Brexit:
What does ‘No Deal’ mean for the self-employed?

ipse
The Association of
Independent Professionals
and the Self-Employed

The 29 March deadline for the UK leaving the European Union is fast approaching. The government's proposed deal has suffered a crushing defeat in parliament. This has now reduced the options available, possibly leading to a softer version of Brexit. Unless Parliament can agree a way forward, something it has so far been unable to do, Britain will leave the EU with 'no deal'.

Following this, there is likely to be disruption to travel. Trade and the broader economy could also be disrupted, which the UK government and EU have committed to prepare for, already putting in a place some basic contingency plans.

When polled, 81% of IPSE members were against a 'no deal' style Brexit.

There is a clear majority of MPs that are against 'no deal', leading many to believe that, one way or another, it will not happen. However it is sensible for freelancers and the self-employed to consider and prepare for 'no deal', should it arise.

> *"The level of preparedness of businesses and infrastructure (such as ports, excise and customs systems and transport operations) will be important in determining how the economy adjusts to new barriers. The extent of any disruption at the border and to transport and financial services will depend on preparations made by firms, the authorities and on policy decisions yet to be taken by both sides. It is likely that the corporate sector is in general not yet well equipped to cope with a 'no deal' Brexit."*
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> **Bank of England**

What is a ‘no deal’

A deal relies on a Withdrawal Agreement (WA) and a document on the “future relationship” (FR) being in place and ratified by both the EU and the UK Parliaments. These cover how the UK formally leaves the EU, including a transition period. If there is ‘no deal’ between the UK and EU by March 29 (as stands), then the UK enters a ‘no deal’ scenario.

Some believe that the UK would automatically transfer its current trading status over to World Trade Organisation trading rules.

WTO Rules

Under WTO rules, tariffs on goods and services transferring between the two jurisdictions will have to be paid, and therefore collected, on both sides of the trading relationship. This will slow down and complicate cross-border trade, affecting goods and services.

Average EU tariffs are 2.6% across non-agricultural goods. Under WTO rules some of these are significantly higher (see below) and would therefore generate serious costs to importing companies. These costs will inevitably have to be passed down to consumers.

PRODUCT GROUP	AVERAGE WTO TARIFF
Mineral fuels and pharmaceuticals	**0%**
Machinery	**2%**
Iron and steel, copper, wood	**2%**
Aircraft	**3%**
Vehicles	**9%**
Clothes	**12%**
Footwear	**10%**
Processed foods	**20-35%**
Cereals and meat	**45-50%**

Figure .1 BBC News Reality Check: Does the UK trade with ‘the rest of world’ on WTO rules? https://www.bbc.co.uk/news/uk-politics-41859691

> *“We are very focused on the risks of a no-deal scenario, which we think would be bad for consumers and businesses in the UK and the EU, (...)”*
> *“We will certainly see some volatility in markets but what I am really concerned about is anything which stops markets operating smoothly and which may have unforeseen consequences or adverse implications (...), It is only ten years since the financial crisis. The last thing they want is anything which impacts adversely on markets.”*
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> **Catherine McGuinness, Policy Chairman of the City of London Corporation.**

Effects

We believe, given the majority of evidence available, that a 'no-deal' would be both disruptive in the short term and damaging in the long term.

A 'no deal' scenario would present serious challenges for the economy and specific sectors such as financial services and construction. However it is important to remember that none of this is certain and the political situation is constantly evolving.

Short term effects

In the immediate to short term, a no deal scenario would create significant disruption to trade and travel, with knock on effects to prices and availability. Inflation may spike and will likely be higher than desired on a more permanent basis. The Bank of England has warned of inflation rate as high as 6.5%. However, changes in the pound could make exports more profitable.

Impact on the self employed

Freelancers can often be the first to feel the impact of economic changes due to the ease at which firms can both issue and terminate contracts.

If firms find their access to the EEA and EU restricted for an extended period there will probably be a slowdown in the hiring of staff, including contractors.

Long term effects

The UK's current EU membership covers a broad range of sectoral regulation and legal relationships. If the UK wanted to agree a free trade deal with these replicated, the negotiations could take several years.

