

# Annual Survey 2023

Flexible working:  
exploring the  
state of play

Qdos

# Qdos

**Qdos exists to make insurance and tax make sense – for flexible workers and the businesses engaging them.**

Our dedicated team of experts just get it, and aim for the highest standards. We help almost 100,000 customers – from corporates and microbusinesses to IT contractors, freelance photographers and everything in between – get to grips with IR35, employment status and the complex but important world of business insurance.

It's what we've been doing for more than 20 years: providing pioneering employment status services, carrying out over 200,000 status assessments and defending over 1600 contractors from IR35 enquiries along the way.





## About this report



Each year, a number of our customers – the self-employed, contractors and businesses alike – share their views on the topics and issues shaping flexible working. We carry out this research to understand how our customers are feeling, reflecting on the year that was before focusing on the year ahead.

At the start of 2023, I was cautiously optimistic about what the year might hold, buoyed by the confidence of our 2022 survey results. And looking back, things were positive. But there were some hurdles for this sector of the workforce to overcome, too. We saw HMRC step up its compliance activity considerably, while also continuing its pursuit of high-profile media personalities for perceived IR35 tax liabilities.

This year, I'm confident that we'll see more progress in how businesses manage IR35 compliance.

But that's tempered somewhat by last year's events, explored in this report.

And there's no denying the relationship between politics and the economy. While 2023 was steadier than 2022, this year might see a general election. The self-employed could play a pivotal role in its outcome.

But before we get carried away, here's where we stand going into 2024. Thank you once again to all our survey respondents who contributed to this report, and to those of you interested in understanding the lie of the land. All of us here at Qdos hope you find it useful.

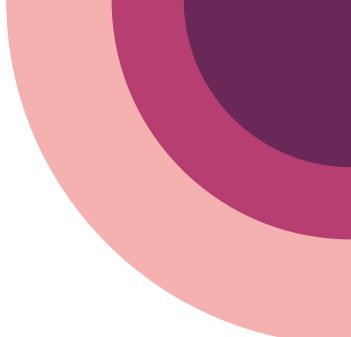


**Seb Maley**

*Chief Executive Officer, Qdos*

# How the self-employed fared in 2023

Contractors and flexible workers share their views on 2023 – a year in which *75% of contractors secured roles outside IR35*



# The impact of IR35 reform in 2023

Following the introduction of IR35 reform in the public (2017) and private (2021) sectors, businesses and organisations have now had time to understand and adapt to the off-payroll working rules. As a result, businesses are demonstrating that they can manage these rules, with more and more compliantly engaging contractors outside of IR35.

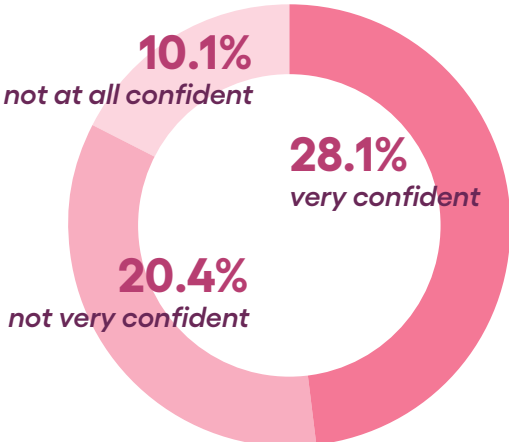
Almost 900 contractors responded to our survey; three-quarters (74.4%) were able to secure roles outside of IR35 in 2023. At the time of our survey in November, almost two-thirds (61.6%) of contractors were engaged outside of IR35 – and just 5% operating within the scope of the rules.

**Despite this, almost half (45.9%) of contractors had challenges finding outside IR35 roles over the year, compared to just a sixth (16.5%) who found it easy.**

roles outside IR35	74.4%
engaged outside IR35	61.6%
within the scope of the rules	5%

However, some are optimistic that this will improve. Over a quarter (28.1%) of contractors are ‘very’ confident they can secure an outside IR35 role in 2024, with a third ‘somewhat’ confident. But a fifth (20.4%) of contractors are ‘not very confident’ and 10.1% ‘not at all confident’ this will be the case.

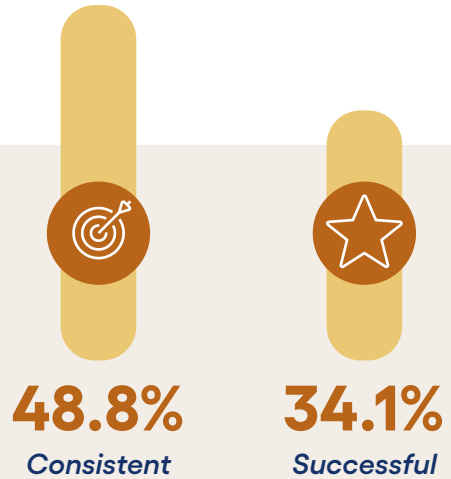
*The sentiment is mixed, but the signs for 2024 are positive – and should continue the upward trend we saw throughout 2022.*



*In our previous annual survey, 80% of contractors were able to secure a contract outside of IR35. While this year’s number is down slightly (74.4%), a larger survey base – 874 respondents compared to 698 in 2022 – means it is still a positive outcome.*

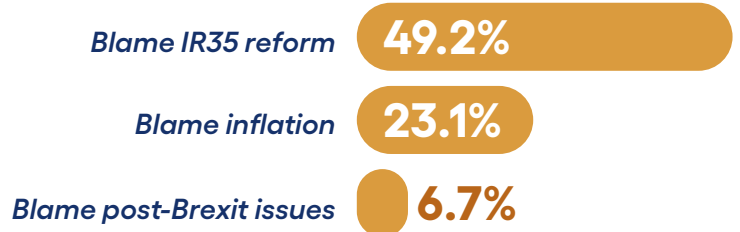
# Business performance

As we've noted, flexible workers faced several challenges last year. Even so, almost half (48.8%) of our respondents rated their business performance as 'consistent' and a third (34.1%) believe their year was 'successful'.



