



Intra Company Transfers - Good for the Employer, Bad for the Treasury

Good for the employer, bad for the Treasury

Summary

1 Tax and National Insurance rules are heavily biased towards ICTs to the dis-advantage of UK workers.

Numbers

2 Intra Company Transfers (ICTs) have been excluded from the government's cap on economic migration. Their numbers have been significant in the recent past, rising from 22,000 in 2008 to 29,000 in 2009.

3 Meanwhile, there have been some significant changes to this route. The salary threshold for a visa valid for up to 5 years has been raised to £40,000 while a new visa has been introduced, valid for 12 months in a 24 month period, for those earning between £24,000 and £40,000. The latter are unlikely to show up in immigration figures which include only those who arrive for more than 12 months.

4 In recent years only 50% of ICTs have earned salaries of £40,000 or more. This might suggest that the numbers will fall to around 15,000 visas a year. However, there are very significant financial advantages for both the employer and the migrant worker so the numbers could increase considerably.

Financial Advantages of ICTs

5 The three main advantages are:

- a) No National Insurance is payable for the first year by either the employer or the employee.
- b) Accommodation allowances can make up to 30% of the salary. Other "cost of living" allowances mean that over 70% of the salary can be in the form of allowances. These allowances are not subject to income tax for the first two years.
- c) The salary offered is supposed to be consistent with the going rate in the UK so as to prevent British workers being undercut. For this purpose, each Standard Occupation Code (SOC) has a minimum salary[3]. However, the UKBA accepts the lower quartile of salaries based on the UK as a whole. Thus it is perfectly legitimate to offer a salary for a job in an expensive area like London based on the bottom quartile of salaries for the whole of the UK.

6 For example, the average salary of a UK programmer in London is £32,820 while the average salary of an Indian IT programmer sent to London in December 2010 on an ICT visa was £27,981 with allowances making up an average £21,139 or 75% of the salary. This basic salary, excluding allowances, is well below the minimum wage level.

7 Table 1 below shows the breakdown of costs and net pay for a UK worker and Indian ICT worker for the first year of employment, each with a salary of £40,000; the ICT worker received 70% of salary in the form of allowances.

Table 1: Breakdown of costs of a UK and an ICT worker for the first year

	UK IT Worker	Indian ICT worker
Salary	40,000	12,000
Allowance	0	28,000
NI Employer	4390	0
NI employee	3770	0
Income tax	7230	1,110
Net Salary	29,000	38,890
Cost to employer	44,390	40,000

8 The UK worker takes home £29,000 from his £40,000 salary and £11,000 is paid in tax while the cost to the employer of the salary plus their NI contribution is £44,390. However, if the same employer hires an ICT worker, the take home pay of the employee is £38,890, the total tax paid is only £1110 and the cost to the company is only £40,000. So for a salary of £40,000 the company saves over £4,000 in costs and £14,000 of tax revenue is lost. The employee also gets to take home an extra £10,000 a year which perhaps explains why they are happy to be brought in on salaries that appear to be well below the going rate..

9 After the first year the national insurance is paid but it is only on the non-allowance component of the salary.

Table 2 below sets out the costs for the second year:

Table 2: Breakdown in costs of a UK and an ICT worker for the second year

	UK IT Worker	Indian ICT worker
Salary	40,000	12,000
Allowance	0	28,000
NI Employer	4,390	800
NI employee	3,770	690
Income tax	7,230	1,110
Net Salary	29,000	38,200
Cost to employer	44,390	40,800

Conclusion

10 These financial advantages to a company in hiring an ICT worker rather than a UK worker incentivises a company to replace UK workers on cost grounds and means that the numbers of migrants in this uncapped category have the potential to grow substantially. Changes to the taxation rules to create a level playing field are essential.

Notes: This paper appeared in [Computer Weekly on 17 March, 2011](#).

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