



**Qdos**

# **BEING SELF-EMPLOYED IN 2021**

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**QDOS ANNUAL SURVEY**

JANUARY 2022



# ABOUT QDOS

Qdos are award-winning contractor insurance and IR35 specialists that aim to ensure a thriving industry of flexible workers.

Our dedicated team strives for the highest standards of compliance and customer service. From IT contractors to freelance photographers, we support over 90,000 self-employed professionals, and more than 2,800 of the organisations engaging these dynamic workers, helping each party understand, manage and protect themselves from the industry's major challenges.

As leading IR35 experts for over 20 years, Qdos have pioneered a number of employment status services and successfully defended over 1,600 contractors subject to IR35 enquiries. Since 2000, we have assessed over 150,000 contracts and working practices for IR35 status, and in recent years have led the way in supporting businesses with IR35 reform.





# ABOUT THIS REPORT

2021 has been a challenging year for contractors and the self-employed, who have found themselves battling Covid-19, Brexit implications and the long-awaited introduction of IR35 reform in the private sector.

But having already demonstrated their resilience throughout 2020, which was defined by lockdowns and economic uncertainty, this is not unfamiliar territory for independent workers who proved their importance to the UK in 2021 once again.

As part of Qdos' work in supporting the self-employed, along with the businesses relying on the skills and flexibility of these individuals, we

surveyed these independent workers and the businesses which engage them to help us fully understand the needs, wants, concerns and aspirations of this workforce.

We would like to thank the freelancers, contractors, self-employed workers, and businesses that participated anonymously in this study.

## EXPLORING THE KEY ISSUES SHAPING THE UK'S INDEPENDENT WORKFORCE

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The UK's self-employed workforce has been hit particularly hard during the pandemic, with the gaps in government support making things even more difficult for people working for themselves.

Factor in IR35 reform and, to a lesser extent, Brexit, and independent workers have shown tremendous resilience in the face of adversity in 2021.

But with the economy fully reopened and businesses demonstrating their ability to better manage IR35 reform, contractors - along with the companies engaging them - can enter 2022 with a sense of cautious optimism."



**SEB MALEY**  
CEO



# BEING SELF-EMPLOYED IN 2021

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Self-employed workers share their opinions and experiences of being self-employed in 2021.

**58%** of contractors surveyed in December 2020 were concerned about their business prospects for 2021.



# FREELANCING IN 2021

In August 2021, we asked **87** sole traders about their business and the impact Coronavirus had on their performance.

44% of respondents are self-employed full time, whilst 29% are part time with no other income.

Respondents mostly work in financial services (56%), and trades (11%).

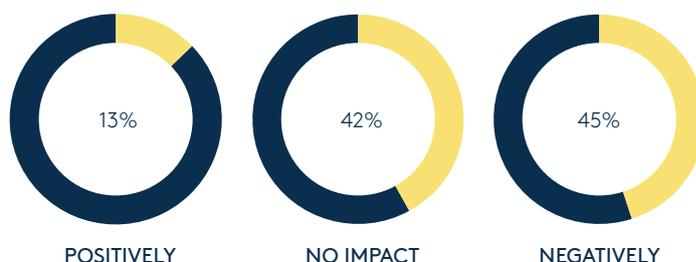
## SOLE TRADERS HIT HARDER BY CORONAVIRUS

Unsurprisingly, nearly half of respondents (45%) said that Coronavirus had a negative impact on their business, with the majority (78%) losing up to 50% of their earnings. This is in contrast to limited company contractors, the majority of whom said the pandemic did not negatively affect their business in 2021.

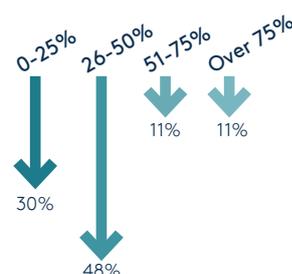
Sole traders were divided in terms of when they expected earnings to recover, with 22% confident they already had, and 19% not confident that they ever will.

Despite this reduction in earnings, only one in three sole traders (34%) reported receiving money through the Self-Employment Income Support Scheme (SEISS).