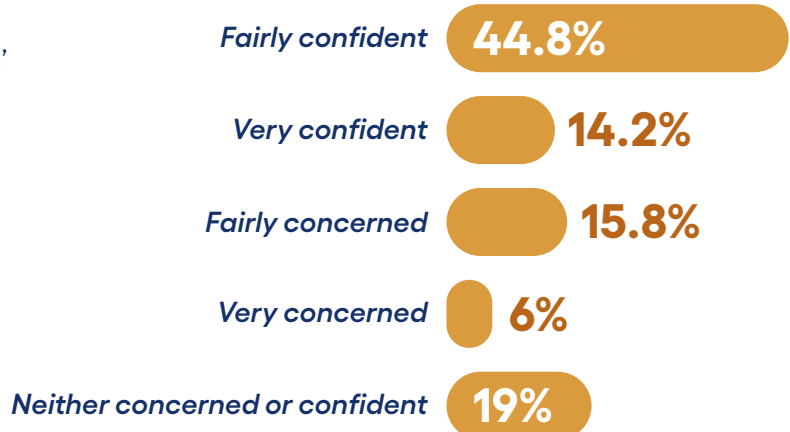
## What has been the biggest factor contributing to poor performance?

Just 17% of respondents rated their year as 'poor', with half of them (49.2%) blaming IR35 reform.



## How do you feel about your business prospects in 2024?

Looking ahead to 2024, though, many (44.8%) contractors are 'fairly confident' about their business prospects, and 14.2% are 'very confident'.

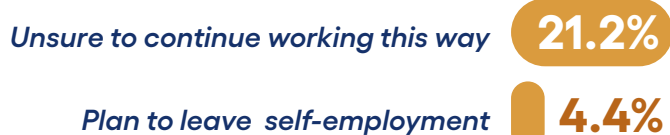


## What do you view as the biggest threat to your business?



These concerns are driven either by the fear of a recession or the cost of living crisis for almost a third (31.2%) of flexible workers. Others (16.6%) worry that the Spring Budget – due to be held on 6 March – will introduce new tax increases, while many (41.4%) remain concerned about the ongoing impacts of IR35 on their business.

## Do you plan to stay in self-employment?



For about a fifth of contractors (21.2%), these pressures mean they are unsure whether to continue working this way, while a few (4.4%) plan to leave self-employment altogether.

## What are your reasons to leave self-employment?



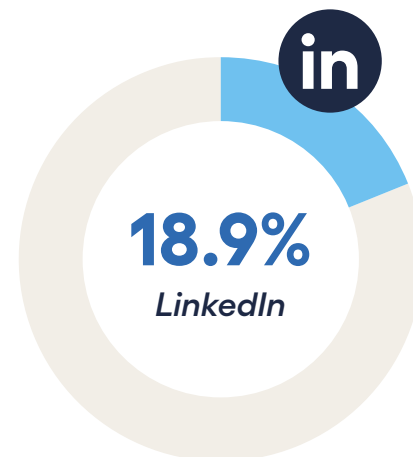
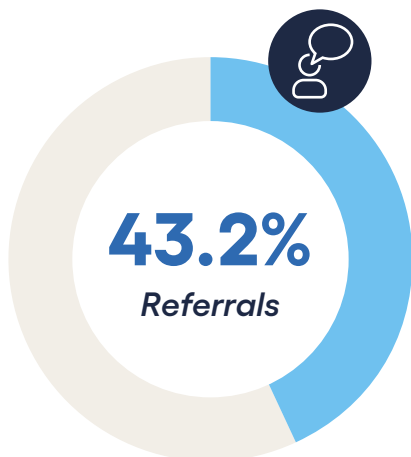
Of these two groups, more than half (54%) believe that self-employment is no longer attractive due to various recent tax reforms, while a third (31.6%) want greater stability or certainty in the form of permanent employment. Others (18.9%) simply find self-employment stressful.

**These respondents didn't indicate when they might, or plan to, leave self-employment. Nonetheless, that they're considering doing so is food for thought for the government and political parties in the lead-up to the general election – a topic we cover in more detail shortly.**

# Securing work and client make-up

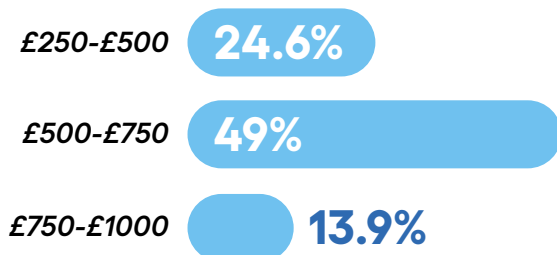
In 2023, the majority (58.5%) of freelancers continued working with the same clients as the previous year, leaning on existing relationships to generate business.

Many (43.2%) also sourced work from referrals, or through their personal networks. Others found work via recruitment agencies (21.7%) and LinkedIn (18.9%).



