



DANBRO

Accounting For Life

Your Guide To Working With The Public Sector

From April 2017

Danbro – the UK's trusted provider of accountancy and payroll solutions for contractors, freelancers and business owners.

Delivering a full range of compliant, hassle free solutions that you and your contractors can rely on.

What you'll find in this guide:

1. What's changing?
2. Do these changes apply to my contractors?
3. How do I know if my contractors are working for a public sector body?
4. What is the responsibility of recruitment agencies?
5. What is best for my contractors?
6. What will contractors earn in light of these changes?
7. What should recruitment agencies do?
8. If my contractor works through an Employment Business (Umbrella), what would they do with their Limited Company?
9. The benefits of working through an Employment Business (Umbrella)



1. What's changing?

From April 2017, the rules for working in the public sector will change. This change in legislation has been called 'Off-Payroll' working as it applies to those working within the public sector, who are not directly employed or on the payroll: contractors, freelancers and business owners. The changes have been made to ensure that individuals working through their own Limited Company, but operating "within IR35", pay employment taxes in a similar way to employees.

The main changes are:

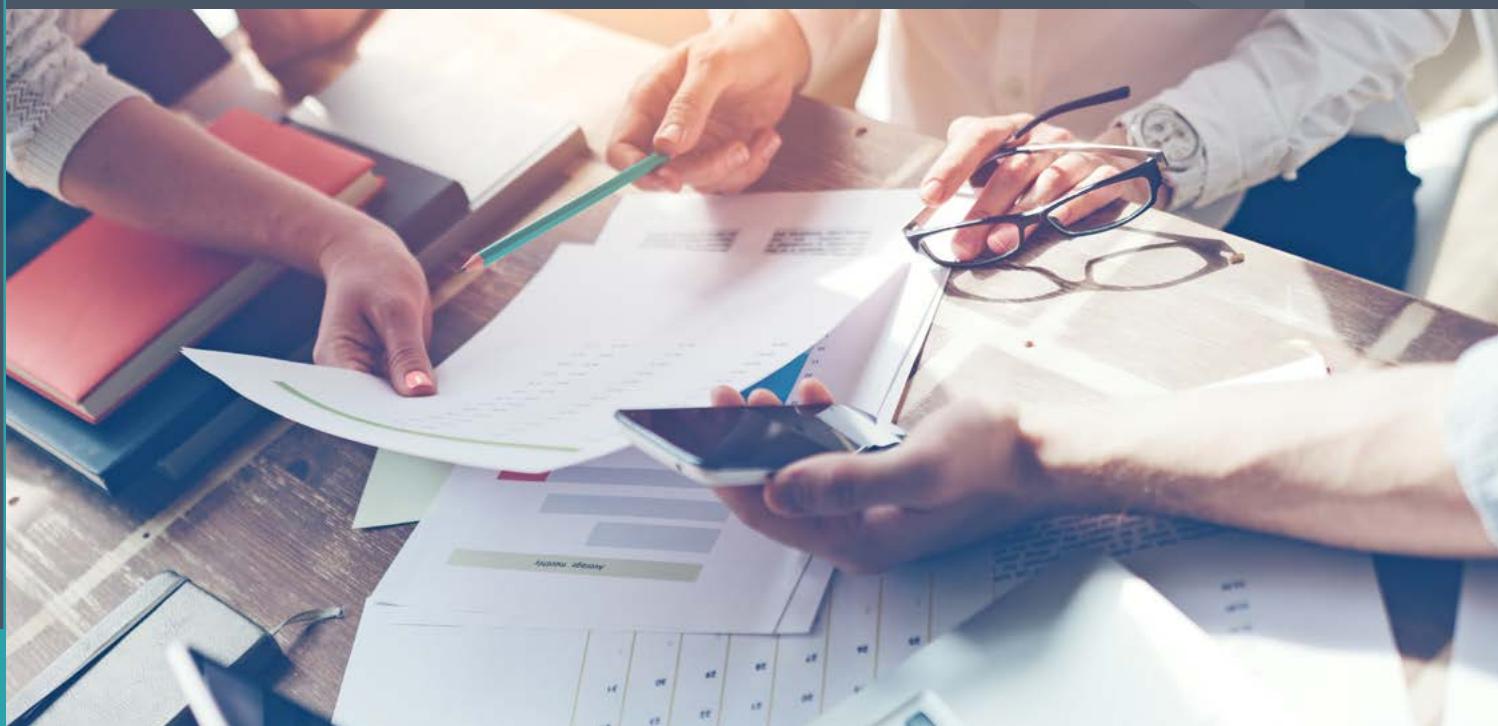
Assessment of IR35

- The test for Employment Status (IR35) is changing and the government expect that **90%** of those working 'Off-Payroll' in the public sector will now be found to be within IR35
- The contractor will no longer assess the IR35 status of their assignment; this will be decided by the end-client. HMRC are releasing a tool prior to April to help end-clients assess IR35 status

Working within IR35

- If a contractor is assessed as within IR35 they will no longer be able to claim Travel and Subsistence expenses
- All contract income will be subject to Tax and National Insurance (NI)
- Tax and NI will be calculated and deducted by the end-client or the recruitment agency, and the contractor will receive a net salary into their Limited Company
- The 5% tax allowance, currently allowable for business running costs, will be removed

Please note that these changes will apply for all assignments being carried out from April 2017, including those that commence before this date. It will also apply to any payments made after the 5th April 2017, even if the work was completed prior to this date.