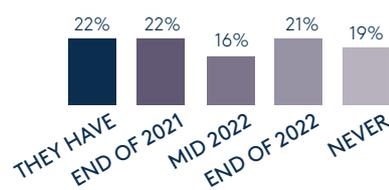
? How has your income been impacted by Coronavirus?



? How much less have you earned during the pandemic?



? When do you expect your earnings to recover?



? Have you received money through the Self-Employment Income Support Scheme (SEISS)?

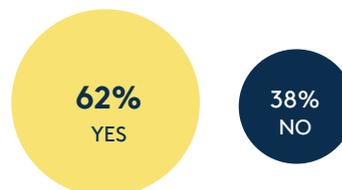




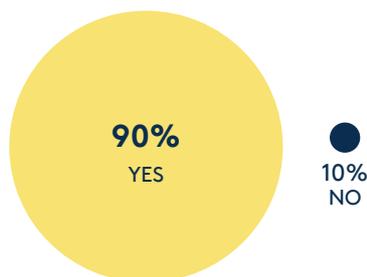
## SOLE TRADERS PREPARED FOR MODEL REPORTING RULES

The Model Reporting Rules will require digital platforms (such as AirBnB, Etsy and PeoplePerHour) to report on income earned by the self-employed individuals providing services via these platforms in 2023. The majority of sole traders (62%) indicated that they were aware of this reform which could see digital platforms inadvertently giving rise to a tax enquiry.

- ? Are you aware of reform in 2023 which will make digital platforms responsible for reporting the income you have earned to HMRC?



- ? Do you intend to continue working self-employed?

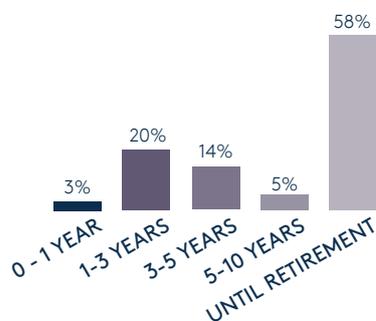


## IN IT FOR THE LONG HAUL

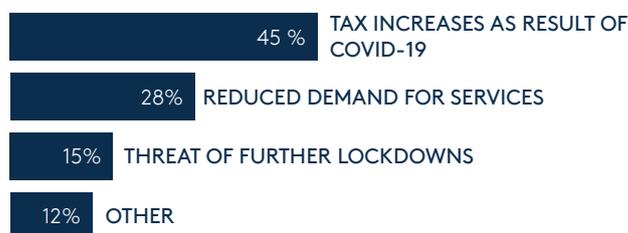
Another positive finding was that the majority of sole traders have no intention of stopping working this way (90%) until retirement (58%).

This year, 45% see tax increases as the biggest challenge they face, whilst greater demand for flexible working as the biggest opportunity.

- ? For how long?



- ? What do you see as the biggest challenge facing sole traders in the coming year?



Other responses include Making Tax Digital (MTD), industry uncertainty, and digital platforms.



# CONTRACTING IN 2021

We also surveyed **1,252** limited company contractors in November 2021 to find out about their experiences through the year.

## CONTRACTORS BOUNCE BACK AS CORONAVIRUS RESTRICTIONS EASE

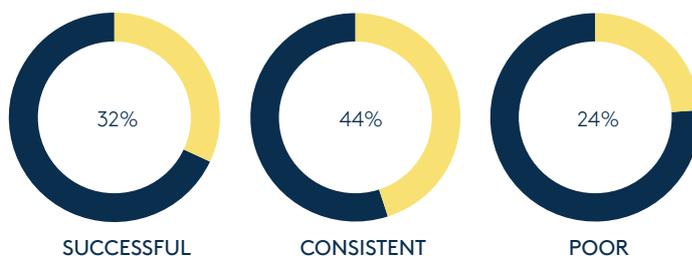
44% of contractors experienced a consistent 2021, with 32% reflecting on a successful 12 months. However, 24% experienced a poor year by their usual standards.

Whilst this accounts to nearly one in four contractors, it is a stark improvement from the 53% who reported poor performance the previous year.