While business performance presented something of a mixed picture, our flexible workers mostly reported stable-to-strong earnings across 2023, relative to 2022. These were driven by their ability to command high average day rates – demonstrating just how much businesses value the flexibility and expertise of these workers.

## What was your average day rate in 2023?



Around half (49%) of contractors reported average day rates of between £500-750, with almost a sixth (13.9%) charging between £750-£1000 per day. Around a quarter (24.6%) were charging an average day rate between £250-£500.

Given the inflationary pressures of the last few years, though, these rates haven't translated into increased business earnings or profits for everyone.



## Have your earnings changed in 2023 compared to 2022?

Remained stable **41.3%**

Increased **32.7%**

Decrease **25.9%**

While most (41.3%) contractors say their earnings are stable relative to 2022, and a third (32.7%) reported increased earnings, a quarter (25.9%) of contractors actually saw their earnings decrease.

## If decreased, by how much?

Income fell 25% **25%**

Income fell 25-50% **29.6%**

Half of these reported a fall of up to 25%, while others (29.6%) said their income fell by between 25-50% relative to 2022.

## How long were your contracts in 2023, on average?

Contracts 6-12 months **39%**

Shorter contracts **23.3%**

Contracts spanning beyond 2023 **22.3%**

Additionally, many (39%) respondents' earnings came from contracts which ran for between 6-12 months. Around a quarter (23.3%) secured shorter contracts (between 3-6 months), though a similar proportion (22.3%) had contracts in place spanning 2023 or beyond.

These figures demonstrate how important flexibility is to businesses engaging contractors. However, not all end-client requirements are positive for flexible workers.

# What is an umbrella company?

**Umbrella companies are** *employment intermediaries* **and replace a contractor's limited company in the contractual chain.**

**In these arrangements, contractors are** *considered employees* **and treated as such for tax purposes.**

**This engagement method has become popular** *since IR35 reform* **– and in some cases has been mandated by risk-averse end-clients to minimise perceived risk exposure.**



However, the ***unregulated umbrella industry*** presents compliance risks, for contractors and other parties in the supply chain.

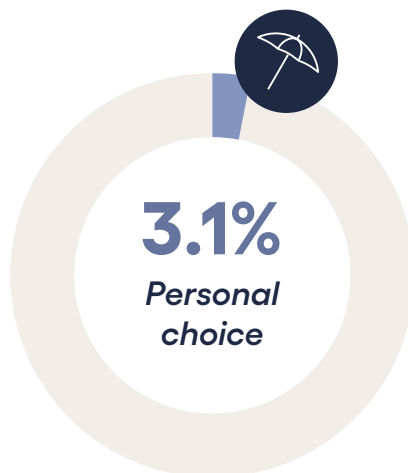
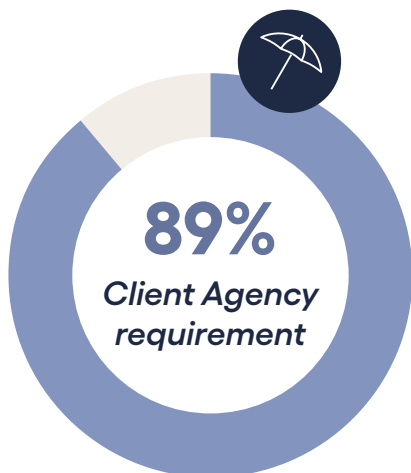
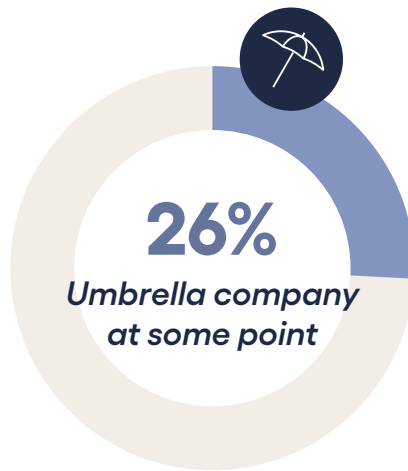
Some respondents want to see the ***government regulate the sector***, which we'll explore in more detail shortly.

# Umbrella use *continues to be a client requirement*

This brings us to umbrella working. The rise of umbrella working was one of the key themes we uncovered in our 2022 annual survey, and that continued in 2023.

## Contractors engaged via an umbrella company

A quarter (26%) of contractors worked via an umbrella company at some point in the year, and at the time of our survey, 13.9% of contractors were working this way.

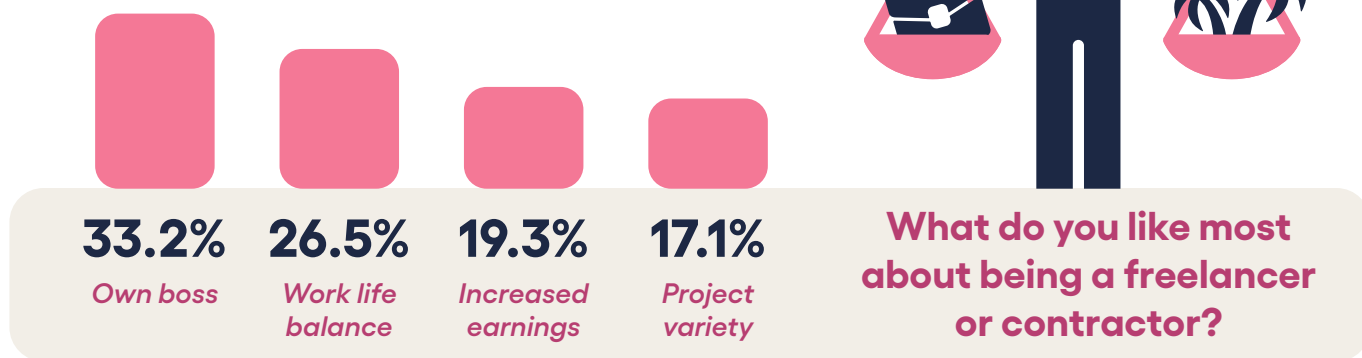


Of those engaged via umbrella companies (around 200 respondents) over the year, 89% said that they worked via umbrella companies because it was a client or agency requirement, rather than a personal choice (which was the case for just 3.1% of respondents).

