



NATIONAL INSURANCE RISE SPELLS DOUBLE TROUBLE FOR UMBRELLA CONTRACTORS

- Class 1 Employers' NICs will increase from 13.8% to 15.05% on earnings over £8,840.
- Class 1 Employees' NICs above the £9,568 threshold will increase from 12% to 13.25% (main rate), and from 2% to 3.25% (higher rate).
- Class 4 contributions (for the self-employed) above the £9,568 threshold will increase from 9% to 10.25% (main rate), and from 2% to 3.25% (higher rate).

It's been on the cards for a while, and now it's almost here. National Insurance is rising by 1.25% this April. The increase is expected to rake in an estimated £36bn over the next three years, the money being used to get the NHS back on its feet after the last couple of years, and to kick-start a national social care reform.

Millions of UK workers could see an increase to their National Insurance tax bill. But for agencies and contractors engaging with Umbrella companies the increases carry further complication as well as expense.

The Employee's National Insurance increase impacts nearly all workers in the UK.

The way Umbrellas are structured means that contractors (especially those on short term assignments) could be impacted by both the 1.25% Employer's and Employee's National Insurance rise.

WHO FOOTS THE BILL FOR THE EXTRA 1.25% EMPLOYER'S NATIONAL INSURANCE?

This is heavily influenced by the assignment duration because of the Agency Workers Regulations of 2011 (AWR).

WHY DOES AWR MATTER?

Temporary workers on assignments of 12 weeks or over are entitled to pay and benefits equal to a comparable permanently employed worker.

Permanently employed workers will see the additional 1.25% Employee's National Insurance deductions on their payslip, but the employer pays the additional 1.25% Employer's National Insurance. This means that in order to remain compliant with comparator pay rules under AWR, agencies should increase Umbrella pay rates by 1.25%.

Failing to do so on 12 week plus assignments would result in a breach of the AWR comparator rules and leave the agency exposed.

For agencies with contractors on assignments of less than 12 weeks there's a difficult choice.

Consultants could set a future-proof AWR compliant Umbrella pay rate using the comparator method - and get an additional 1.25% from the client or absorb the 1.25% from the margin.

Or agencies could keep the existing Umbrella rate - but be prepared for extra questions and unhappy contractors who's net pay has reduced by 2.5%.

Agencies, hirers and contractors have been through a terrible couple of years. This latest hit could be the last straw for some.

But at People Group, we have a solution.

GETTING INTO THE NUMBERS

But what does the increase mean in real money? Let's take an example:



MEET LINDA

Linda is employed
She earns £30,000 a year

In 2021-22 she would have paid **£47.15 a week** for Class 1 National Insurance. From 2022-23, however, this will rise to **£52.05 a week to pay** because of the new 1.25% increase. That's £4.90 more.

But here's the kicker:

If Linda was starting a new assignment through an Umbrella company she could see additional deductions of £9.80 for the first 12 weeks.

However, after 12 weeks when the AWR pay comparator rules come into effect, the Umbrella pay rate should increase by 1.25%.

This means an increase to agency costs - unless the client charge rates can be increased.

WHAT THIS MEANS FOR YOUR CONTRACTORS AND UMBRELLAS.

The calculation on your left gives you an idea of the numbers. But there are wider implications.

These days many of us are counting the pennies. This is another hit and could have a real impact on contractor satisfaction. Not what any agency needs in the middle of a skills shortage.

We're all aware of the dangers of Umbrellas that sail too close to the wind and we also know that they don't offer the benefits they used to.

But this isn't about good vs. bad Umbrellas. It hits every employer, including Umbrella companies. People Group's Umbrella is about as compliant and clear as Umbrellas get, but every employer is legally obliged to deduct and pay National Insurance at the new rates.