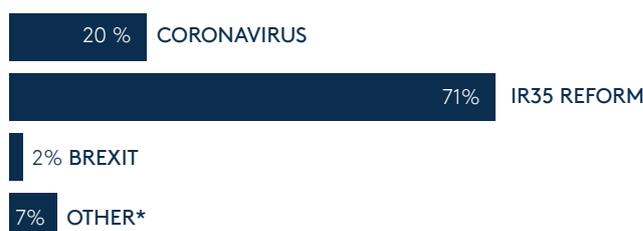
71% of contractors said IR35 reform was the biggest factor contributing to poor performance in 2021, compared to only 30% in 2020 when Covid-19 was reported as the biggest challenge at 64%.

Despite lockdown restrictions not having been fully lifted until the end of July 2021, contractors spent longer in contract with two thirds (60%) in contract for 76-100% of the year. In 2020, only 38% of respondents reported this level of engagement.

? How would you describe your business performance in 2021?

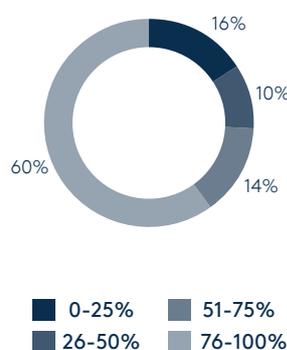


? What was the biggest factor contributing to poor performance?

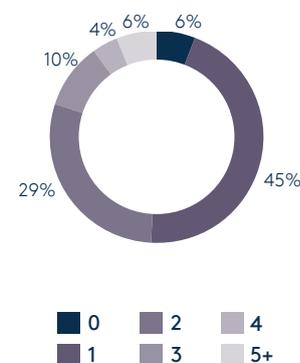


\*Other responses include a lack of investment from engagers, personal circumstances, and a combination of the above.

? Time spent in contract in 2021



? Number of contracts held





## CONTRACTOR INCOME HIT, BUT STAYED RESILIENT

The past 12 months has been a mixed bag with regards to contractor income. 35% said their income in 2021 remained consistent with 2020, 38% earned less but a notable number (27%) saw their earnings rise. This is likely a result of contractors returning to work following Covid-19 restrictions, as 61% surveyed in 2020 saw a decrease the previous year.

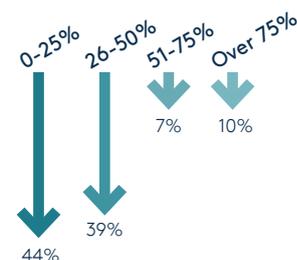
### ? Average day rate in 2021



### ? Change in earnings in 2021 vs 2020



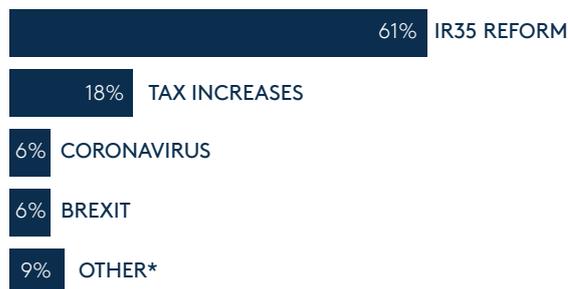
### ? Percentage decrease (where applicable)



## CONTRACTORS ARE OPTIMISTIC GOING INTO 2022

While IR35 has been pinpointed by 61% of contractors as the biggest threat to this way of working in 2022, other tax changes due to come into effect in April of this year (dividend tax/National Insurance increases) are also of concern (18%). Additionally, the longer-term implications of Covid-19 and Brexit (both 6%) are considered dangers to independent workers.

### ? What do you view as the biggest threat to your business in 2022?



\*Other responses include recession, market conditions, oil industry changes, Loan Charge, and a lack of opportunities including offshoring.

Regardless, a significant number of contractors surveyed (45%) feel optimistic about their future prospects. This is levelled out somewhat by the 25% who are fairly concerned about what's to come in 2022, but the fact remains that contractors are far more optimistic about 2022 than they were about 2021, with 58% of those surveyed the previous year indicating concerns over their prospects.