# Beyond the business, lifestyle still counts

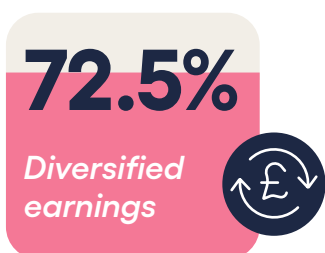
The self-employed faced some challenges in 2023, and understandably have concerns over what the coming year may bring.

Despite this, self-employment remains an attractive proposition – not just because of the increased earning potential, which lands in third place. The lifestyle benefits are equally important and provide balance against the challenges these crucial workers face.



For a third (33.2%) of contractors, being their own boss is the biggest benefit of freelancing, and another quarter (26.5%) also enjoy the work-life balance that self-employment offers.

A fifth (19.3%) also value the greater earnings available to them, while the variety of projects available is another of the main benefits of this way of working to 17.1% of contractors.



While about three-quarters (72.5%) of respondents are full-time contractors or freelancers, some flexible workers have also made the most of the freedom available to them by diversifying their earnings.

Of this group, a few (3.9%) are in full-time employment, freelancing in their free time, and some (4.3%) are self-employed across multiple businesses of their own. Others (13.5%) are landlords as well, generating stable income which can be supplemented by their freelance and contract work.

## Earning another income in addition to self-employment

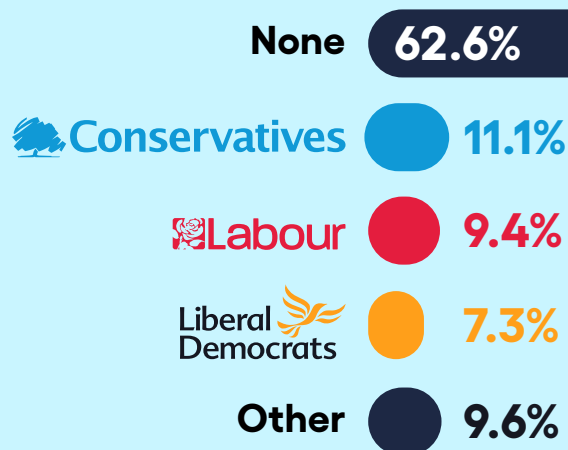


# Looking to the next general election

Whether it's held in 2024 or in January 2025 at the absolute latest, the UK will go to the polls at some point in the next 12 months.

Looking ahead to that eventuality, the self-employed are unsure which political parties represent their best interests – and, by extension, who to vote for.

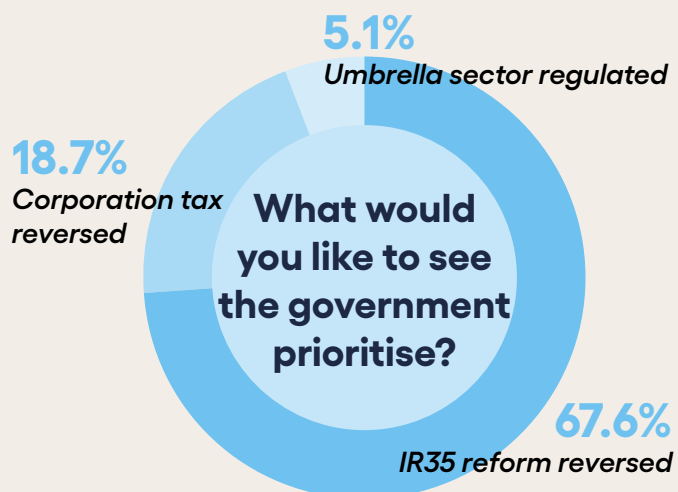
## Which political party do you believe best represents the interests of contractors/the self-employed?



Presented with a list of the major parties, a majority (62.6%) of contractors suggested 'none of the above' represent their best interests. Just 11.1% of respondents chose the Conservative Party, and only 9.4% selected the Labour Party.

So what would it take for the government to win support from the self-employed before an election? Two-thirds (67.6%) of contractors want to see IR35 reform reversed; nearly a fifth (18.7%) want the recent increase to Corporation Tax reversed; just a few (5.1%) want to see the umbrella sector regulated.

