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Big jump in number of IT companies as UK strengthens global position as tech hub

- **App economy and social media 2.0 driving growth in IT start-ups**
- **Over 37,000 more information businesses than two years ago**

The number of IT companies has rocketed in the last two years as the UK strengthens its position as a major tech hub, says NoPalaver Group, a leading provider of accounting services.

There are now more than 300,000 businesses operating in the information sector* – over 37,000 more than at the same time two years ago.

This 14% increase far outstripped the all-industry average of 8% growth in the total number of enterprises in the same period.

NoPalaver says that the growth of the “app economy” and the advent of the next generation of social media platforms is driving surging growth of IT start-ups and strengthening the position of tech hot-spots such as “Silicon Roundabout” in London as a breeding ground for innovation in the sector.

Graham Jenner, Director at NoPalaver, says: “With seemingly limitless scope for the creation of new apps and social media 2.0 on the horizon, the number of new IT businesses in the UK has mushroomed in recent years.”

“The latest generation of new media entrepreneurs is riding the next wave of technological innovation to establish a raft of high-growth start-up IT businesses clustering around tech hubs. As the importance and influence of areas like Silicon Roundabout grows, this will further cement the UK’s reputation as a significant player in the global IT industry.”

He adds, “In addition to these new seed companies creating new jobs in the industry, we are also seeing huge numbers of IT professionals striking out on their own as contractors supplying these new media companies with bolt-on expertise and access to flexible skills.”

Thousands of IT professional attracted by benefits of becoming a limited company

NoPalaver points out that while many of the companies (19.7%) are small businesses with less than 50 employees, the vast majority (79.7%) are sole contractors.

Graham Jenner says: “The economic climate over the last few years has opened up contracting as a viable option for thousands more IT professionals.”

“While cutbacks during the recession may have forced some to take this route, many more are pro-actively taking advantage of the opportunities offered by the economic recovery to set themselves up in their own business, whether that’s as a freelance app designer or an independent expert consultant for major corporate.”

“Now is an ideal time for IT specialists to take the plunge as the sector gains in strength on both the consumer tech side and the business IT front.”

He explains, “Companies that were reluctant to do more than just patch-up their IT systems during the recession to keep them going are now feeling more confident about investing in their IT infrastructure again, in order to add value to their business and support competitiveness and growth.”

“Many businesses are seeing the benefits of hiring contractors to fill skills gaps and provide specialist expertise rather than taking on permanent staff. Until the economic recovery becomes more entrenched, they may prefer to continue to use contractors as a more flexible, lower risk option.”

He adds, “Many IT professionals see themselves being charged out by their companies to clients at sky-high rates or see expensive consultants being brought in, and increasingly wonder whether they would be better off hiring themselves out through their own company.”

“Given that structuring yourself as a limited company can be highly tax efficient – particularly for higher-rate taxpayers – the rewards are very attractive and go a long way towards mitigating the risks of being let go at a moment’s notice.”

[Graham Jenner explains that whereas PAYE for many IT professionals would be levied at a top rate of 40%, contractors operating via a limited company can reduce their tax bills in a number of ways. For example:

- The business and the directors running it are treated as separate entities for tax purposes. Limited companies are subject to corporation tax, levied at 20% for smaller companies
- Directors of limited companies can choose to take the bulk of their income in dividends which are not subject to National Insurance contributions and mean that the contractor would pay less tax overall.
- Limited companies could also see a tax benefit from applying for the Flat Rate VAT scheme. This enables businesses to charge VAT at the normal rate of 20%, but potentially account for it at a lower rate by paying it on the basis of a fixed percentage of turnover (for IT contractors this is 14.5%).
- In addition, a wide range of business costs can be claimed back as expenses, eg. travel costs, accountancy fees, equipment and phone bills.]

** Number of enterprises as of 1st January 2013 compared to on 1st January 2011*

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About NoPalaver

The NoPalaver Group provides umbrella services to contractors and personal service companies. The NoPalaver Group includes:

- NoPalaver Accountants, which provides specialist accountancy support to contractors working through limited companies
- NoPalaver Umbrella, which helps contractors in all sectors run their personal service company
- NoPalaver CIS, which helps sub-contractors in the construction industry maintain self-employment status, and simplifies payroll issues for agencies and contractors. NoPalaver CIS looks after sub-contractors' invoicing, payment, and CIS tax issues.
- NoPalaver Contractors, which enables contractors in other industries to maintain self-employment status through a personalised weekly payment administration service

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