

VAT Changes For Recruiters



By Nick Woodward, MD of ETZ Timesheets



Nick Woodward at ETZ Timesheet Solutions argues the slow response to recent legal changes highlights the need

for cash-strapped businesses to find new ways of keeping pace with a rapidly-changing legislative environment.

The failure of business to respond to a recent raft of legal decisions and last-minute regulatory changes indicates employers and recruiters are increasingly floundering in the face of ongoing seismic shifts in the legal landscape.

When the AWR changes were introduced in October, research demonstrated over a third of hiring firms had not yet factored in pension liabilities included in the new laws, leaving them and their supplier agencies at risk. Just a month earlier, recruitment agencies were reportedly furious after rumours spread that Ministers were planning to "water down" the new law, which recruiters had spent millions preparing for. Although the planned changes never materialised, the implication was clear; the exorbitant cost of compliance with new laws is leaving recruitment agencies and businesses financially-exposed in the face of any last-minute changes.

The inefficiency of many corporate payroll systems means that beneficial changes, such as cuts to regulations or taxes, can be just as costly to implement as new regulations or tax rises. With changes to the tax rule-book alone costing business £5.1 billion a year to incorporate, any additional changes lumber business with yet more red tape.

The IOD estimates that keeping pace with sixty regulations, with updates issued at least once weekly, is costing £80 billion a year, and it would take a single employee five months per year to wade through the current gravity-defying pile of regulations. This creates a terrible paradox; businesses want less red tape and less tax, yet current admin processes are so inefficient that if a burdensome law is scrapped, then large amounts of time and money have been

spent in vain.

Because they lack the necessary flexibility to adapt to a rapidly-fluctuating legal environment, many businesses are both exposing themselves to unnecessary legal and financial costs, and missing out on potential benefits. The Better Regulation Executive pointed out that the sheer complexity of the tax system and employment law, puts many businesses off hiring and expanding.

The 236,000 legal claims by disgruntled employees last year, at an average cost of £8,500 each, starkly illustrates the financial cost of failure to read the small print. Businesses and recruiters can be certain that hawk-eyed lawyers representing aggrieved employees will swiftly spot anything they have missed.

Yet we know that many businesses simply lack the time or the resources to keep up with the EC's hyperactive legislative chamber; the Forum of Small Businesses estimates that anticipation and implementation of tax and regulatory changes is five times more expensive for SME's than for larger companies.

VAT: A Case In Point

A "test case" on VAT, with potentially far-reaching implications, highlights the potential rewards for recruitment agencies with highly-flexible payroll systems, which can instantly respond whenever threats and opportunities appear on the legal horizon. The Tier One court ruling that Reed were only liable for VAT charges on the margin portion of their charge to hiring firms—rather than the entire agency fee—contains a potential bombshell which could save businesses and recruiters hundreds of millions and allow them to claim back past taxes.

Although HMRC wants to confine the Reed ruling to that specific case, pressure is growing from client companies, particularly within the health and financial sectors, to build the new tax rate into their invoices.

If it was easier to adapt payroll systems,

many updates to existing laws and tax codes, in response to new guidelines or court cases, could be incorporated instantly through automated systems, while avoiding any extra admin burden or the risk of oversights.

Taking Recruitment Into The Cloud

One of the little-publicised benefits of the cloud-computing revolution is the speed and ease with which new regulations can be incorporated, from any location, into any type of existing payroll system.

New software allows business to offload the number-crunching and timesheet-processing into the cloud, slashing admin costs by up to 70%, and helping business instantly seize opportunities or avert risks from upcoming tax and regulatory changes, without additional admin work, by offering "out of the box" updates. This means that if the change does not materialise, the business has lost no time or money preparing for it.

The latest models can turn a timesheet into a client invoice in sixty seconds, electronically "sign" documents, automatically fax and index timesheets and automate all payroll calculations. Crucially, with cloud systems, payroll systems can be updated from any location and employee data is not stored on paper, software or hardware, with its associated costs and data-loss risks.

Gareth Broberg, MD at Fresh Medical Recruitment, a leading UK agency which supplies doctors to the NHS, private health, the police and the MOD, says: "Cloud-based payroll systems tailored to recruiters, such as Etz Timesheet Solutions, reduce our admin costs, because the employee data is not hosted on in-house software or hardware, and all the payroll information is accessible and updatable from anywhere. Crucially, recruitment-specific software makes the task of rapidly incorporating tax changes in recruitment invoices, which differ from business invoices, far easier: because they are intuitive, you don't have to add in multiple line items, you simply tick a box and all the invoices are updated."