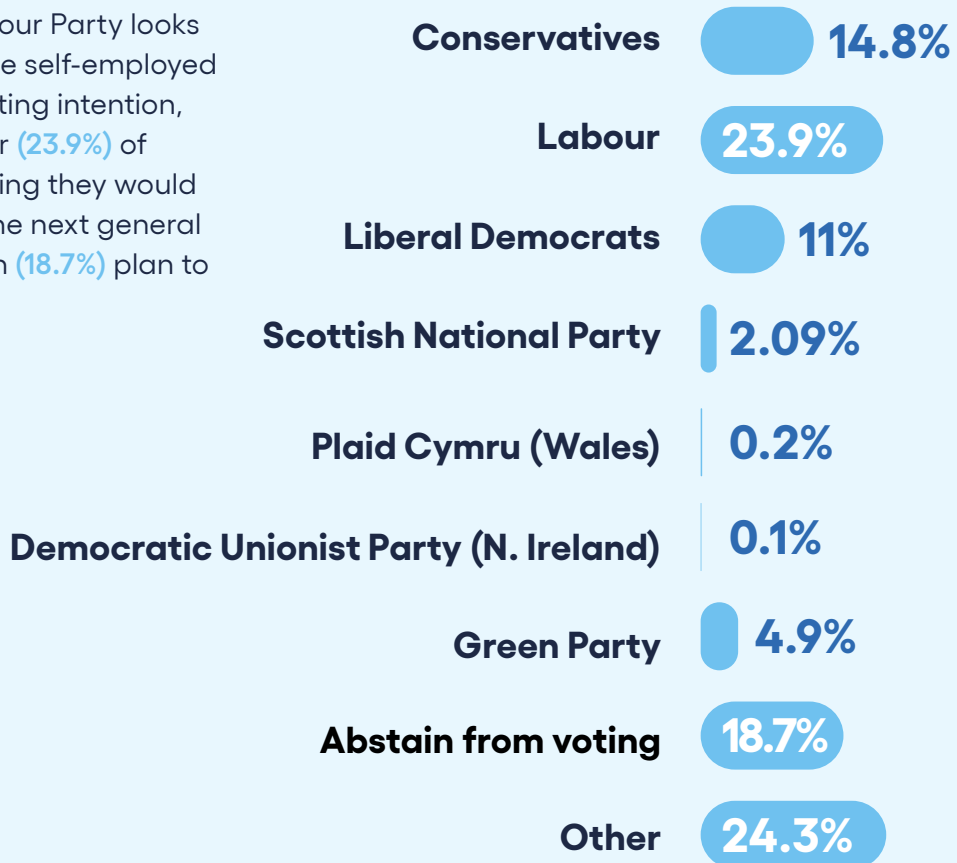
This is an important point. Many contractors have had no choice but to work via umbrella companies as a result of IR35 reform.



The irony is that the legislation – intended to reduce perceived tax avoidance by contractors – has pushed many more into an unregulated grey area where tax avoidance schemes are known to exist. Regulation would help to eliminate this risk and offer greater protection to flexible workers

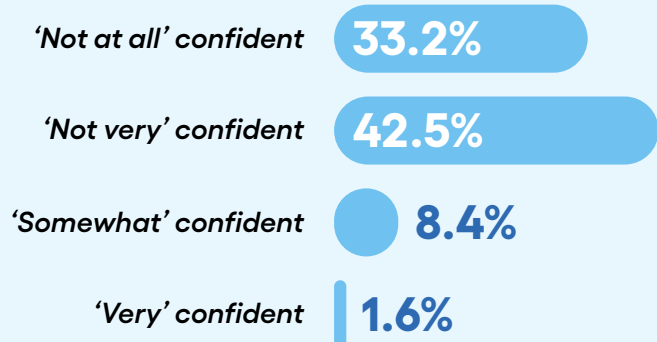
## Which political party do you plan to vote for in the next general election?

Failing that, the Labour Party looks most favoured by the self-employed when it comes to voting intention, with about a quarter (23.9%) of respondents indicating they would vote for Labour at the next general election, while a fifth (18.7%) plan to abstain from voting.



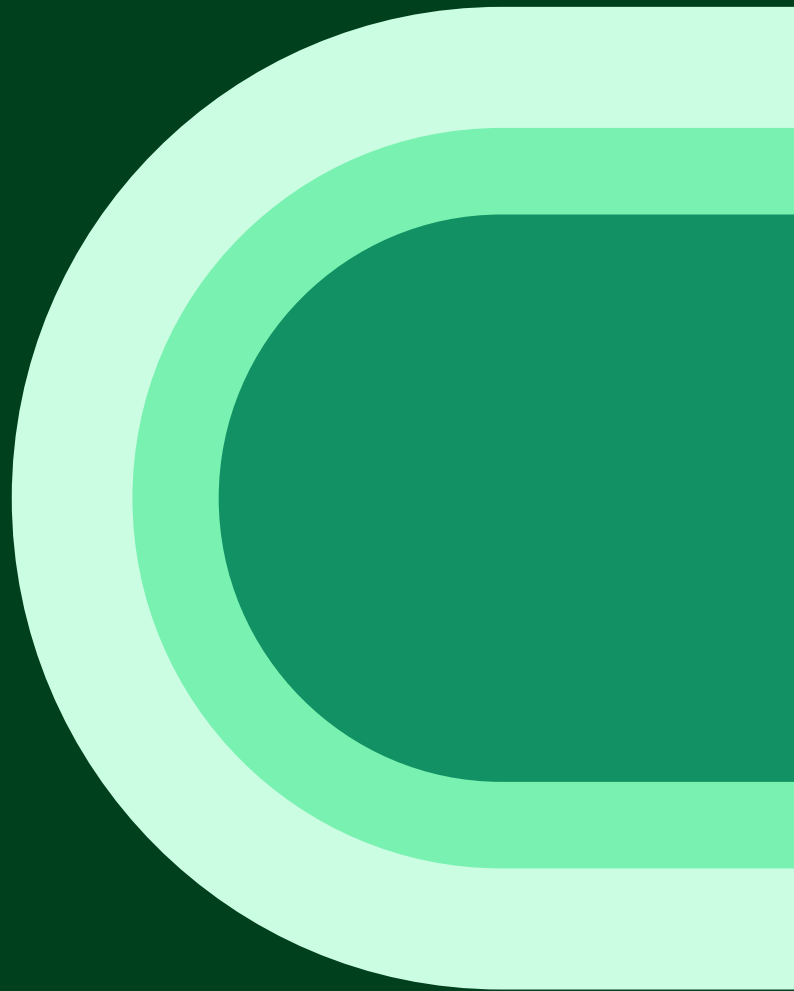
## How confident are you that you will be able to operate outside IR35 in 2024?

