



the rise of the PEO employment solution



background

Under PEO, or professional employment, contractors are engaged by the PEO supplier. The contractor is quoted their actual gross pay rate and payslips are therefore very easy to follow and employer costs are agreed separately between the PEO supplier (employer) and the agency or hirer.

The agency, hirer and contractor see many benefits with this employment solution, but before we look at these, let's understand why the PEO model is gaining momentum.

the issues

With the introduction of the Off-payroll working legislation (please see our white papers on this topic), which was brought into the public sector in April 2017 and is coming into the private sector in April 2021, there will be a significant reduction in the use of limited companies by contractors and therefore almost all contractors will be engaged via some form of PAYE. Let's look at these PAYE options.

Some recruitment agencies may offer their own agency PAYE, but this is limited by the fact that most agencies do not operate PAYE as an option for their contractors – or if they do, are not geared up to handle volume.

So-called umbrella employment will be the most used option as it was when the Off-payroll working legislation was introduced into the public sector in 2017.

The disadvantage of umbrella employment is that contractors often find their actual and quoted pay rates confusing. This is because they are quoted a limited company rate by the agency, but upon speaking to the umbrella company realise that the umbrella company needs to deduct employer's national insurance, apprenticeship levy and their margin before you get to the contractor's real gross pay rate.

Payslips are therefore confusing because the contractor has to review an invoice reconciliation to understand these deductions, which vary week on week depending on tax allowances and hours or days worked, before seeing their gross taxable pay amount which also therefore varies.

The government have recognised this confusion and as part of the Good Work Plan will legislate to require agencies to issue a Key Facts Page to contractors before they start, which will detail any deductions they will suffer from their quoted pay rate and provide a net pay illustration. Whilst this will make it clear to contractors, it will also increase the number of queries to agencies and therefore hirers. It may also drive contractors to ask for a higher pay rate to compensate for the deductions.

In our opinion, this opens the door for PEO or professional employment, which will see the fastest growth after April 2021.



the benefits of PEO

Under PEO, or professional employment, contractors are engaged by the PEO supplier. Contractors are quoted their actual gross pay rates, which do not vary, and payslips are therefore easy to follow. Employer costs are separately agreed between the employer and the agency or hirer.

The PEO supplier will employ the contractors and be liable for all employment risk. They will also manage the variable timesheets, variable pay, holiday, pension and statutory payments as well as all the contractor queries and grievances. They will also be responsible for all PAYE reporting to HMRC and providing contractors with employment references and P45s.

Contractors like this option because it is simple, easy to understand and leads to an enhanced customer experience with less queries which also benefits all other parties in the supply chain.

Automated and efficient technology from the PEO supplier also ensures swift hassle-free onboarding and ongoing management, benefiting all parties.

Agencies feel more in control as all workers go through a single defined process and they can see in real time when, for example, contractors have accepted their assignment, been paid, etc.

Depending on the mix of workers and their pay rates the agency may also see an increase in their margin in addition to cost efficiency savings.

A PEO supplier may also be able to provide software to help with on boarding, time management and billing.

summary

With the introduction of the Off-payroll working legislation into the private sector we will see most contractors being engaged via some form of PAYE employment.

The most common form of PAYE employment will be via umbrella companies, however with the introduction of the Good Work Plan, we will see many of these contractors being engaged via the PEO solution. We therefore believe PEO will show the fastest growth after April 2021 when the legislation takes effect.

Already we are seeing the momentum building with recruitment agencies moving to PEO to avoid the queries that will result from the introduction of the Key Facts Page under the Good Work Plan.

Don't be fooled by rebadged umbrella services implying they are operating as a PEO. Be sure to find a compliant PEO employer that understands how the pay elements are structured.



about giant

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