2. Do these changes apply to my contractors?

The new provisions apply when:

- a. The end-client your contractor works for is a public authority (public sector body)
- b. Your contractor personally provides services, or is under obligation to personally provide services, to the end-client
- c. The services that your contractor delivers, are provided under circumstances where, if the contract had been directly with the end-client, they would be regarded by HMRC for Income Tax purposes as an employee i.e. they are within IR35

Please note that these changes do not affect those working in the public sector through an Employment Business (Umbrella) where Tax and NI are already paid.

3. How do I know if my contractors are working for a public sector body?

Some examples of public sector bodies are:

- Government departments, executive agencies and non-departmental public bodies
- NHS
- Police and fire authorities
- Local authorities
- Devolved administrations
- Educational establishments including universities
- BBC
- Channel 4
- Bank of England

The above list is not exhaustive, further information can be found [here](#).



4. What is the responsibility of recruitment agencies?

These changes place further responsibilities on recruitment agencies and end-clients working with public sector bodies.

The responsibility from April is as follows:

Assessment of IR35

End-client via online HMRC tool

The expectation is that the assignment status will have been determined before the contract is agreed and therefore the rate agreed accordingly.

To secure the necessary skills, the agency may be expected to increase pay rates to make up for any reduction in take home earning from the additional Tax and NI.

Calculation of Tax and NI for those within IR35

Recruitment agency

Deduction of Tax and NI from contractors' income for those within IR35

Recruitment agency

As well as calculating the correct amount of Income Tax and National Insurance, you must also get the necessary personal, company and tax information needed to operate Real Time Information ("RTI") payroll returns. This includes keeping records of output from the online tool, ready for HMRC enquiries.

Expenses, allowances and other allowable deductions must also be accounted for as if the assignment is being undertaken by a direct employee.

To do all of this, you may need to recruit and train staff and change systems and software.