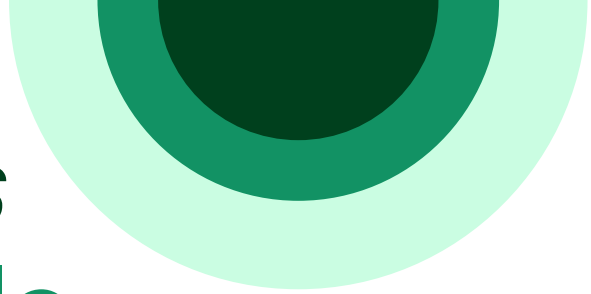
Whoever ends up winning the next general election, however, contractors have little confidence that the off-payroll rules will be reversed; a third (33.2%) are 'not at all' confident and more (42.5%) are 'not very' confident such a change will happen. Just 8.4% are 'somewhat' confident and 1.6% are 'very' confident.



# Engager opinion

**Contractors and flexible workers overall** *play a crucial role in supporting businesses that need to engage expert talent, on demand.*

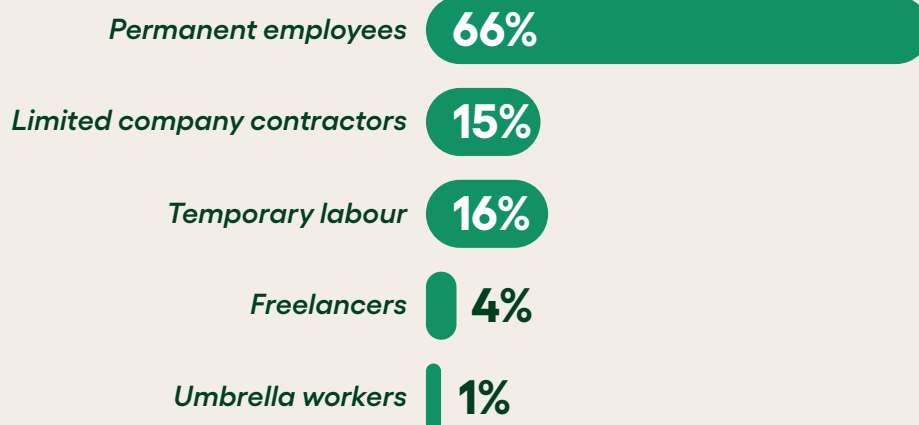




# How businesses engaged **flexible workers** in 2023

Alongside contractors, we surveyed a small number of businesses – from recruitment agencies and service providers to end-clients – to understand how these organisations manage IR35 compliance and how their businesses performed in 2023.

## What percentage of your labour force made up by each worker type?



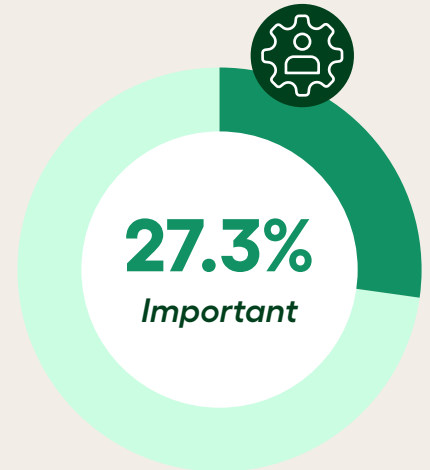
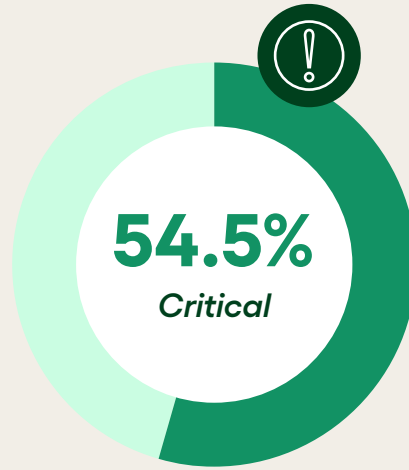
## For recruitment agencies and service providers, what percentage of your placement portfolio is made up of each worker type?





# 'Business critical' flexible workers

Businesses acknowledge that contractors play a crucial role in helping them to achieve their goals and generate value, with half (54.5%) of the businesses we surveyed rating contractors as 'business critical' to their operations. A further quarter (27.3%) say flexible workers are 'important' to their business.



## How many contractors do you place/engage at any given time? Include those engaged via umbrella companies.

100 contractors or umbrella workers

81.8%

250-500 over the year

9.1%

Of those surveyed, more than three-quarters (81.8%) either placed or engaged up to 100 contractors or umbrella workers in 2023. Just a few (9.1%) placed or engaged between 250-500 over the year, and the same number placed 1000 or more.

Umbrella workers total

26%

Overall, around a quarter (26%) of those engaged were umbrella workers.

