

A guide for limited company contractors



This leaflet is produced by the Recruitment and Employment Confederation (REC), the association for the recruitment and staffing industry in the UK and provides an explanation of how you are affected by the Conduct of Employment Agencies and Employment Businesses Regulations 2003. (the Conduct Regulations).

On 6 April 2004 the government introduced the Conduct Regulations to raise standards within the recruitment industry. Drafted by the DTI, the Conduct Regulations stipulate how recruitment businesses should operate, providing added protection for work seekers and companies using the services of recruiters.

From 6 July 2004 the Conduct Regulations are to be extended to cover work seekers who supply their services through a limited company, known as Limited Company Contractors (LCCs). In complying with the Conduct Regulations, recruiters will owe LCCs similar obligations to those workers engaged on a PAYE basis.

Opting out of the Regulations

During the consultation process before the Government introduced the Conduct Regulations, industry stakeholders such as the REC argued that LCCs did not want to be treated akin to PAYE workers under the Regulations as it was considered likely such legal formalities would significantly jeopardise an LCC's tax position. Accordingly the DTI has included provision that enables LCCs to opt out of the protection of the Regulations so that they may continue to enjoy the tax benefits of supplying their services through a limited company.

Some of the consequences of remaining within the Regulations and opting out are discussed below.

Deciding to remain within the Regulations

If you remain within the Conduct Regulations, a recruiter will owe you and the client a range of obligations. Some of the obligations the recruiter will be required to follow are as follows:

- A recruiter must confirm on what basis they are to offer work finding services, the type of work they are looking for you and the terms which apply between you.
- Before you commence an assignment or a position by the recruiter you must be given information about the proposed position including:
 - The identity of the hirer,
 - Start date,
 - Likely duration of the work,
 - Type of work,
 - Location,
 - Hours,
 - Any risks to health and safety and steps the hirer has taken to prevent or control such risks,
 - The experience, training and qualifications required for the role,
 - Any expenses applicable, and
 - The actual rate of remuneration to be paid.

Such information should be confirmed verbally and in writing.



36-38 Mortimer Street
London W1W 7RG
t 020 7462 3260
f 020 7255 2878

4th Floor, Albion House
Chertsey Road, Woking
Surrey GU21 6BT
f 01483 714979

e info@rec.uk.com
www.rec.uk.com

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- If you carry out work on an assignment, but are unable to obtain a signed timesheet, you are entitled to be paid for the hours you worked by an employment business. The employment business is however permitted to delay payment for a reasonable period to check whether you have worked the hours claimed.
- As a worker within the regulations you may not be subjected to a detriment or penalty as a result of you or the employment business terminating an assignment for example an employment business may not insert a clause in the contract seeking to prevent you from taking up employment directly with the client.

Why opt out?

The decision to opt out is likely to have implications for your tax position.

Under Inland Revenue IR35 rules there are a range of factors which are assessed by the Inland Revenue to determine whether an LCC is genuinely self employed, such as the contractual relationship between the parties, the level of control a client maintains over the LCC, financial risk taken by the LCC and length of engagement. If you decide you wish to enjoy the legal protections of the Conduct Regulations and be treated akin to a PAYE worker then the obligations owed to you by the recruiter may affect the assessment of your status for tax purposes under Inland Revenue tests of self-employment. If you are

genuinely self-employed then you may wish to consider opting out so as to maintain your tax advantages.

If you do not meet the tests of self-employment then there may be less merit in opting out in terms of your tax position.

Whether you decide to remain within the Regulations or to opt out is a decision for you. In any event, LCCs who are considering remaining within the Regulations or opting out should seek independent tax advice.

Under the Regulations, recruiters are required to carry out certain checks on work seekers and obtain a range of confirmations from clients in respect of the position and are obliged to supply specified information to both client and worker. If you opt out, the Regulations do not apply to that assignment, which means there is less administration for the recruiter resulting in possible incentives to opt out. However the recruiter must not make their services conditional upon you opting out.

How do I opt out

In order to opt out, the LCC must give notice to the employment business before an introduction or supply to a client. The notice must be in writing and signed both by an officer of the company or someone authorised to sign on the company's behalf and the individual who will be supplied by the company to do the work. Once you have given your notice to opt out, none of the Conduct Regulations apply for the duration of the assignment.

If you use the services of an REC member firm, they will be able to provide you with a standard opt out notification form.

Charging LCCs for finding work

The Conduct Regulations permit recruiters in certain circumstances to charge LCCs a fee for introducing them to potential contacts and clients where the LCC will be engaged by the client directly. This is an exception to the general rule that recruiters may not charge fees to work seekers for providing work finding services.

LCCs working with children and the vulnerable

Under the Conduct Regulations, an LCC may not opt out in relation to an assignment where they will be working with children or vulnerable persons i.e. working with children, the elderly or people with disabilities such as doctors, nurses or teachers.

For more information

This note is not a definitive guide to your individual rights and further information can be obtained from the DTi. See the DTi's website: <http://www.dti.gov.uk/er/agency/newregs.htm>. You may also contract the DTi's Employment Standards hotline to obtain further information on 0845 955 5105.

The REC

The REC is a not-for-profit trade association representing the recruitment and staffing industry in the UK. It has some 8,000 individual members and 6,000 offices in corporate membership, representing over 50% of the recruitment industry in the UK. Its members range from small independent businesses to multi-national organisations. The REC seeks to promote high professional standards and good practice within the industry.

REC members are required to adhere to the [REC Code of Good Recruitment Practice](#) which is available to view on our website www.rec.uk.com. The REC Code of Good Recruitment Practice has been created in consultation with industry stakeholders to ensure that all members of the REC conduct their business ethically and to the highest standards.



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