

IR35 EXPLAINER DOCUMENT

If you are a contractor or employ contractors, then we hope this short document will help make sense of the broad themes around the IR35 and the upcoming changes that are involved. Hopefully, we can help you decide whether you should continue as a contractor, or if you will want to continue to employ contractors going forward. Happy reading!

WHAT IS IR35?

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Known as Intermediaries Legislation, IR35 was created by HMRC to stop 'disguised employees' from avoiding tax by operating as contractors, whilst working like any normal employee.

How and when will it change?

From the 6th April 2021, hirers will have to determine whether a contractor operates 'inside' IR35 or 'outside' IR35.

If you are a contractor:

There is NO CHANGE if you are self-employed

If you work for a limited company after 6th April 2021, the firm that you work for will become responsible for determining what your employment status for tax purposes will be.

Your employer will issue a Status Determination Statement (SDS). Depending on the contract and working arrangements, your contract will be deemed "within" or "outside" the [off-payroll working rules](#).

If your contract is **within** the off-payroll working rules, the company paying your wages through the intermediary/limited company will deduct tax and NI before paying your wages.

FOR LARGE CLIENTS: (COMPANIES)

To be considered a large client you have to satisfy two of these three conditions:

- you have an annual turnover of more than £10.2 million
- you have a balance sheet total of more than £5.1 million
- you have more than 50 employees

If you are also the fee-payer (i.e. not the intermediary/limited company) and the [off-payroll working rules](#) apply, you will need to deduct and pay tax and make If you do satisfy two of these then you will need to:

Decide the employment status of every worker, even if they are working through a limited company or via a recruitment agency. Communicate your decision through a Status Determination Statement (SDS) to the worker (contractor) and any agency/limited company.

You will also need to:

- Keep detailed records of employee status determinations.
- Have procedures to deal with disagreements over determinations
- Be able to confirm the size of your company if asked.
- Have procedures to deal with National Insurance contributions to HMRC.

There is also a [Check Employment Status for Tax](#) tool on the government website to help you decide if the off-payroll working rules apply.

FOR SMALL CLIENTS: (COMPANIES)

If you don't satisfy two of the conditions above, then you will be classed as a small company.

Small companies will not have to decide the employment status of its workers.

You are exempt from these changes and responsibility and liability for IR-35 are with the contractor.

However, you must be able to confirm and prove your company's size.

For more info on IR35 see these links:

<https://www.gov.uk/government/publications/rules-for-off-payroll-working-from-april-2020/rules-for-off-payroll-working-from-april-2020>

<https://www.which.co.uk/news/2021/03/ir35-tax-change-for-the-private-sector-begins-on-6-april-2021-will-you-be-affected/>

<https://www.gov.uk/guidance/april-2020-changes-to-off-payroll-working-for-intermediaries#off-payroll-working-rules>