### ? How do you feel about your business prospects in 2022?



# IR35 REFORM LANDS IN THE PRIVATE SECTOR

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The off-payroll working rules were introduced into the private sector on 6th April 2021, following a year-long delay as a result of the Coronavirus pandemic.

IR35 reform saw the responsibility for determining employment status (for tax purposes) under the IR35 legislation, shift from the limited company contractor providing the services, to the client engaging them.

**65% of contractors surveyed in December 2020 expected IR35 reform to be their biggest challenge in 2021.**



# IMPLEMENTING THE NEW RULES

## ASSESSMENTS WERE LATE TO COMPLETE

In April 2021, we surveyed **1,738** contractors who were in contract prior to IR35 reform's implementation.

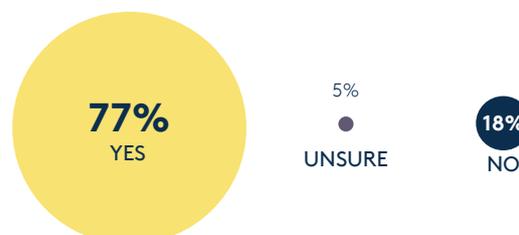
91% of respondents were engaged by a medium-large private sector organisation impacted by IR35 reform.

Three in four contractors (77%) reported having had their IR35 status determined when surveyed in the month following the reform, but only 56% of these had received a Status Determination Statement (SDS). This is despite having an SDS being a legal requirement under the rules.

With many businesses having had little choice but to prioritise navigating the pandemic over IR35 reform in 2020, a further delay to IR35 reform had not been ruled out. This may explain a relatively slow response from businesses, with regards to preparing for IR35 reform in 2021 - signalled by 59% of contractors who only received their SDS within a month before the introduction of reform.

Following the roll out of the changes, two in three contractors (65%) reported being determined inside IR35 (employed for tax purposes) with 38% of determinations made using HMRC's CEST tool.

? Has your end client determined your IR35 status?



? When did you receive your SDS?



? What was the determination?



? What method did your end client use to determine your IR35 status?



13% of respondents were unsure. 3% Other responses include a combination of independent reviews and CEST, blanket application of status or bans on use of PSCs, and other third-party assessments.



# SIX MONTHS ON FROM REFORM

We surveyed **1,235** contractors in November 2021 who were either still contracting or had been contracting in the past 24 months.

**72%** of these respondents who did not identify as a limited company contractor or umbrella company worker when surveyed, reported that this was a change mainly as a result of IR35 reform.

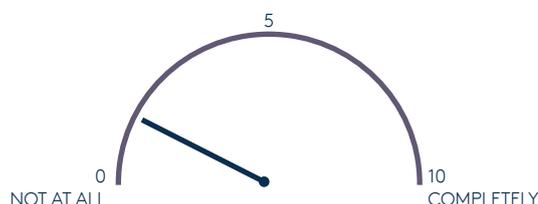
**82%** of those who stopped contracting in 2021 due to IR35 reform, moved to employment/agency temp work, whilst **18%** retired. **95%** of this group said they hadn't been able to secure an outside IR35 contract due to the introduction of the new rules.

## CONTRACTORS UNCONVINCED BY CEST TOOL

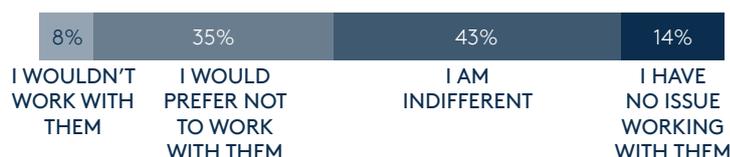
HMRC's Check Employment Status for Tax (CEST) tool has been widely criticised for a variety of reasons since its introduction prior to public sector reform in 2017. Our study highlights how little confidence contractors have in this tool to accurately determine their IR35 status.

On average, contractors rated CEST 2 out of a possible score of 10, when asked how much they trust the government's technology to support their client's IR35 assessments. **43%** wouldn't (**8%**) or would prefer not to (**35%**) work with businesses that use CEST - another **43%** are indifferent, but only **14%** are happy to be engaged by an organisation using the tool.

? How much do you trust CEST (HMRC's IR35 tool)? 0 being not at all, 10 being completely



? How much would a company's decision to use CEST influence your view of working with them?