## What is your expected use/placement of contractors in the next 12 months?

100 or fewer flexible workers

55.6%

Engage 101-799 flexible workers

22.2%

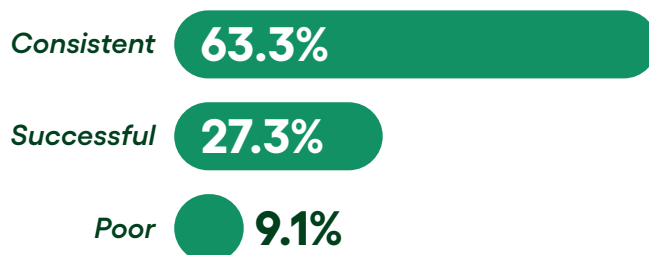
Looking ahead to 2024, most (55.6%) businesses expected their engagement or placement of flexible workers to be low (100 or fewer over the year). About a fifth (22.2%) expect to engage or place between 101-799 flexible workers.

Clearly, the demand for flexibility and expertise isn't slowing down. Businesses are prepared to engage flexible workers at scale to meet their ambitions and goals for the year. The sheer number of contractors set to be engaged demonstrates just how critical they are.

# Strong performance backed by confidence in IR35 compliance

## How would you describe your business performance to date in 2023?

Just 9.1% experienced 'poor' business performance, identifying IR35 reform and economic conditions as the biggest contributing factors.



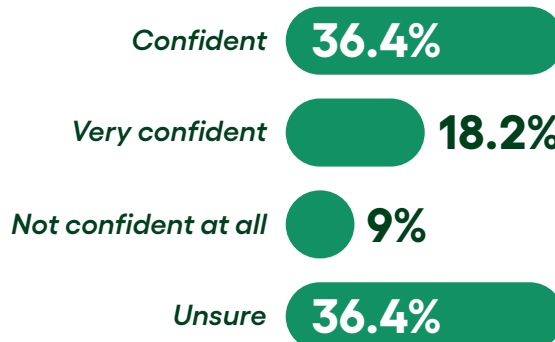
## What do you view as the biggest threat to your organisation in 2024?

Many (18.2%) are worried about employment status activity; a valid concern, particularly relating to the engagement of sole traders, which we cover.



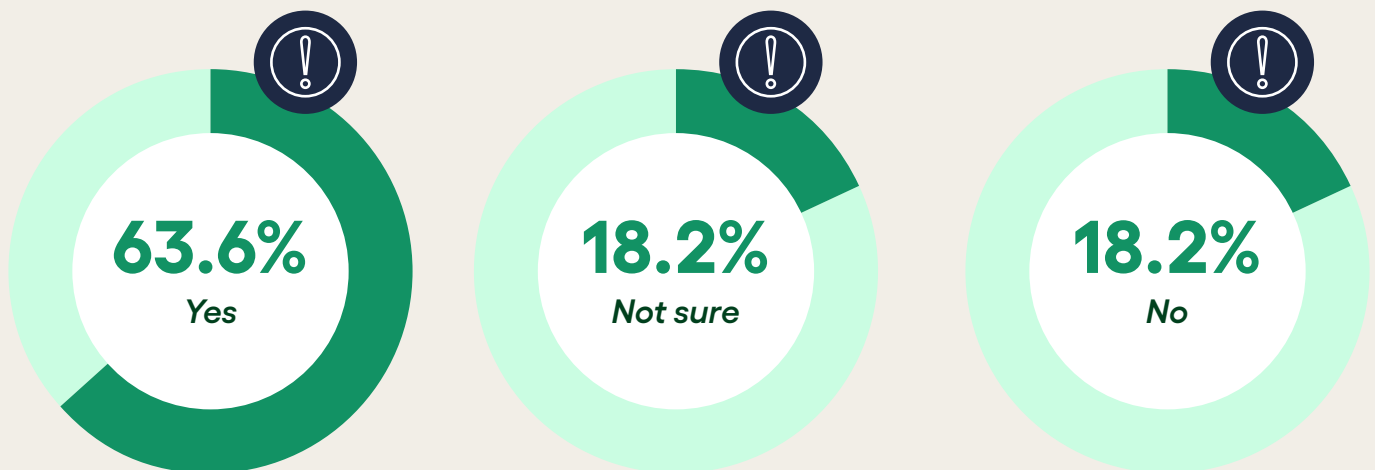
## How confident are you that your organisation would be able to handle compliance activity from HMRC?

Despite these concerns, about half of businesses are 'confident' (36.4%) or 'very confident' (18.2%) that they could handle an HMRC compliance check. Just 9% are 'not confident at all' and a third (36.4%) are 'unsure'.



