Public Sector Faces IR35 Contractor Exodus, Harvey Nash Survey Reveals

One in four public sector contractors plan to move to private sector, while 16% will raise rates to cover cost of IR35, which HR professionals predict will cause major competitiveness, productivity and innovation challenges.

London (PRWEB UK) 22 March 2017 -- A new survey of public sector professionals, conducted by Harvey Nash Recruitment Solutions, reveals that one in four (25%) contractors plan to only seek opportunities in the private sector.

The move comes as a result of Government’s decision to proceed with changes to IR35, which HMRC expects will bring nearly 90% of public sector contractors inside the regulation, meaning they will pay significantly more tax.

Bad for the Public Sector
However, the proposed changes have received heavy criticism, not just from contractors but by recruiters and HR professionals operating in the public sector also.

Across the board, it is believed IR35 will be bad for the public sector, with 91% of HR professionals and 96% of contractors claiming it will have a mild or very negative impact. The areas where HR professionals expect to see most disruption as a result of IR35 are:

• Competitiveness – 82%
• Productivity – 27%
• Innovation – 64%
• Talent Acquisition - %64%

These expectations are re-enforced by the countermeasures public sector contractors plan to take. With the introduction of the changes to IR35:

• 38% will seek contracts outside IR35
• 16% will increase their rates to balance the cost of being caught within IR35
• 25% will only seek contract opportunities in the private sector
• 3% will stop contracting and become full-time, permanent employees
• Just 3% accept that they’ll have to pay more tax

UK Director of the Harvey Nash HR Practice, Lisa Wormald comments, “IR35 in the public sector will be a real disruptor for HR professionals. With austerity and cuts already biting hard, attracting and retaining contingent talent is only going to get harder.”

Private Sector at Risk
The Harvey Nash Recruitment Solutions report suggests the decision to move to the private sector provides only a temporary solution to the issue of IR35 however, as almost 60% of contractors and 80% of HR professionals expect IR35 to be applied to the private sector in coming years.

Should this come to fruition, the implications for innovation and competitiveness, especially in sectors such as
technology, life science and pharmaceuticals where skills shortages are already causing strain, could be even more devastating than those expected in the public sector.

Lack of Clarity
The survey reveals HMRC is failing to provide the affected parties with clear information, with just 9% of contractors citing it as a source of information. Many are turning to industry press (18%), their accountant (25%) and recruiters (18%) for advice.

Danny Batey, Senior Tax Consultant at Bauer & Cottrell, states, “The help provided by HMRC has been far too little and far too late. The whole sector is in chaos with everyone looking for a quick fix. What is going to happen when the first payments, subject to the new rules, are made? With just days left before the implementation there are still many unknowns but there is little hope now for another U-turn by the Chancellor!”

Furthermore, the tool developed by HMRC for determining whether a contractor is within or outside IR 35 is raising more questions than it answers.

Mr. Batey, who consulted with HMRC on the development of the tool, remarks, “The result of the tool is entirely different depending on who completes it. We have seen many cases where an ‘outside IR35’ result has been obtained by the contractor or the agency simply answering the two substitution questions, but the public sector itself has had no input.”

Colin Morley, Professional Services Director at Harvey Nash Recruitment Solutions summarises, “If you can keep your head when all about you are losing theirs, then you have failed to grasp the seriousness of the situation in the public sector relating to IR35.”

Click here to download the full report.
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