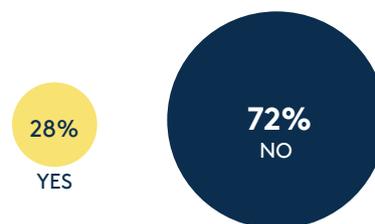




## RISE OF UMBRELLA WORKING

A trend to emerge from IR35 reform is the increase in umbrella working. Given umbrella workers are engaged as employees, some businesses have insisted that contractors operate through umbrella companies, where IR35 is not a consideration.

? Have you used an umbrella company to provide your services in 2021?

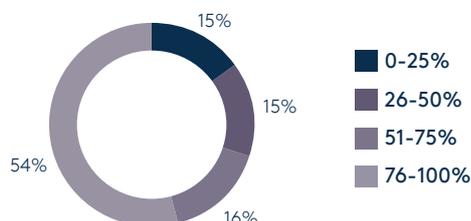


While most contractors have not worked via umbrella companies in 2021 (72%), most (55%) of those who have said it accounted for the vast majority of their work. This represents an 80% increase in the proportion of time contractors spent operating via an umbrella company, when measured against 2020.

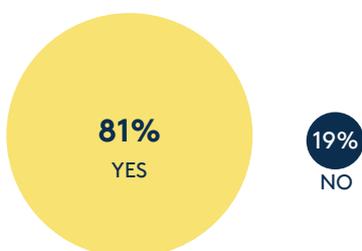
This study also suggests that nearly all (94%) of those who have been engaged as umbrella employees were told by their agency or end-client that it was a requirement, following IR35 reform.

But 69% of contractors when surveyed in 2020 said that they did not want to work via an umbrella company.

? For what percentage of your contracts in 2021 have you worked via an umbrella company?



? Is this an increase in 2021 compared to 2020?



? What is the primary reason for which you use an umbrella company?



Other responses include to avoid stress of IR35/HMRC, short term contracts, and better links with clients.

## WHAT IS AN UMBRELLA COMPANY?

An umbrella company replaces a contractor's limited company in the contractual chain to act as a pseudo-employer, with the worker classes as an employee as a result.

The umbrella company takes on the responsibility for the self-employed worker's tax contributions, as well as other admin such as timesheets, whilst the worker receives statutory employment benefits and maintains control and flexibility over the contracts they secure.



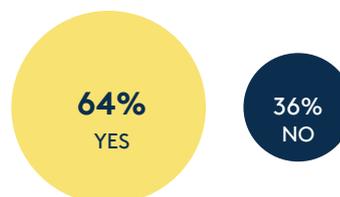
## RISE IN OUTSIDE IR35 CONTRACTS, BUT CONFIDENCE REMAINS LOW

While the impact of IR35 reform is clear to see, the fact that 64% of contractors have been able to secure contracts outside IR35 is a welcome finding – particularly when this figure is nearly double the number of contractors (35%) who said they had been placed outside IR35 immediately following the reform in April. Above all else, this 83% surge in contractors being placed outside IR35 is a clear indication that more businesses are managing the changes in a fair, compliant manner..

Despite this, three quarters have no confidence (37%) or not much confidence (38%) they will be able to secure contracts outside IR35 in 2022.

Most contractors also feel that IR35 will continue to impact them in 2022, with (51%) not of the view that their situation will improve. In contrast, 35% think it may, while 14% are confident that it will.

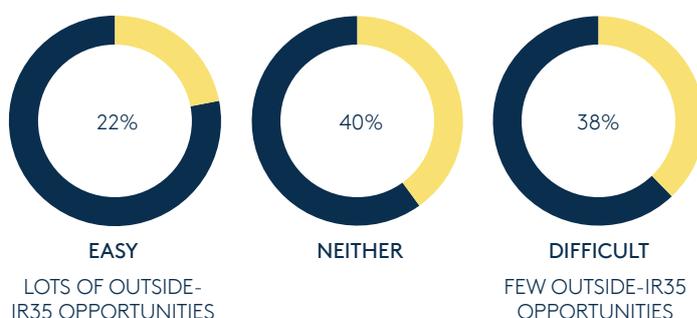
? Have you been able to secure an outside IR35 contract since off-payroll reform was introduced?



