

# Freelancing in the UK

## An overview by PCG

Protecting and promoting the interests of consultants, contractors and freelancers

### Freelance contractors and consultants and their role in the UK economy

**Members of the Professional Contractors Group (PCG) are knowledge-based workers, neither employers nor employees. They market their services to a range of clients, typically operating through a limited company.**

There are an estimated one million people working freelance in the UK. They include many of the country's most experienced and knowledgeable workers. This highly skilled, highly mobile and highly flexible workforce is growing, a trend that is likely to continue.

As the only one of its kind in the world, the UK's freelancing model represents one of the country's greatest economic assets. The UK's economy has clearly been outperforming its European competitors in recent years, and the presence of a much greater degree of flexibility within its workforce must surely be a substantial contributory factor. It is therefore unsurprising that similar models are developing in countries across Europe.

Freelance contractors are a true twenty-first century workforce, but the relative newness of the phenomenon has led to some institutions and groups misunderstanding freelancing or being suspicious of it. PCG wants to ensure that freelancing is fully understood and accepted by all economic players. As the smallest of small businesses, contractors have specific needs which are not fully catered for by any other trade organisation. PCG exists to meet those needs.

PCG members work in IT, engineering, oil and gas extraction, management, marketing, advertising and many other sectors.

### Benefits of freelance workers

**Skills:** contractors generally have their own specific skills which they develop and keep up to date; if a company requires a specific skill for a specific project, the best way of acquiring it is to hire a contractor.

**Flexibility:** a contractor will be on site only for as long as it requires to get the job done; companies can dispense with their services at the drop of a hat. They do not need to administer sick pay, NICs, training costs and other overheads associated with employees: all these are included in the fee and the contractor takes care of them independently.

### Freelancing in Europe

Preliminary research by PCG indicates that there are between ten and 15 million freelance workers in Europe. PCG leads the field in representing contractors and is looking for ways in which to co-operate with other organisations representing freelance workers in other EU member states.

### PCG — key policy issues

The significance of small business and increasingly flexible forms of working have been recognised by the Government. The Treasury issued a consultation paper with the Pre-Budget Report of 2004 on the taxation of small businesses. The small business sector, it observed, "makes an important contribution to all sectors of the UK economy." The same document also noted the "growing flexibility in the nature of contractual arrangements in the UK," as well as the continued development of the "knowledge-driven

economy" and the significance of small business in relation to it. The EU's Lisbon Strategy likewise emphasises small business as key to its aims of enhancing Europe's competitiveness.

In practice, however, the Government and other economic players have been known to misunderstand small, knowledge-based businesses and, at times, inadvertently to treat them very harshly.

While the flexibility of the UK's workforce has increased enormously over recent decades, the level of social protection offered by the state has also grown, particularly since 1997: a national minimum wage has been introduced; rights to maternity and paternity leave have been enhanced; greater protection has been extended to temporary workers; and so on. In this context, it is clear that one strand of thought, intent on extending protection, has yet to mesh fully with another, extending worker flexibility, and has mistaken happy, flexible and valuable business people either for downtrodden and exploited workers or, alternatively, dishonest workers "on the fiddle".

PCG hopes to bridge this gap by promoting further understanding of knowledge-based businesses and flexible ways of working. A number of key issues, of concern to contractors in this context, are set out below.

### Taxation

Contractors operate one of the simplest business models imaginable, yet their tax position has become nightmarishly complicated in recent years. PCG campaigns for clarity, consistency and common sense in a tax system that is unacceptably complex and uncertain for a self-assessment regime.

## IR35

PCG was formed in 1999 as a single-issue group to protest against the Government's IR35 proposals. The organisation has branched out into other areas since then, but IR35 remains members' biggest grievance.

IR35 seeks to prevent so-called disguised employees from avoiding tax by working through limited companies on a contract basis. PCG agrees that when someone is working as an employee they should be taxed as an employee. The problem is that IR35 catches many genuine contractors in its net: they are taxed both as employees and employers, but left with none of the safeguards or protections associated with an employment relationship.

