

# Accountancy is changing

An insight by **freeagent**

# The world of accountancy is changing

With new legislation on the horizon and a shifting technological landscape, it's a challenging time for accountants who are trying to maintain their cutting edge, grow their practices and stay ahead of the competition.

In less than a year's time, the initial rollout of the government's Making Tax Digital (MTD) agenda will be complete. This will be the first step towards realising the initiative's ultimate goal of fully digitising the UK tax system. Meanwhile, following the introduction of IR35 for contractors working in the public sector, it looks increasingly likely that this contentious legislation could be expanded to include the private sector in the not too distant future.

These changes will affect millions of people across the UK and are already causing a great deal of concern among contractors and business owners.



Research from consultancy Contractor Calculator has shown that a staggering 98% of contractors would actively turn down work that could lead to them being paid through PAYE, while a quarter would never take any contract that would make them liable for tax under IR35.<sup>1</sup>

80% of contractors said they believed IR35 had been a 'very negative' development for their businesses

Should the rollout of IR35 to the private sector take place, it's likely that the response will be similar to that of its introduction to the public sector in April 2017. Research by Harvey Nash found that 80% of contractors believed IR35 had been a 'very negative' development for their businesses.<sup>2</sup> HMRC also reported that half of public sector companies have found it difficult to comply with IR35 rules.<sup>3</sup> And, more starkly, 63% of contractors have admitted they have considered changing career and 40% have indicated they may quit contracting altogether because of the legislation.<sup>4</sup>



<sup>1</sup>'Contractors threaten to revolt over private sector IR35 rules', [peoplemanagement.co.uk](http://peoplemanagement.co.uk), July 2018

<sup>2</sup>'Harvey Nash IR35 sentiment report', Harvey Nash, May 2018

<sup>3</sup>'Off-payroll working in the private sector', HMRC consultation document, May 2018

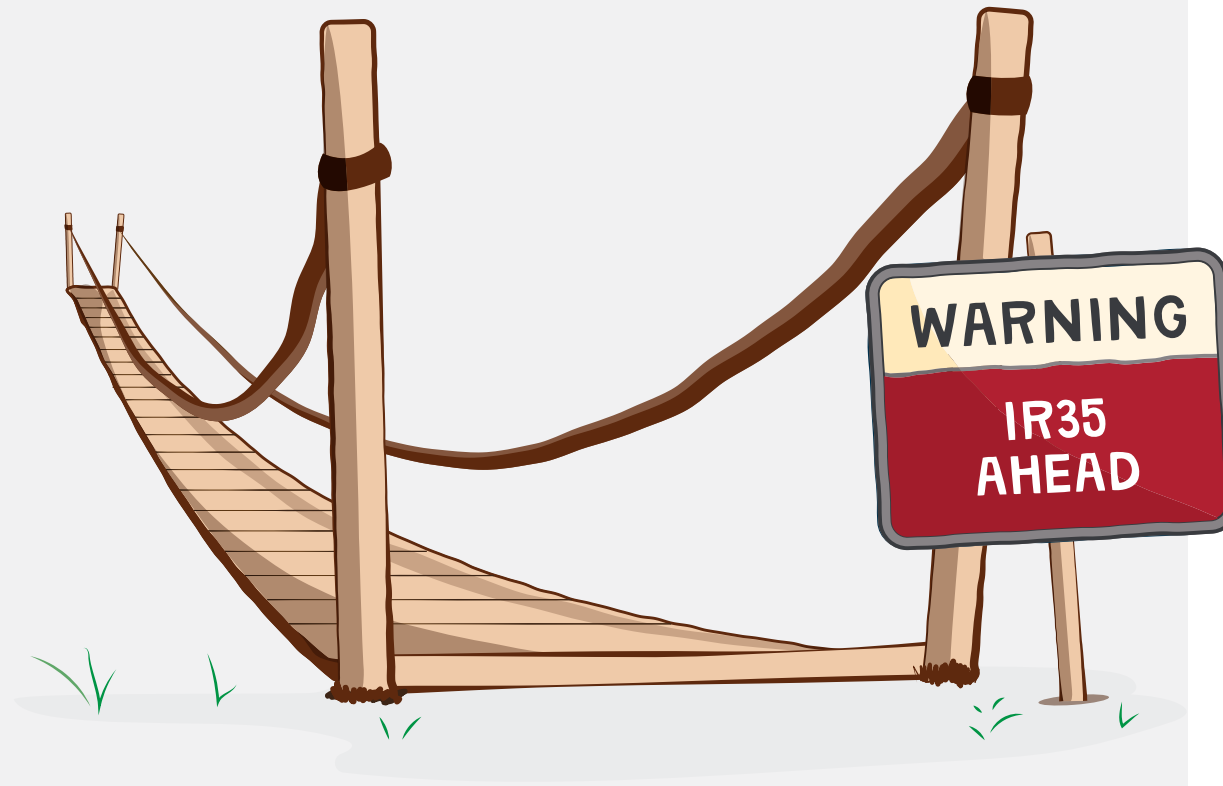
<sup>4</sup>'IR35 Reforms in the Public Sector', Contractor Calculator report, September 2017

This groundswell of animosity in the contractor industry has not gone unnoticed by accountants who work with these businesses. Many are looking towards the future with trepidation, unsure about whether this potential legislative change will lead to an exodus of contractors or require a fundamental change to the way clients structure their businesses and manage their accounts.