? How confident are you that you will be able to operate outside IR35 in 2022?



? How easy/difficult have you found it to find/secure an outside IR35 contract?

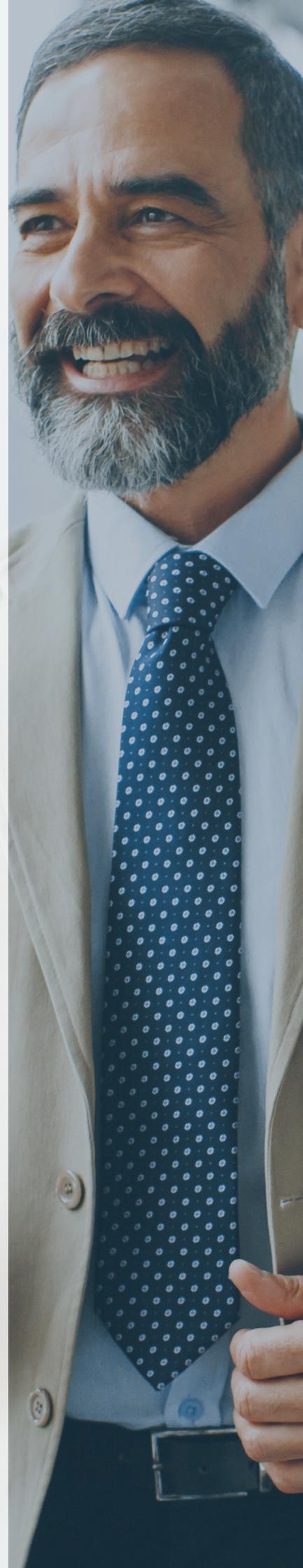


? Do you believe securing an outside IR35 contract will become easier in 2022?



# ENGAGER OPINION

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# ENGAGING SELF-EMPLOYED WORKERS IN 2021

To gain a broader view of the self-employed landscape, we also surveyed **80** engagers in November 2021 to find out about their experience of IR35 reform and their expectations for the future.

29% of these respondents are Qdos clients. Where there are notable differences between Qdos clients and non-Qdos clients, this distinction has been provided.

## ? Qdos clients vs Non-Qdos clients



## ? Type of business

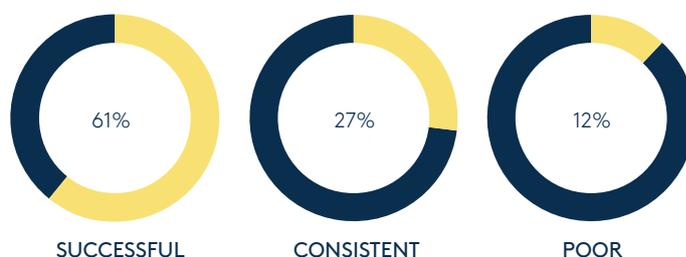


## 2021: A SUCCESSFUL YEAR FOR ENGAGERS

Two thirds of engagers found 2021 to be overall a successful year in terms of business performance.

Of the 12% who reported poor performance, the majority (67%) put this down to IR35 reform. The remaining third reported a combination of IR35 reform and COVID-19 measures, and labour turnover.

## ? How would you describe your business performance in 2021?





## ENGAGERS NOW COMPLIANT WITH IR35 REFORM

Speculation, uncertainty and confusion regarding IR35 reform have meant that for businesses engaging contractors, the off-payroll working rules have been a big consideration for at least five years.

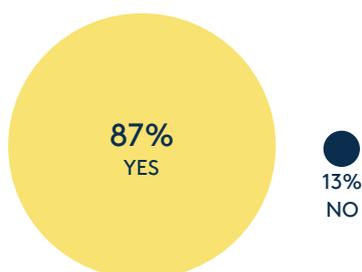
However, the 12-month delay to the roll out of these rules in the private sector, looks to have been important in giving engaging the time to appropriately prepare for the new rules.

