

Horizon planning for **key issues**

Economic and societal headwinds continue

The latest sustainability report from the Office for Budgetary Responsibility, published on 14 July and the latest GDP monthly estimate from ONS released on the same day, support our opinion that the UK's economic recovery will be more like a 'swoosh' than a 'V' - it will be elongated and could take up to five years to recover lost ground. The drop in UK productivity in April 2020 has taken the UK's economy back to where it was in July 2002, reversing 18 years of growth.

As stated in the OBR sustainability report, we have experienced the largest drop in GDP for 300 years with the highest borrowing level since WW2. To put this in context, after the Spanish Flu pandemic of 1918-19, straight after WW1, our borrowing ranged between 150-180 per cent of GDP and during WW2 it was at some 250 per cent of GDP. It is currently expected to be at over 100 per cent of GDP due to coronavirus driven Government support.

But there is some good news as it seems that the economic freefall might have ended with a rise in GDP of 1.8 per cent in May. Although that is hardly a 'bounce back' it might well be the start of the slow path of recovery. Until a vaccine is globally available a full recovery or any semblance of business normality is going to be tenuous.

For the recruitment sector, this suggests continued resilience will be required in adaptability, forecasting, funding and resilience planning over a longer term. Based on this gradual recovery, corporates will be reimagining their staffing and skillset requirements as it will be the most adaptable and well-resourced that'll be in the best position to survive, innovate and grow. Home-shoring and near-shoring is becoming more important for many in order to de-risk and secure supply chains and services closer to the UK and business leaders should be looking into new markets whilst considering the extended impact of the pandemic and other issues such as the current international trade negotiations and Brexit border controls.

Our experts share their advice for rebuilding and succeeding in a significantly changed world in our Coronavirus hub: [click here](#)

The UK will be leaving the EU VAT regime from 2021 – what is the impact for recruiters?

During the current transition period, the UK remains within the EU VAT regime, although this is due to end on the 31st December 2020. Whilst there are plenty of changes afoot from 2021, these are mostly focused on the movement of goods. Fortunately for the recruitment sector, and from a VAT-only perspective, the impact should be relatively minor.

From 1 January 2021:

- For the purchases of services from businesses outside the UK the reverse charge procedure will continue to apply.
- As the electronic EU VAT refund system will no longer be available, there will be changes to the way in which UK businesses reclaim EU VAT costs in countries where they are not required to be VAT registered. Businesses will still be able to claim a refund of VAT, subject to the application rules and processes of each individual EU member.
- For the provision of services to other EU businesses, most supplies will remain outside the scope of UK VAT, as is presently the case.
- Lastly, it remains to be seen whether the EC Sales List and Intra-stat regimes will continue given they are focused on EU trade.

Having been constrained by the EU VAT Directive, from 2021, the UK could choose to make fundamental changes to the VAT framework or even abolish the tax after Brexit. The addition of VAT on to temporary staff has long been a disincentive to many non-VATable organisations and it may now be an excellent opportunity to re-instate the staff hire concession (i.e. VAT on margin only) though a strong lobbying effort may be required.

For further guidance on planning for Brexit – indirect tax [click here](#)

For EU country specific information on VAT [click here](#)

VAT - HMRC try to argue salary sacrifice cars are subject to VAT

The Court of Appeal has recently ruled in favour of the taxpayer in respect to employee lease cars provided by way of salary sacrifice. HMRC were appealing against a decision of the Upper Tribunal in the case of Northumbria Healthcare NHS Foundation Trusts. In this case, HMRC contended the Treatment of Transaction Order (de-supplying motor cars between an employer and their employee) was not effective. The Court of Appeal disagreed and the de-supply order remains effective in the UK.

Had HMRC succeeded, this could have resulted in an additional VAT cost for many employees who benefit from an employer's lease car scheme.

If you provide motor cars to employees, note salary deduction schemes for friends and family cars might not qualify under the de-supply order and VAT may need to be accounted for. For further details [click here](#)

Tribunal rules against VAT exemption on supply of temporary medical staff and locums

In an appeal brought by employment business, Mainpay, the First-tier Tax Tribunal (FTT) has ruled that its supplies of locum consultants to work in A&E departments of NHS hospitals did not qualify for exemption as a supply of medical care.

Instead, it is liable to VAT as a supply of staff. The FTT specifically noted locum consultants operate differently from most temporary staff as they (and not the employment agency or the employer) retain control of the clinical decisions made in the course of their work. In this scenario, it found that operational control, including control over when, where and what work the consultant carries out, was decisive.

HMRC also confirmed their policy is self-employed locums or those working through personal companies are supplying themselves as healthcare professionals, and not supplying healthcare services. They are therefore also within the scope of VAT (subject to VAT registration threshold tests). For further details [click here](#)

Are you prepared for the IR35 changes from April 2021?

On 17 July, the House of Lords approved the Finance Bill 2019-21. This confirms the introduction of reforms to the off-payroll working rules (commonly known as IR35) from 6 April 2021, subject to Royal Assent.

These changes were originally due to come in from 6 April 2020, but a deferral was announced to 6 April 2021 in response to the ongoing spread of coronavirus.

With confirmation of no further delays or amendments, recruitment sector businesses now have time to prepare for the changes. Despite the deferral, the impact of these changes should not be underestimated, and sufficient preparation will be crucial.

For dedicated guidance for recruitment businesses on how to prepare visit our [IR35 hub](#)

Governance - stay ahead of trends and regulations that may impact the way your company works.

Business continuity planning

We invite you to share your view within our skills and apprenticeship survey. The survey will provide insight from business, economy and our clients in understanding the current landscape and help us support and advise our clients and the industry further through the opportunities ahead.

Cybercrime

Criminals thrive in times of uncertainty and the current crisis is not bucking the trend. We are seeing a significant rise in cyber attacks which impersonate those in positions of authority and manipulate people into exposing their organisations.

The potential for overlooking other risks

High impact likelihood risks usually occupy the majority of a management team and Board's risk agenda but this can mean that other high impact / lower likelihood risks can be overlooked.

RSM Legal expert, Carolyn Brown, comments [here](#)

Listen to RSM's [webinar](#) on business continuity planning and risk management

Find out more

Brexit

Simon Hart

Brexit Lead Partner

M: +44 (0) 7949 231 456

simon.hart@rsmuk.com

VAT

Scott Harwood

Tax Partner

M: +44 (0) 7855 846 419

scott.harwood@rsmuk.com

IR35

David Williams-Richardson

Employer Solutions Partner

M: +44 (0) 7528 970 014

david.williams-richardson@rsmuk.com

Legal - IR35 and Governance

Carolyn Brown

RSM Legal Partner

M: +44 (0) 7436 831 251

carolyn.brown@rsmuk.com

Governance

Hannah Gibson-Patel

Senior HR Consultant

M: +44 (0) 7785 462 806

hannah.gibson-patel@rsmuk.com

www.rsmuk.com