PCG calls for the replacement of IR35 with arrangements that meet its original stated aims.

By mid-2005, PCG had assisted almost 900 of its members in fighting IR35 cases, all bar three of them successful.

## S660A

In April 2003, Inland Revenue (now HM Revenue & Customs) announced that it was to apply a new interpretation to the settlements legislation, specifically S660A of ICTA 1988. This new interpretation will penalise thousands of

businesses set up in a standard structure in line with prevailing practice and government advice across more than a decade, whereby the company is jointly owned, commonly by husband and wife, and only one of the owners earns fees but both receive dividends.

HMRC still refuses to admit that it has reinterpreted the law retrospectively. PCG believes that HMRC is wrong, both morally and in law, to attack family companies by reinterpreting tax law retrospectively in this way. PCG is challenging this dangerous precedent by taking the first S660A test case, that of Arctic Systems, through the courts.

## Work permits

Since c.2000 there has manifestly not been a shortage of skills in the IT sector in the UK. PCG believes that workers from abroad should not be given prioritised entry to the UK to work in sectors where there is already an adequate skills base.

Campaigning by PCG led to IT being removed from the DTI's "skills shortage" list, so that overseas workers are not given prioritised entry to the UK to work in IT at a time when skilled workers are already in abundant supply.

PCG is contributing fully to the Government's ongoing overhaul of the immigration system.

## Offshoring

UK contractors are threatened by the apparent ability of clients to obtain equivalent services more cheaply by relocating the work abroad.

Astonishingly, despite the DTI officially encouraging and welcoming it, no substantial study has yet been made to assess the economic benefits or otherwise to the UK of offshoring, or whether it actually delivers the savings to companies that it promises on paper.

PCG is undertaking the first ever empirical study of this issue. The preliminary findings suggest that in practice the benefits of offshoring often fail to be realised.

PCG will continue to promote the case of UK contractors, among whom there is a depth and quality of expertise unrivalled anywhere else in the world.

## Services directive

PCG supports the aim of the proposed directive to create a free market in services. This will generate many new opportunities for the UK's dynamic body of freelance consultants and contractors.

PCG is confident that they will rise to the competitive challenge that will result from this newly open market.

## PCG activities and services

### The voice of contractors

Several organisations address issues pertaining to freelance contractors from time to time, but PCG is the only organisation actively representing their interests to the Government. PCG presents the case of its 12,000 members to ministers, civil servants, MPs and MEPs.

PCG has also developed an unrivalled range of services and initiatives which both benefit its members and enhance the status of freelance contractors across the board.

## Insurance and advice

PCG membership includes access to free tax and legal helplines, advice manuals, online members' forums and standard

contract templates, plus discounted legal, accounting and insurance services from PCG Affiliate members.

Standard membership includes Professional Expenses Insurance, covering all legal fees in a dispute with HMRC. PAYE Audit Cover, for professional expenses during all stages of an investigation by HMRC, is bundled with the higher tier of membership, PCGPlus.

## PCG (QS)

It is increasingly common for public sector and corporate clients to demand quality certification, such as ISO9001, from companies bidding for contracts. PCG has set up the world's first scheme to help micro-businesses to attain UKAS-accredited ISO9001:2000 certification at a fraction of the normal cost.

PCG Quality Systems, or PCG (QS), has been developed at a time when the priority given to quality assurance within the EU is growing.

Such measures are seen as a vital key to meeting the goals of the Lisbon Strategy on Europe's competitiveness: with this scheme, PCG is at the cutting edge of this movement.

## Approved Contract scheme

A top priority for freelance contractors is having access to sound business-to-business contracts that do not prejudice them with regard to their tax position. Under the Approved Contract Scheme, a PCG quality mark appears on the contracts of participating agencies, showing that they are commercially and legally sound.

For further information

[www.pcg.org.uk](http://www.pcg.org.uk)



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