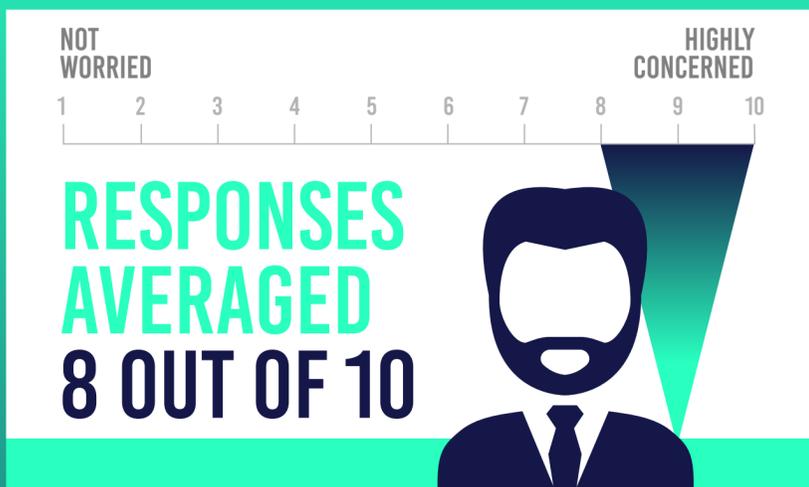
These changes make Agency payroll even more expensive to run, and presents uncomfortable questions for the Umbrella model in the long term. And we all have to be clear-eyed about that.



We asked over 600 Umbrella contractors about April's National Insurance rises

HOW CONCERNED ARE CONTRACTORS?

Contractors are seriously worried about the effect on their take-home pay.



"I don't earn that much so less take home is an issue and the cost of living is going way up so everything is costing me more especially energy bills and petrol."

"I took early pension at 60 and have to work 2 days a week to top it up and that is still not quite enough to cover living costs."

"I am a single mum already struggling financially. So, this is going to put even more stress and pressure on me."

"I feel my tax already takes up a large proportion of my wage and I would be highly concerned if it was increased."

CONTRACTOR CONCERNS

43% told us that they were not aware of the upcoming changes, and of those that are aware, 89% of them have found out for themselves through research or through the media.

This is an opportunity for agencies to communicate more with their contractors.

We also learned that 65% of those contractors who were aware of the increase didn't know exactly how their income would be affected. The chances are they'll only realise when they get their first pay slip in the new tax year.

The double rise also throws up questions about Umbrella contractors and their willingness to take on new work, with a third saying it would certainly affect their work choices.

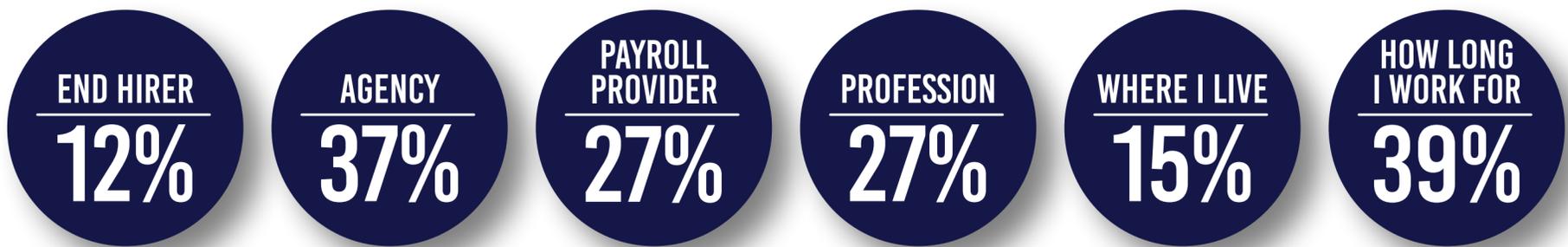
One contractor told us:

"I will be paying an increase in NI on the employee and employer as I am paid via Umbrella. It's a good reason for getting rid of Umbrella companies."

Another explained: "National Insurance is already a huge deduction from my pay and combined with PAYE tax, my take-home rate is already significantly lower than I ever expected it to be. An increase in NI is very likely to cause me financial hardship."