# IR35 compliance *doesn't mean* *'on-payroll working'*

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



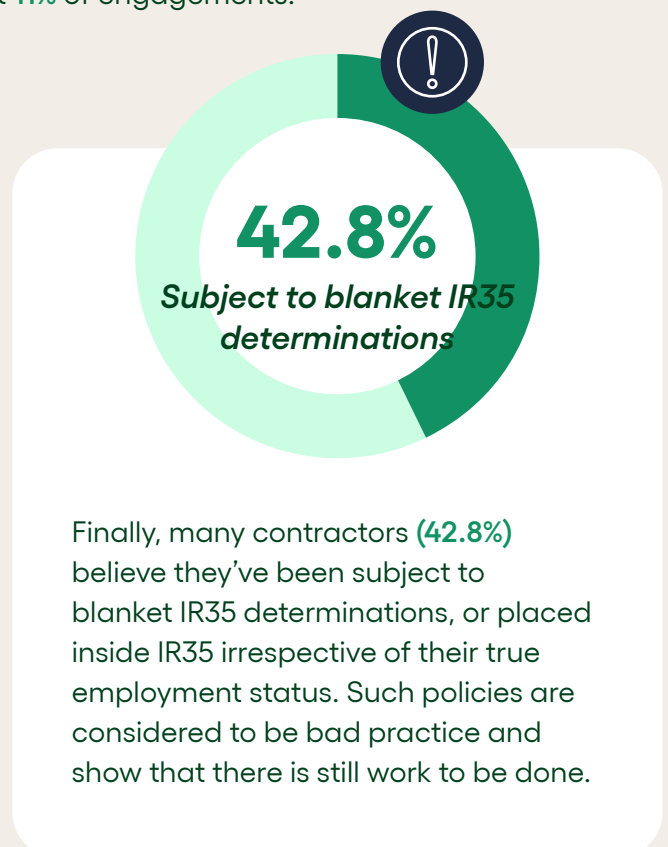
Almost two-thirds (**63.6%**) of businesses we surveyed believe they have the necessary processes in place to compliantly manage IR35 – but around a fifth (**18.2%**) do not.

As well as leading to concerns about compliance activity, this has caused businesses to engage fewer contractors outside of IR35 – at just **11%** of engagements.

Our findings suggest that some businesses are placing workers inside IR35, or mandating other engagement methods, such as umbrella companies.

Doing so may limit IR35 non-compliance risks – but engaging flexible workers this way, regardless of their IR35 status, actually has negative impacts on the end-client. Flexible workers engaged via umbrella companies, for example, can cost more than when engaged directly.

This isn't to say that umbrella companies don't have a valuable role to play in the flexible working ecosystem – they do – but mandating their use doesn't always deliver the perceived benefits that end-client may hope to achieve.



Finally, many contractors (**42.8%**) believe they've been subject to blanket IR35 determinations, or placed inside IR35 irrespective of their true employment status. Such policies are considered to be bad practice and show that there is still work to be done.

# Businesses not sold on HMRC tools and guidance



**50% of businesses use** independent status reviews

When conducting status reviews, half (50%) of businesses use independent status reviews, avoiding HMRC's Check Employment Status for Tax (CEST) tool altogether. Of the half that do use CEST, a quarter use it in isolation and the remaining quarter use CEST in combination with status reviews.

These figures indicate that businesses are increasingly aware of the tool's shortcomings. In our experience, this is part of a wider trend, with end-clients turning away from CEST due to its flaws. As well as CEST, many businesses are, broadly, indifferent to HMRC's guidance around off-payroll working.

## How do you rate HMRC's level of guidance regarding off-payroll reforms?

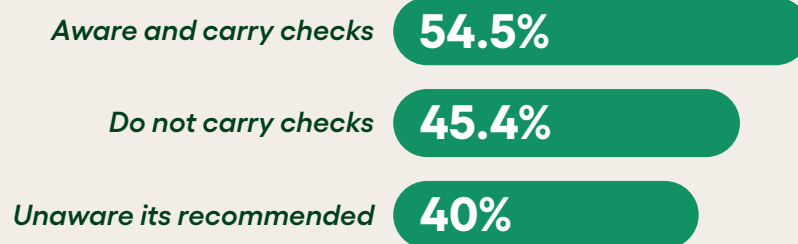


Offered alongside CEST, this guidance has been rated 'adequate' by just **27.3%** of businesses. The same number rate HMRC's guidance as 'inadequate' and most (**45.5%**) say it is 'neither' adequate or inadequate.

# Employment status tests also crucial for sole traders

While businesses are aware of their obligations to conduct employment status checks for contractors under IR35, this is less clear-cut for those businesses engaging sole traders.

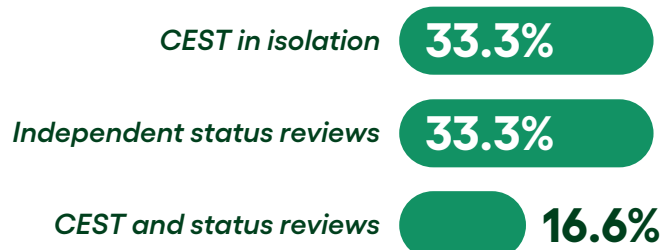
## Do you carry out employment status checks on sole traders you engage?



Half (54.5%) of businesses are aware that sole traders should be subject to these checks and carry them out. However, the other half (45.4%) do not – exposing themselves to considerable risk. Many (40%) of the businesses not yet carrying out employment status checks on sole traders are unaware that it is recommended best practice, albeit not a legal requirement.

For those who did carry out these checks, there was an even split in how assessments were reached. A third (33.3%) used CEST in isolation, a third used independent status reviews; a sixth (16.6%) used both CEST and status reviews in combination, and an equal number used undisclosed alternative tools or technologies.

## How do you assess employment status?





# *A final* **thought**

**In 2023, flexible workers continued to bounce back from a difficult few years. Contractors are increasingly able to find roles outside IR35, and businesses have gradually adjusted to the requirements placed on them.**

Some challenges remain, though. HMRC continues to aggressively police compliance, investigating contracts held before reform as well as those businesses currently engaging contractors.

Qdos has been on the front line of this, defending enquiries throughout 2023 and successfully closing the first compliance check that HMRC opened following the introduction of the off-payroll rules in the private sector.

With 2024 ahead of us, we will continue to support our customers – contractors and businesses alike – from these challenges.

**Qdos**

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