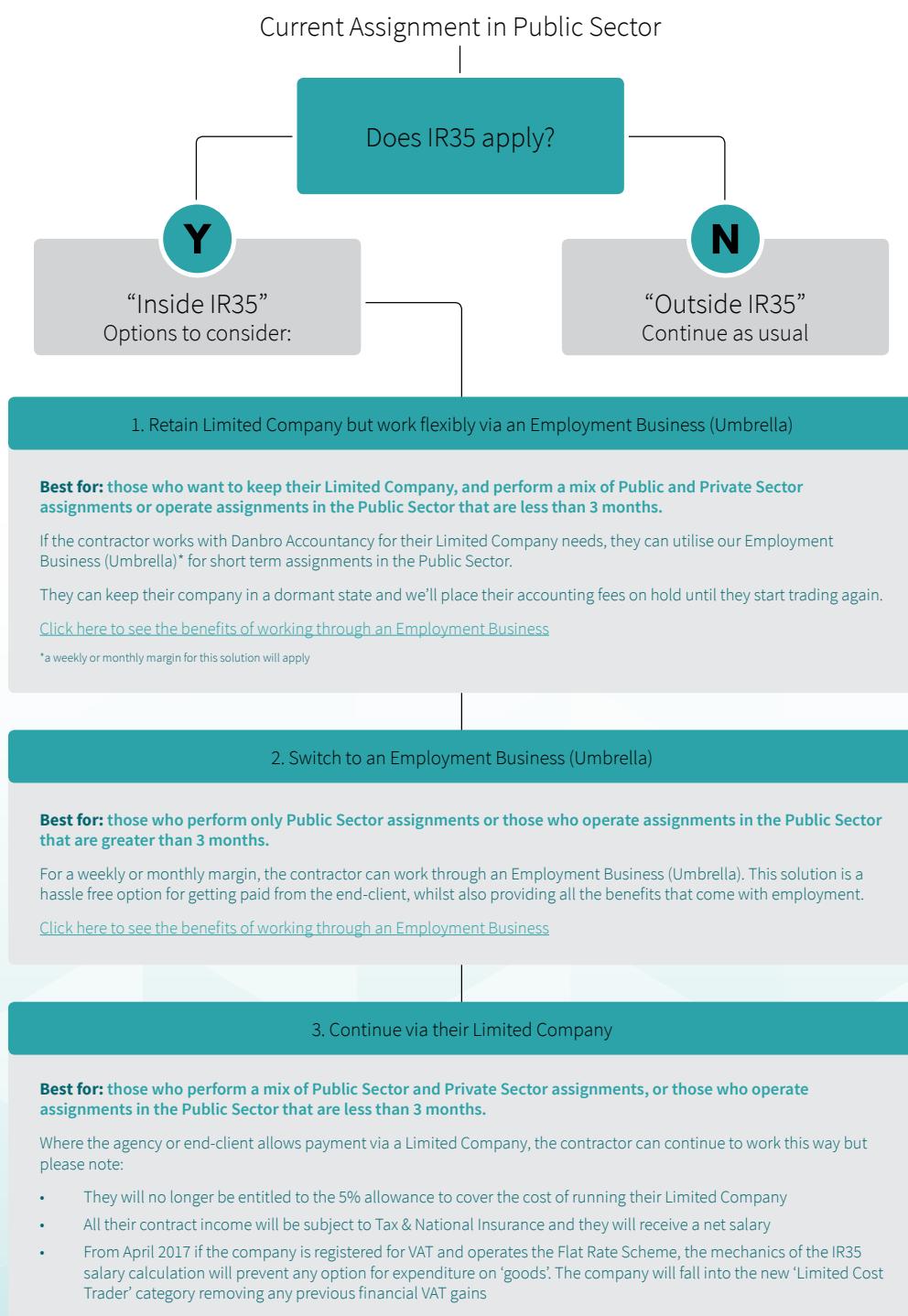
If you make an error with the calculation of employment taxes, you will be liable for any underpayment, interest and penalties.



5. What is best for my contractors if they remain in the Public Sector?

If your contractors perform mostly public sector assignments, or if their public sector assignment is expected to last longer than three months, it may be more beneficial for them to work through an Employment Business (Umbrella); options are detailed below:

Please remember that although your contractors may have assessed their current assignment as outside of IR35, there is a 90% chance that going forward this will no longer be the case. HMRC are releasing a tool prior to April to help end-clients assess IR35 status. As this is not yet available for use, confirmation may not be readily available.