A HIGH PROPORTION OF CONTRACTORS WOULD CONSIDER OTHER OPTIONS, SUCH AS ALTERNATIVE PAYROLL SOLUTIONS OR STOPPING TEMPORARY WORK.

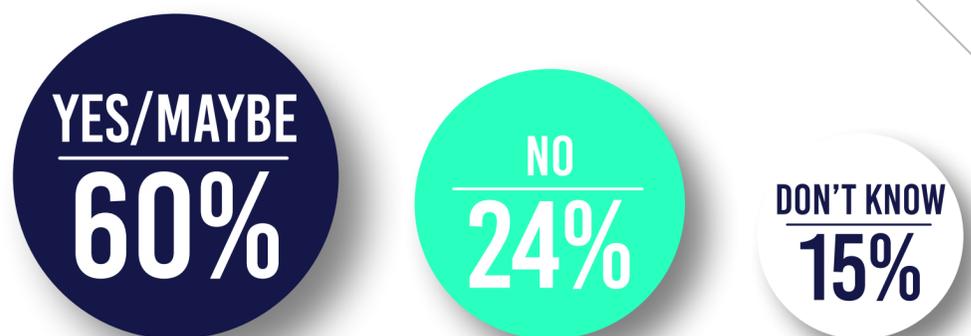
WHICH OF THE FOLLOWING WOULD CONTRACTORS RECONSIDER AS A RESULT OF THE NI CHANGES?



WOULD YOU CONSIDER AN ALTERNATIVE PAYROLL SOLUTION?



WOULD YOU CONSIDER STOPPING TEMPORARY/SHIFT WORK?