## Many are looking towards the future with trepidation

Official consultation over the future of IR35 recently took place (it closed for analysis on 10th August 2018) and the government has indicated that expanding the legislation to the private sector would be its preferred "lead option".<sup>5</sup> Surprisingly, however, many accountants haven't started to prepare for this outcome. A recent FreeAgent poll of accountants with contractor clients found that 69% had not started any preparations for the potential rollout of IR35 to the private sector.

Unfortunately, these accountants may well lose out to practices that have started to anticipate the changes. The market is already beginning to consolidate, with some companies actively expanding their operations in preparation for new legislation coming in.



In some cases, this has included purchasing traditional high street practices that do not want to deal with the challenge of IR35 or MTD compliance.

## A recent FreeAgent poll of accountants with contractor clients found that 69% had not started any preparations for the potential rollout of IR35 to the private sector

Some firms are strengthening their umbrella offerings to make sure they can transition clients away from limited company status as easily as possible. Others are beginning to educate clients about the developments that lie ahead so they can mitigate the risk of their contractor clients terminating their businesses once the legislation comes into effect.

As a trusted partner to many of the practices that are planning for the challenges ahead, here's what we've learned about the changing shape of the industry and how best to prepare for it.

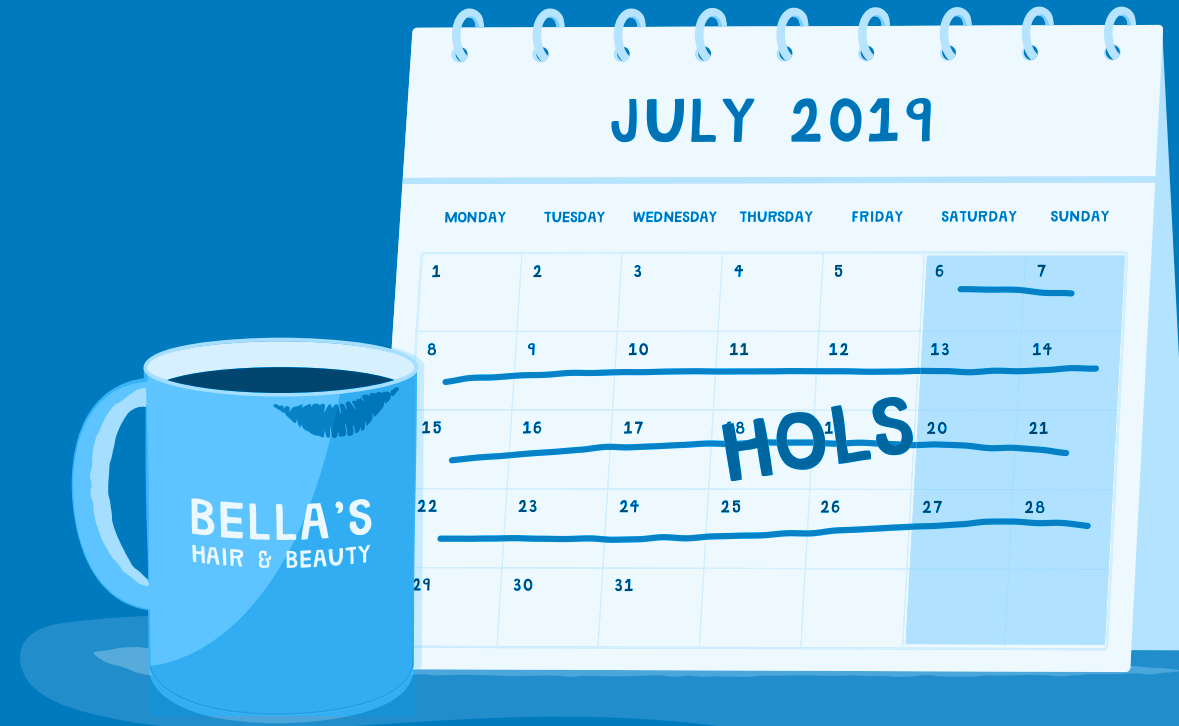
<sup>5</sup>Off-payroll working in the private sector', HMRC consultation document, May 2018

