

## **COMPARISON TO PERMANENT RATES**

Contractors switching from or to permanent roles sometimes need help in comparing rates offered.

Here are the main points to consider:

1. A contract rate is normally quoted as gross of all taxes. A permanent rate will normally be exclusive of employers NI

EG, if a client engages a contractor at £100,000 pa the cost to the client is £100,000 plus agent commission if relevant

If the same client engages a permanent staff member, the cost is £100,000 plus employers NI at 12.8% - employers NI is borne by the employer. Employees NI and Income Tax is deducted from the salary, under PAYE.

2. Benefits in kind – very difficult to evaluate, but a contractor will normally have no benefits, a employee may have private medical cover, gym access or a plethora of other benefits, all of which have a value.

It should be noted that most benefits are taxable on the employee, and a form of employers NI is payable by the employer.

3. Holidays – employers are obliged to give at least four weeks holiday, including bank holidays, and four weeks plus bank holidays, perhaps more, is common. In working out an equivalent contract rate, the paid holidays need to be taken into account.

## COMPARISON TO PERMANENT RATES - *continued*

Example:

Supposing you are seeking to get the contract rate for a permanent role which is £100,000 pa plus bank holidays plus four weeks holidays, no other benefits.

£100,000 plus 12.8% = £112,067 (NB there is a NI exemption on the first £110 p/w)

£112,067 / 46 weeks / 5 days = daily rate of £487.25 per day

In terms of tax regime, permanent employment versus IR35 caught isn't far different once adjusted for where the NI costs sit. EG

	Permanent £	PSC - all income caught by IR35 £	PSC - outside IR35 - without spouse allowances £	PSC - outside IR35 - with spouse allowances £
Base Equivalent	100,000	112,068	112,068	112,068
Employers NI	-	11,433	292	292
Employees NI	4,759	4,709	251	251
Income Tax	29,930	29,050	12,729	3,014
Corporation Tax	-	1,177	21,793	20,593
<b>Total tax</b>	<b>34,689</b>	<b>46,368</b>	<b>35,066</b>	<b>24,151</b>
<b>Take home</b>	<b>65,311</b>	<b>65,700</b>	<b>77,003</b>	<b>87,918</b>

NB for assumptions, see separate guide sheets on tax liabilities at various rates. Outside IR35 salaries assumed £8,000 / £5,715