

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 13.8% - 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 13.8% = £112,824 (NB there is a NI exemption on the first £136 p/w)

£112,824 / 46 weeks / 5 days = daily rate of £490.54 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	112,824	112,824	112,824
Employers NI	-	12,140	404	404
Employees NI	5,400	5,301	351	351
Income Tax	30,010	29,155	13,682	4,302
Corporation Tax	-	1,128	20,484	19,070
Total tax	35,410	47,724	34,922	24,128
Take home	64,590	65,100	77,903	88,696

NB for assumptions, see separate guide sheets on tax liabilities at various rates. Outside IR35 salaries assumed £10,000 / £7,068