



PCG Agency Briefing.

The attached appendix is a real life case study of a PCG member, which shows the flawed logic in the Governments thinking for the revised proposals (now commonly known as IR35). The PCG considers this to be largely typical of the four thousand Contractors that currently form its membership.

The PCG continues to pressure the government to amend this proposal, so that the flexible workforce in the Knowledge based sector, remains as vibrant as it is now.

The self-employment (SE) tests create uncertainty and that uncertainty will cause many to pack their bags and go abroad, or to return to permanent employment. Most Contractors did not leave permanent employment for any reason other, than to have a greater control over their own career path and to profit from managing this well.

Those that remain are unlikely to do anything that will mean they have to abandon their companies. PCG members are against transferring to the agency PAYE system.

The PCG are looking for the support of the Agencies so that they can continue to campaign for tax rules that are equitable and proportional and that will leave as few scars on the industry as possible.

The PCG will be advising members on restructuring their activities, so that they pass the SE tests, if we are unable to get the legislation amended. As the attached appendix shows Contractors need the flexibility currently afforded them in order to keep up to date with their skills and in addition they need to retain earnings for when they are between contracts.

With the announcement of the “finalised” proposals PCG membership is in a phase of explosive growth. Contractors are looking to the PCG to get the rules amended and/or to advise on the best way to work within the new rules. Contractors are looking to the Agencies to help in this.

Contractors and Agencies can work together to find solutions for the industry. If we don't manage to do this then Contractors will look to work outside of the current framework in order to protect their livelihoods. The new rules would appear to make this a possibility.

What you can do

1. As a start we need to get even more Contractors to join the PCG and so we would like all Agencies to send the attached member information to the Contractors registered with them.
2. Join the PCG as an Associate member. This will allow you access to the confidential information commissioned by the PCG relating to these proposals including advice from top Accountants and Lawyers. In addition you will receive an email newsletter keeping you up to date with the latest developments. You can join at <http://www.pcgroup.org.uk>
3. Lobby your local MP. Information will be made available on the web-site to provide guidance



Calling All Contractors

The Government has recently announced its latest proposal for the changes to the tax regime for Contractors Limited Companies. In the Inland Revenue press release it was stated that the new proposals were the result of extensive consultation. The “consultation” was a sham. The powerful arguments put to the Government, were ignored and the latest proposals are no more than a rehash of the originals. The rules will let you carry on as a Contractor, but under an oppressive new regime that will prevent you utilising your company to provide for periods between contracts or to pay for training, except out of taxed income.

Brief Summary of the Latest Proposals.

The proposals introduce new tests for “self-employment”. As a Contractor you will be subjected to these tests. If you fail, the Revenue will deem you a “disguised employee” of the Client and you will be subject to the new rules. The tests are outmoded and take no account of the work patterns in the knowledge based industry in which we work.

The tests are complicated and it is uncertain as to which Contractors will pass them and which will fail.

If you fail the “self-employment” (SE) tests, you will be subjected to a regime that can be summarised as follows:

- You will be allowed Schedule E expenses. (Travel and Subsistence, probably as at present for up to 2 years at any one site.)
- You will be allowed a further 5% of turnover as company expenses.
- The remainder of your turnover will be deemed by the Revenue to be salary and you will pay Employer’s NI, Employee’s NI and Income tax on the remainder.

What can we do about this?

The PCG will continue to fight against these illogical and draconian rules. They are not yet law. Contractors must continue to put pressure on the Government and to make it see sense.

The PCG have already achieved a great deal in terms of raising the profile of our industry in the media and it is certain that the Government are aware of all the facts. This was certainly not the case when the PCG was formed 5 months ago. The new rules are already an improvement over the originals, which were unworkable and would probably have forced all Contractors onto the Client/Agency payroll.

If all else fails, we can take test cases through the courts, to get the SE tests amended, so that Contractors can show that they are not “disguised employees” of the Client or anyone else.

The PCG now represents nearly four thousand Contractors. These Contractors will benefit from free legal advice on how to work within the new rules if they become law. In addition it is intended to establish a fighting fund, to protect Contractors interests in the courts.

You can join the PCG at <http://www.pcggroup.org.uk> , using your credit card.



Appendix – Case Study - A PCG Member

Four years ago I was a consultant working for a major American consultancy - one of the four biggest. In my final year I was billed out to clients for 48 weeks of the year at over £700 per day, making a total of over £150,000. I was paid a salary of £25,000. I usually worked about 60hrs per week. I traveled all over the country. I received little training. This didn't seem equitable to me.

So, I set up my own one-man company. I charged out at a much reduced rate - £240 per day. The work I did in my company was exactly the same as I previously did for the consultancy. The relationship between the client and myself was the same. I even kept my salary at the same level.

There were some differences I could make now that I was in control. I invested in hardware, training, documentation and software. I was certain that the internet was the future, and so I spent a huge amount of my time training myself in networks, the internet and the web. I took on some small additional jobs maintaining web sites to extend my experience. Latterly, I have trained in Linux, C and perl. As a result I now advise my most recent clients with their intranet strategies.

As I kept my salary the same when I set up my own company I can be certain that I have not paid reduced NI. I am also sure that the tax I pay is way in excess of my previous tax. I paid over £18,000 tax last year (Income Tax, ACT, Corporation Tax and NI).

However, the Inland Revenue, in its new IR35 changes considers me to be a 'disguised employee', and that I am 'avoiding tax'. Apparently, if I go back to work for the American consultancy, do the same work and have the same relationship with the client I'm OK again - no disguised employment.

Even if I try to stay in contract work I'll be limited in what I can spend. Any expenses above 5% of gross revenue will be taxed as if it was salary, and travel will eat up this 5% very quickly. The American consultancy - well they get all their expenses tax-free!

Together with some other contractors I was about to set up a new company to make bids for substantial fixed-price contracts. The initial capital funding and underwriting of the new venture was to come from the profits of our current companies. This is now on hold.

The IR35 changes are plainly wrong. They suppress competition from small companies to large companies. They will reduce start-up companies. They penalise innovation. They limit employment mobility. All of this in the very knowledge-based industries that could be the life-blood of UK PLC.

Remember, true ground-breaking innovation does not come from established big companies. Apple, Microsoft, Netscape were tiny start-ups.

We must keep up this fight - for our own sakes, and I believe for the UK.