100% of Qdos clients said that they were either well prepared or very well prepared compared to 78% of non-Qdos clients who said the same, highlighting the importance of having an experienced third-party on your side.

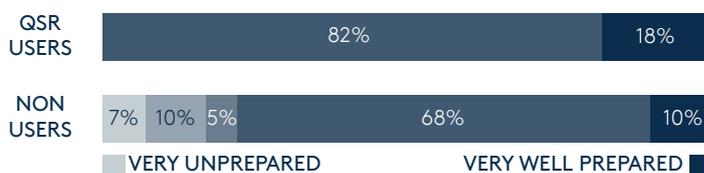
Unsurprisingly, 100% of Qdos clients assess IR35 status via independent IR35 status reviews or combine these reviews with HMRC's CEST tool.

Engagers who do not utilise Qdos Status Review services however, are more likely to utilise CEST for their determinations (38%).

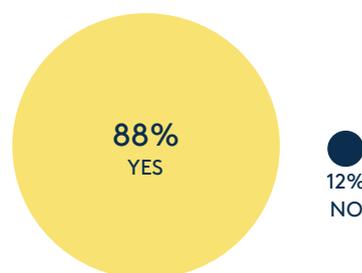
**?** Following IR35 reform, do you still place/engage contractors outside IR35? i.e. self-employed for tax purposes



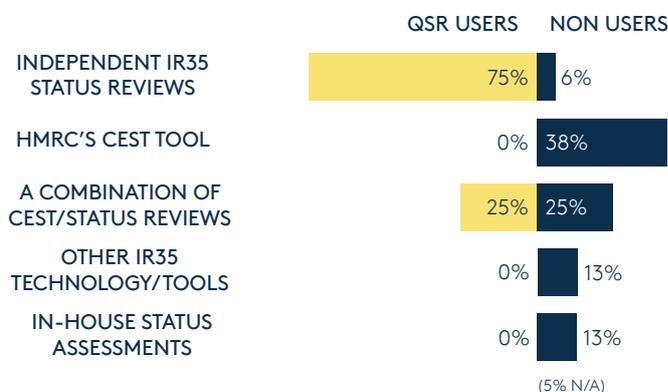
**?** On reflection, how well prepared do you feel you were for IR35 reform?



**?** Do you feel you have the processes now in place to compliantly manage IR35 reform?



**?** How do you assess IR35 status?



Positively, 88% of respondents feel they now have the processes in place to compliantly manage reform, and 87% continue to engage contractors outside IR35.



**? How important are contractors currently to your business?**



**? What do you believe is the biggest barrier to engaging a contractor/freelancer? (in order of importance)**

- 1** IR35 REFORM
- 2** COST/BUDGETS
- 3** LACK OF KNOWLEDGE RETENTION
- 4** LACK OF CONTROL OVER SERVICES PERFORMED

**IR35 REFORM PUTS BARRIER TO ENGAGING CONTRACTORS**

Only 2% of respondents were indifferent to the use of contractors for their business in 2021, emphasising the importance of contractors to the UK's labour market.

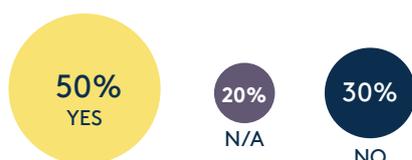
44% of respondents placed IR35 reform as their number one barrier to engaging contractors, with 33% voting costs/budget as number one.

**EMPLOYMENT STATUS STILL POSES RISK TO ENGAGERS**

With IR35 reform now in force in the private sector, it is likely that HMRC will turn its attention to the facilitation of false self-employment. This can occur when engaging sole traders as self-employed workers. If false self-employment was found to be the case, the engaging business would be liable for missing employment tax, potential fines and penalties.

Numerous employment rights cases in recent years involving Uber, Addison Lee and Deliveroo, have highlighted the importance of ensuring employment status is accurately assessed. Half of respondents say that they have the necessary processes already in place to handle this, however a third remain at risk.

**? Does your organisation currently have a process in place to assess the employment status of your sole trader/freelancer workers?**



**? What do you view as the biggest threat to your organisation in 2022?**



Other responses include economic uncertainty, fewer available contractors, and rising costs/inflation.



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