# The changing workforce

The Office for National Statistics (ONS) estimates that there are around 4.8 million self-employed people in the UK<sup>6</sup>, while the Association of Independent Professionals and the Self Employed (IPSE) claims that around two million workers are 'freelancers or contractors', up 43% since 2008. It's clear that the world of work is continuing to shift away from traditional employment.<sup>7</sup>

The number of UK freelancers and contractors has risen by 43% since 2008 to around two million

Fewer than a third of UK hirers and recruiters believe that permanent jobs will remain the default option for the workforce in the future, while flexible working conditions and the ability to enjoy a good work-life balance are making self-employment an increasingly attractive prospect.<sup>8</sup>



More and more people are looking to become their own boss in the near future, with 11% planning to start working for themselves by the end of 2018

Research we have carried out suggests that almost half (49%) of working Brits have aspirations to start their own business and work for themselves, while 11% plan to do so by the end of 2018.<sup>9</sup> And with many of these newly-formed freelance or small business ventures likely to have similar accounting requirements to established contractors - such as the need to maintain digital records, log and manage expenses via mobile devices and have any potential issues highlighted and dealt with quickly - they represent a rich opportunity for accountants.

<sup>6</sup>Trends in Self-Employment in the UK', Office for National Statistics, February 2018

<sup>7</sup>Exploring the UK Freelance Workforce in 2016', IPSE, February 2017

<sup>8</sup>TALint Partner survey', April 2018

<sup>9</sup>Survey of 1,000 fully employed UK adults', conducted on behalf of FreeAgent by OnePoll, December 2017

## The MTD opportunity

The introduction of Making Tax Digital is likely to be a key driver for this area of new business. With MTD for VAT scheduled to come into effect next year, and wider MTD implementation expected in the years ahead, many self-employed freelancers and micro-business owners are looking to make the switch to digital accounting systems as soon as possible - and need accountants who can guide them through this process.

Our research shows that 62% believe that digital tax will lead to new opportunities for growth in their practices

Among accountants who are well versed with digital software, MTD has already been identified as a key area of focus in the coming years. Our research shows that 62% believe that digital tax will lead to new opportunities for growth in their practices, while many others believe that the legislation will lead to a fundamental shift in how they do business.<sup>10</sup>

## When we asked accountants to consider their work in 5 years time, we found that:

48%

don't think they will be doing the same day-to-day tasks

75%

think more sophisticated mobile apps and technology will arise to facilitate more digital accountancy work on the go

77%

believe there will be more automation of data in their work

78%

more than three quarters say they will 'definitely' or 'possibly' retrain in some way to safeguard their roles in the future

<sup>10</sup>Accountant Monitor, FreeAgent survey, May 2018

## Pioneering practices: The view from the front line



**Steve Cornwall**  
**Operations Director**  
ICS Accounting

"Over the next few years, I believe there will be an even greater dependency on technology for success. Contractors face having to comply with legislation like IR35, GDPR and MTD which could alter the way that some of them have to structure their businesses - but will also require them to embrace technology in order to keep their financial records and tax information in check.

"I envisage that we're going to see a shift towards practices expanding their services for small and micro-business clients, rather than simply for contractors. Some small business clients have similar accounting requirements to contractors and will need an intuitive, easy-to-use digital solution, which is something that accountants familiar with software like FreeAgent will be able to implement easily.

"We're already seeing traditionally contractor-focused firms starting to introduce small business-focused offerings. It's becoming increasingly clear that the industry is looking at this sector as a big area for future growth."



**Lauren Monks**  
**Operations Manager**  
Dolan Accountancy

"At Dolan, we provide both limited company and umbrella offerings, so the impact of any future IR35 changes will be minimal for us. We're well set up to transition clients easily from one service to the other, and we'll be ready to educate and reassure clients when any legislation is introduced, which means that there should be little disruption to our day-to-day operations.

"As all of our contractor clients are put onto FreeAgent when they join, we're already prepared for the introduction of digital tax, so MTD will be a pretty seamless piece of compliance for us. And that will be very important over the next 6-9 months, when we expect to see an upswing in enquiries from contractors and small business owners who need to comply with MTD but aren't sure how to do so."

## Setting the stage for success

In an evolving market where the only certainty is the increasing pace of change, accountants continue to be asked for more, whether through acquisition, market expansion or detailed preparation and forecasting. With changes underway that have the potential to transform the way in which accountants and clients work together, now is a pivotal time for practices to stake out their position and set the stage for success in the coming years.

These may be early days in the digital age of accounting, but some distinct trends are already starting to emerge. It's clear that practices that are prepared to invest in the right technology, educate clients about the forthcoming changes and shift their focus away from the contractor market will be best placed to not only survive, but to grow and flourish during these changing times.

**freegent**