Average investment in the UK across sectors fell in every quarter of 2018 as uncertainty over the shape of Brexit intensified. This is partially down to uncertainty, however long-term detachment from the EU, combined with increased inflation, a weaker pound and tariffs on imports could deter investment in the economy in the long term.

There are potentially benefits to a 'no deal' scenario too. The greater freedom means the UK can forge trade deals with other big markets around the world, such as the USA or Japan. This could be particularly beneficial for contractors working in financial services. Contractors are naturally agile additions to any business, helping firms navigate new economic circumstances following Brexit.

Impact on the self-employed

Several businesses are already looking at relocation and the creation of EU subsidiaries – regardless of the outcome of the negotiations. This could become more widespread depending on the severity of the economic disruption. Bigger firms with an established presence in Europe may be able to weather any disruption with minimal effect to contractors. However, if you are contracting into the EU, you may need a working visa, the terms of which are yet to be agreed between the EU and UK.

Currency

A weaker pound, according to conventional wisdom, is good for exports, which could help British manufacturing. However, given the other effects of a no deal this may only be short term. British manufacturing relies on imports from elsewhere which may cost more. If inflation spikes, the Bank of England may increase the UK interest rate, again driving up costs. Companies abroad may also be less inclined to buy some British goods depending on high tariffs.

Impact on the self employed

The EU is the UK's largest export market and businesses will have to have a whole host of export and import licenses in order to trade with the EU. If the Pound loses value against the Euro, those travelling to the continent are likely to get less Euros for their exchanged Pounds in the short to medium term. Imports would then be more expensive. Freelancers based in the UK but contracted with an EU registered company, and therefore paid in Euro's, will essentially be paid more. However those contracts may be harder to come by.

Jobs

The CBI has warned that a no deal could put thousands of jobs at risk. Airbus manufactures across the UK, employing more than 14,000 people. It's chief executive Tom Enders warned that in the case of a 'no deal', the company may have to make "potentially harmful decisions for the UK". A recent report by auditing firm KPMG and the Recruitment and Employment Confederation cited Brexit uncertainty as a main driver behind emerging talent gaps across sectors "A lot of people don't want to move jobs right now because there is so much uncertainty around. In addition, the supply of EU citizens entering the UK for work is slowing". A no-deal will likely amplify these effects on the jobs market.

Impact on the self employed

All of the aforementioned pressures on the economy combine to create unfavourable conditions for the jobs market. A no deal scenario will deter firms from hiring staff in short, medium or long term periods of economic uncertainty. Contract based workers could be the first to feel the effects of this. However, this environment could be beneficial to contract workers. Firms may seek to hire for the short term to remain adaptable to a changing jobs market.

Specific Sectors

Financial services and IT contractors

Twenty four percent of IPSE members work in financial services (FS), which will be significantly affected by a 'no-deal'. In this scenario, freedom of movement will cease, and it will be much harder for the self-employed, including IPSE members to work overseas (10% do currently). So far, even the government's agreement could go a lot further on services, which are the main driver of the UK economy. The EU has made contingency for some of the vital trading aspects of FS if there isn't a deal (see *Firms* below). However, there is no contingency in place for broader financial operations.

The city has already seen changes in anticipation of Brexit, the most recent being the movement of the London Stock Exchange's bond trading arm to Milan. A substantial number of IPSE members who work in IT work in FS and are particularly exposed to any upheaval in the sector if there isn't a deal agreed. Similarly to the slowdown in investment, city firms are unlikely to invest in staffing contracts if the economic outlook is uncertain, and even less so if it is negative.

Contractors may have to apply for a visa to work in Europe but as yet the government hasn't agreed a deal for workers in a no deal situation. It is almost certain that unless a contingency plan is in place, that in the event of a no deal a US style working visa will be necessary to work in the EU. The EU has however made contingency for visa-free 90 day travel.

Firms

The majority of UK financial services legislation derives from the EU. There is a system of "passporting" whereby any EEA member can trade within any EU country. The government has developed a 3-year Temporary Permissions Regime to transfer the EU firms trading into the UK. No deal will primarily affect UK firms trading into the EEA and EU.

