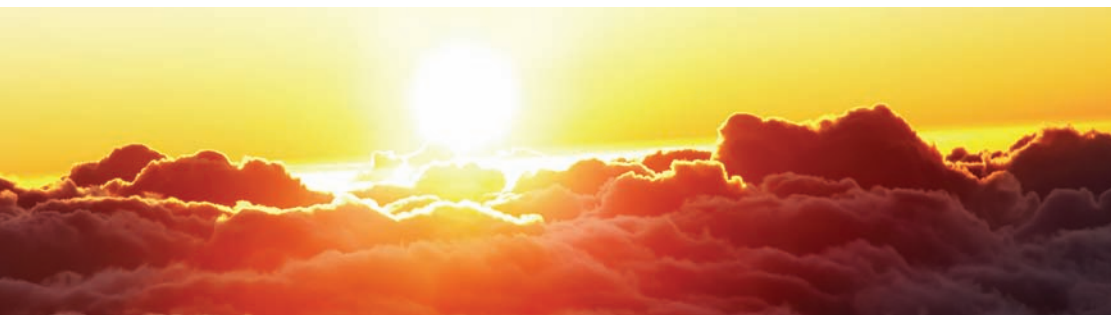
Freelancers need to be able to compete on the global stage. The Government needs to encourage the growth of freelancing in the face of competition by:

- Ensuring Government policy does not encourage offshoring, and promotes the growth of the UK’s IT and engineering sectors. Offshoring has no proven long term economic benefit.
- Ensuring the immigration system actively prevents displacement of UK freelancers and contractors. In particular, Intra Company Transfer permits must not displace or exclude UK contractors, especially in nationalised industries.

Government support for businesses often overlooks freelancers and the self-employed. PCG proposes that support available to freelancers should be improved by:

- Providing incentives and schemes under the “Solutions for Business” brand targeted at freelancers and the self-employed.
- Reducing late payment by Government departments and their subcontractors.

Future of freelancing



“It is PCG’s fundamental belief that flexibility in the labour market is the key to ensuring Britain’s future economic success.”

It is PCG’s fundamental belief that flexibility in the labour market is the key to ensuring Britain’s future economic success.

The next Government should encourage freelancing as a flexible, innovative and entrepreneurial way of working that enables business to perform more cost-effectively, especially when recovering from recession.

Freelancing should be promoted and incentivised

A flexible labour market facilitates a dynamic and competitive economy able to thrive in the future. The Government should promote freelancing as a viable option for those individuals who actively choose this enterprising path.

Those who take risks, such as freelancers, should not be penalised

Freelancers bear the risk and responsibility of working for themselves. Therefore the Government should recognise this choice by providing the appropriate framework in the tax and benefits system.

Government should ensure access to training for freelancers

The only way freelancers can grow their business to keep meeting the needs of UK businesses is through continuously improving their skills. Training should be encouraged in this fast moving environment to allow freelancers to compete in a globalised economy.

Jobseekers who choose to freelance should be given the opportunity to explore this option

Freelancing could represent an attractive choice for many entering the labour market, including graduates. The Government should promote and support freelancing in strategic sectors such as the creative and high-tech industries.

Specific schemes should be provided for the over-50s

The experience and skills that many over-50s can provide makes them ideally suited to freelancing. Encouraging this group to consider freelancing increases overall employment and assists business by providing experienced, flexible talent. Government should encourage over-50s to go freelance.

Government should recognise that freelancing is an active and sustainable career and lifestyle choice, and is here to stay

In a post-industrial society, where traditional, routine 9 to 5 employment is no longer the only suitable option, freelancing represents a sustainable forward-looking alternative.

Contact



PCG
Policy and Public Affairs
Heathrow Boulevard
280 Bath Road
West Drayton
UB7 0DQ

T 0208 897 9970

F 0208 759 19 46

E policy@pcg.org.uk

www.pcg.org.uk