



The biggest talent shift to hit IT in a decade

How will IR35 tax changes affect the market for IT contractors?



On 6 April 2020, UK tax rules around contractors who provide their services through a Personal Service Company (PSC) will change. This will create new compliance obligations and costs for contractors' end clients. Both of these factors have profound implications for IT functions, many of whom rely upon contingent labour provided by contractors.

This paper sets out the key changes, and their implications for the market for technology talent in the UK and for IT functions who rely on this talent.

The prospective IR35 reforms have already been applied in the public sector and led to a reduction in the use of PSC contractors. End clients who fail to meet their obligations under the new regime may be subject to penalties and, in some cases, could be pursued by HMRC for unpaid PAYE, NIC or Apprenticeship Levy.

Where the IR35 rules are first applied to an engagement from April 2020, the contractor might see a reduction in their net take-home pay if their headline day rates remain the same (and HMRC could enquire into earlier years if they suspect non-compliance by the PSC in prior years).

What is changing?

The IR35 rules apply where a worker provides their services through an intermediary, usually a PSC, but would be an employee for tax purposes had they provided those services directly.

Currently, PSCs are responsible for applying the IR35 legislation, but the UK government believes there is widespread non-compliance. Wide reaching changes will come into effect on April 6th 2020:

- 01 | The obligation to determine whether an engagement is within the IR35 rules will fall to the end client, rather than the PSC
- 02 | For engagements which give rise to a deemed employment for IR35 purposes, the end client – or other party that makes payments to the PSC – will withhold PAYE and employee's NIC, and account for employer's NIC and Apprenticeship Levy

What are the implications for the market?

- 01 | The effects of these changes are already being felt. In the past 6 months, KPMG UK has seen a noticeable increase in the number of applications for IT architect positions coming from people who are presently engaged as contractors.
- 02 | This flow of IT Contractors into permanent roles reduces the pool of available contractors and increases inflationary wage pressure. We anticipate this trend will accelerate closer to the April switchover date.
- 03 | Not only will this affect IT organisations, but it will also affect service providers who rely on contractor labour to flex to meet demand. Equally, the relative cost arbitrage between contractors and systems integrators will diminish, especially for high-skilled roles. This has implications for talent and sourcing strategies.

What are the implications for IT functions?

There are two main considerations:



Cost



Compliance

Firstly, the relative balance of cost of different sourcing strategies will change. For some organisations it will make sense to insource long-term, skilled roles and add headcount. We see this happening at a number of FS organisations already. For others, who do not wish to make the headcount commitment or with fluid skills needs which change over time, it may be cost-effective to consider outsourcing or to replace the penumbra of consultants surrounding major projects with alternative ways of managing supplier quality. Equally, for some, accepting the cost and compliance implications of contractor use may remain the optimal solution.

Irrespective of strategic direction, organisations can expect to come under pressure to renegotiate contractor rates upwards and need to have an understanding of what their contractors do to establish whether the value equation still falls in their favour. A talent strategy for IT, with an analysis of the affected population, is the best vehicle to do this.

Secondly, there will be new compliance burdens for companies to manage contractors both in determining whether IR35 applies and if it does, withholding tax through PAYE. Scoping and commissioning work in a more robust fashion will be critical – a finite scope of work with a defined deliverable may be one element of what is needed for an engagement to fall outside IR35. Many companies have yet to address the process considerations around this, and IT is one of the most exposed of the back-office functions.

How KPMG can help

The KPMG Technology Sourcing and Tax Practices have a combined offering for clients which looks at this challenge from talent, cost and compliance angles. We can:



Run workshops to help you understand and plan for the impact of these changes



Help develop your talent strategy including sourcing options and roadmap planning



Develop or review your contractor exposure analysis (HMRC has an online tool for basic analysis of whether a contractor is likely to fall within the off-payroll working rules, but KPMG has developed a comprehensive tool to manage the decision making process and associated workflow to ensure reasonable care has been taken).



Zero-based budget review of contractor activities

Contact details:



William Ellis

Head of IT Sourcing

T: +44 (0)207 311 4782

M: +44(0)7766 473178

E: william.ellis@kpmg.co.uk



Adrian Bradley

Director, CIO Advisory

T: +44 (0)161 838 3598

M: +44 (0)7880 457783

E: adrian.bradley@kpmg.co.uk



Anne-Marie Robinson

Employment Solution Director

T: +44 (0)121 335 2726

M: +44 (0)7748 321116

E: anne-marie.robinson@kpmg.co.uk

kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the United Kingdom. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates.

Designed by CREATE | Date | CRT122193A