Without specific intervention from the EU, investment banks for instance, may find it quite hard to service contracts in the EEA. Firms are very aware of these risks and have shifted certain aspects of their business into European subsidiaries to ease potential disruption.

Manufacturing

Manufacturing in the UK relies on parts and resources from the EU and beyond. Car manufacturing for instance, relies on a complex system of cross border supply chains across the continent, including the UK. Both tariff and non-tariff barriers would affect the revenues of such firms and contractors could be at risk. The increased costs of importing resources and parts from abroad combined with inflationary pressures will likely render any export gains made from a weaker pound redundant. The increased costs of importing resources and parts from abroad combined with inflationary pressures will likely render any export gains made from a weaker pound redundant. Several manufacturing firms including several UK based car producers, on the advice of the government have begun stockpiling parts.

Construction

The construction industry could be badly affected by a no-deal and industry leaders have warned repeatedly against one. Access to skilled workers and "just in time" supply chains rely heavily on access to the EU. Effects on prices and the slowdown of haulage would have an almost immediate negative affect on the industry. Larger UK construction firms also have contracts across Europe which would be immediately affected by the need to pass regulatory checks on a daily basis.

> *"Brexit on WTO terms (...) would entail substantial costs for the UK economy—and to a lesser extent the EU economies—particularly if it were to occur in a disorderly fashion."*
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> **International Monetary Fund**
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> *"Without a deal, the UK would be turning its back on the simplicity and ease-of-trade resulting from membership of the single market and customs union. Trading relationships and supply chains would suffer serious disruption. We could see a return of much of the complexity which used to plague firms trading with Europe and there is a risk we would lose the mutual recognition of professional qualifications and licensing requirements that makes it easy to trade services across borders with the EU."*
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> **CBI**
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> *"While there would certainly be a short-term hit to the economy from a no-deal Brexit, this would be mitigated by policy easing. Interest rates would be cut by the Bank of England, while the Treasury would sound the death knell for austerity by announcing tax cuts and spending increases. Even at its gloomiest, the Treasury cannot come up with forecasts that suggest the impact of Brexit will be anything like as serious as the financial crisis of a decade ago."*
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> **Larry Elliott – The Guardian**

Effects on travel

"A lack of work ready candidates is really beginning to bite UK businesses and the situation is worsening. Many of the UK's main sectors are now struggling to hire staff. It really is a candidates market at the moment. "A lot of people don't want to move jobs right now because there is so much uncertainty around. In addition, the supply of EU citizens entering the UK for work is slowing whilst every sector continues to take on more staff."

James Steward, Vice chair of KMPG

Rail

Eurostar trips linking the UK with Europe through the channel tunnel would only be able to run if licenses can be agreed with the countries it currently serves: France and the Netherlands. Journeys through multiple EU countries could be particularly complex.

Road

If you intend to travel by road after 29 March you may need an International Driving Permit. In terms of haulage there are set number of different permits available per month (around 2000) for taking goods into the EU.

The M26 has been earmarked by the government for layby development which has already begun in case of significant tail backs leading into Dover. The site of Manston airport and the A256 have also been tested in case of significant disruption.

Ferry Boats

Likewise, the same disruption could affect most ports in terms of both personal travel and goods haulage.

Flights

Passenger flights are crucial for trade, with goods transported in the a quarter of all UK import/ export traffic. Flights from the UK to the EU may have to be notified in advance to the airline authorities in Europe. The EU has made contingency proposals for certain flights to still go ahead and a proposal to extend aviation safety licenses for 9 months.

The modern alliance-based system of different carriers using each other's planes is very complex. Its efficiency would be hampered by the restriction and complication of this system in light of a no deal.

Other useful info

EU contingency plans

Bank of England report

Government Brexit Guidance

It is important to remember that although the likelihood of 'no deal' has increased, there is little appetite for one in Parliament. If there is a deal, the UK will enter a transition period, which is likely to last until the end of 2020.

A transition period will essentially mean business as usual for freelancers. What happens after that is currently unknown. It would depend on the next round of UK-EU negotiations.

The political landscape is highly unstable. There are many possible outcomes, including a general election and/or second referendum which could result in no Brexit. IPSE will continue to monitor the situation and keep members updated.