6. What will contractors earn in light of these changes?

	£30,000 pa		£50,000 pa		£100,000 pa	
	Employment Business	IR35 - Public	Employment Business	IR35 - Public	Employment Business	IR35 - Public
Contract Income	£576.95	£576.95	£961.55	£961.55	£1,923.10	£1,923.10
Flat Rate VAT Gain	£0.00	£3.69	£0.00	£9.08	£0.00	£22.54
Total Gross Income	£576.95	£580.64	£961.55	£970.63	£1,923.10	£1,945.64
Danbro Fee	£20.00	£21.92	£20.00	£21.92	£20.00	£21.92
Net Pay	£400.62	£403.75	£626.04	£635.18	£1,116.11	£1,132.69
Net Dividends	£0.00	£0.00	£0.00	£0.00	£0.00	£0.50
Reimbursed Expenses	£0.00	£4.00	£0.00	£4.00	£0.00	£4.00
Pension Contributions	£9.99	£0.00	£16.54	£0.00	£16.54	£0.00
Weekly Return	£410.61	£407.75	£642.58	£639.18	£1,132.65	£1,137.19
As Percentage	71%	71%	67%	66%	59%	59%

In light of these changes, contractors may choose to work through an Employment Business (Umbrella) as the amount they will earn is no longer worth the running costs, or administrative burden of running their own business.

7. What should recruitment agencies do?

Identify your public sector end-clients

Educate end-clients on the need to assess IR35 status for each contract and communicate the results of this assessment back to the contractor and agency.

Where contractors are outside of IR35

Operate as usual

Where contractors are within IR35

Due to the increased administration of calculation and deduction of Tax and NI from these contractors, it may be more beneficial to advise them to operate via an Employment Business (Umbrella) model. This model is also likely to be more financially beneficial to the contractor from April, as outlined on the previous page.

Where contractors are on shorter term contracts in the public sector or are planning to contract in the private sector in the future, they can do a mix of both. See the next page for more details.

For contractors who wish to remain in their own Limited Company despite this legislation, agencies must begin to calculate and deduct Tax and NI from the contract income prior to paying the Limited Company.

For help and support please contact one of our Regional Sales Managers (details below):



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CHRIS JONES
North and Midlands

chris.jones@danbro.co.uk

07733 358 354

8. If my contractor works through an Employment Business, what would they do with their Limited Company?

Short Term

If your contractor works with Danbro Accountancy for their Limited Company needs and intends to use our Employment Business (Umbrella) for a short period of time before opting for a Private Sector assignment, they can keep their company in a dormant state and we'll place their accounting fees on hold until they start trading again.

Long Term

If your contractor doesn't think they'll continue to trade through their existing company for the foreseeable future, it may be best for them to close it down altogether. In this instance a company closing fee will usually apply.

9. The benefits of working through an Employment Business

Danbro Employment Business (Umbrella) is a hassle free solution for a contractor getting paid from their end-client.

For a weekly or monthly margin we'll take care of administration and make sure that your contractors are paid promptly, whilst also providing them with all the benefits that come with employment, such as:

- Statutory Sick Pay
- Maternity or Paternity Pay
- Pension Contributions
- Holiday Pay

Our solutions also include:

- Access to our BUPA Medical Cash Plan*
- Personal Accident Insurance
- Professional Indemnity £5,000,000
- Public/Product Liability £5,000,000
- Discounted Self-Assessment Tax Return for any other income streams
- Access to a free financial review with Danbro Financial Services

To discuss the options available to your contractors, talk to us today on 0800 731 3178 or email us at enquiries@danbro.co.uk

*Please be aware that this is not a contractual right and at our absolute discretion we reserve the right to terminate participation in the scheme, to substitute another scheme, or alter the benefits available to the individual under any such scheme.

The individual can only become a member of this scheme if they are aged between 18 and 69, and are a UK resident.

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