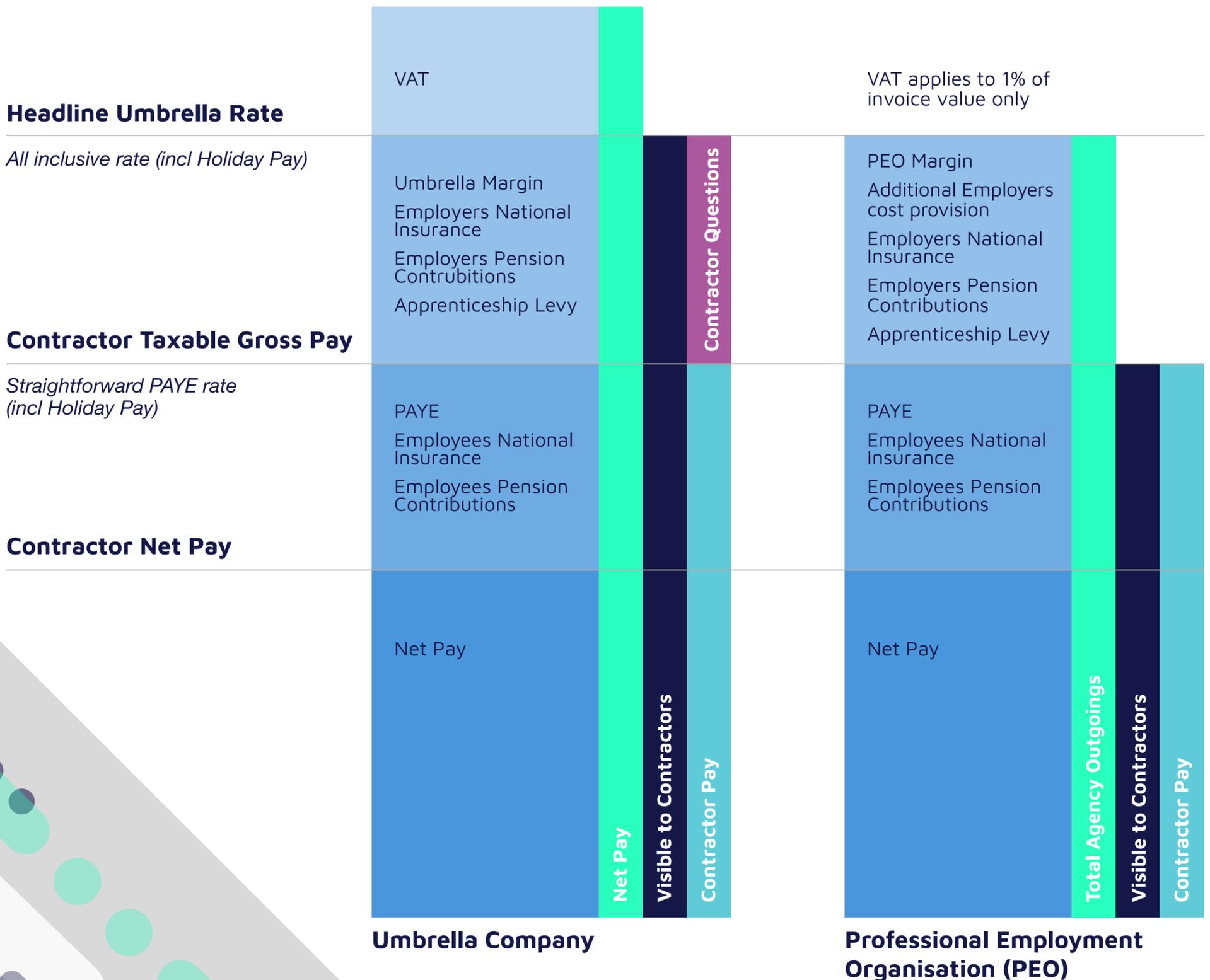
THERE IS A WIN:WIN SCENARIO

A PEO solution (Professional Employment Organisation) could be the answer. The initial 1.25% rise to Employee’s National Insurance still applies, that’s for everyone. All employment costs (Employer’s NI, Employer’s Pension, Apprenticeship Levy, and margin) are agreed and arranged between the agency and People Group. Therefore the contractor does not see any margin or employment costs on their payslip.

Our research tells us that this could get a really positive response from contractors with 76% stating they would happily consider an alternative payroll solution.

With this NI rise, now could be the time to make that move. It’s a win:win scenario for everyone.

WHY IS PEO DIFFERENT FROM OTHER SOLUTIONS?



PEOPLE PAY – SIMPLE, CLEAR AND HONEST

At People Group we've seen more and more people switching to People Pay, our PEO solution. It's designed for the modern world, being simple and transparent.

The PAYE rate agreed between worker and agency has only employee tax deductions applied to it.



We take care of all statutory obligations, such as pension and holiday, plus contractors have access to Anytime Wages and the many My Wallet benefits including tastecard+ and Medicash health plans.

People PEO could be just what Umbrella contractors are looking for. It's clear, honest and could save time and money. Which is great news for 'Lindas' everywhere.

WHAT YOUR CONTRACTORS SHOULD KNOW

- Both Employer and Employee National Insurances are rising by 1.25% from April 2022
- The rise will impact employees, employers and the self-employed
- Employees of Umbrella companies could end up paying more

GIVING YOUR CONTRACTORS OTHER CHOICES

- There are alternatives to Umbrella companies
- Consider a move to PEO for more transparency
- It can save money and hassle

YOUR APRIL 2022 CHECKLIST

- ✓ Review Umbrella rates to ensure compliance with pay comparator rules within AWR.
- ✓ Communicate changes internally to your team, externally to your clients and contractors.
- ✓ Be prepared for more payslip and deduction questions, especially from Umbrella contractors, from 8th April.
- ✓ Consider a simple and transparent alternative like People PEO ready for unhappy contractors.
- ✓ Review the payroll options you offer and the suppliers providing those services.

FIND OUT MORE

You can also share our
'Simple guide to the NI changes in April 2022'
with your contractors