



Payroll & Business Skills

IR35

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aat



Content

- What is IR35 and why was it introduced
- Are you employed or self-employed – the definitions
- How to calculate the IR35 Payment
- How to account for the IR35 payment
- Common questions and a calculation example

What is IR35

- Legislation around contractors taxation
- First introduced in April 2000
- Revision effective April 2013
- HMRC ability to tax some contractors as employees
- HMRC determine if there was a direct contract, would it be employment contract

Why was IR35 Introduced

- Intention was to tackle tax and NIC avoidance schemes
- Personal Service Companies (PSC) and Partnerships
- Contractors using Ltd companies to obtain work
- To catch 'disguised employees'

IR35 2013 Changes

- Inclusion of office-holders for services performed on or after 6 April 2013

An 'Office'

- Created by Charter, Statute, Custom
- Or Forms part of constitution of organisation
- Eg Director of a company, company secretary
- 'Office' is a separate & independent position

2013 Rules do NOT apply

- Just because a worker is a director of their own personal service company
- Or because their job title refers to them as an 'officer' but they do not hold an office
- Or when a company engages another firm as auditor and there is no requirement for an individual's personal services

Employed or Self-Employed – the definitions

- Difficult to determine in some circumstances
- HMRC make final decision
- Checks to take
- Different rules for taxation of income

Employed

- Do they have to do the work themselves?
- Can someone tell them at any time what to do, where to carry out the work or when and how to do it?
- Can they work a set amount of hours?
- Can someone move them from task to task?
- Are they paid by the hour, week, or month?
- Can they get overtime pay or bonus payment?

Self-Employed

- Hire someone to do the work?
- Do they risk their own money?
- Provide the main items of equipment?
- Do they agree to do a job for a fixed price?
- Decide what work to do, how and when?
- Regularly work different people?
- Have to correct unsatisfactory work in their own time and at their own expense?

Business Entity Test -HMRC

- Business Premises
- Professional Indemnity Insurance
- Efficiency
- Assistance
- Right of Substitution
- Actual Substitution
- Advertising
- Previous PAYE
- Business Plan
- Repair At Own Expense
- Client Risk
- Billing

How to calculate IR35 payment

- The next few slides show how to calculate the figures required
- The Income
- The Deductions
- The allowable fee

IR35 Income

- **a** Enter all payments and benefits received
- **b** less 5% of the amount in box (a)
- **c** Enter payments or benefits received by the worker, or his family
- **d** Income $(a - b + c)$ 0

IR 35 Deductions

- **e** Enter expenses
- **f** Enter capital allowances
- **g** Enter contributions APS by the company
- **h** Enter employer's Class 1 and Class 1A NICs
- **i** Enter salary received by worker -already been given at Box (e).
- **j** Enter benefits in kind received
- **k** Deductions $(e + f + g + h + i + j)$ 0 I

Amount Due

- Amount to be apportioned between deemed payment and employer's NICs $(d - k) \times 0$
- m Employer's NICs on the deemed payment $\times 0$
- n Deemed Payment $(l - m) \times 0$

A Calculation Example

IR35 Taxes Calculator - Results

		Outside IR35	Inside IR35
Revenue:	Total revenue	82,500	82,500
Personal Taxes:	Paye	0	0
	Employees N.I.	30	30
	Dividend taxes	6,763	N/A
Company taxes:	Employers N.I.	41	41
	Corporation tax	<u>14,291</u>	N/A
Taxes on Deemed Payment:	Additional Paye	N/A	16,685
	Additional Employers N.I.	N/A	8,165
	Additional Employees N.I.	N/A	4,527
TOTAL TAXES:		21,127	29,450
(Percentage of revenue)		(25%)	(35%)

Tax and NIC Implications

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Common Questions

- Who's covered
- Special Cases
- What's included in the 5% expense fee
- Expenses

Useful Information and Sources

- <https://www.pcg.org.uk>
- http://www.contractorcalculator.co.uk/IR35_Test_Start.aspx
- <http://www.hmrc.gov.uk/ir35/>
- IR35 helpline on 0845 303 3535
- <http://www.hmrc.gov.uk/calcs/esi.htm>
- <https://esi2calculator.hmrc.gov.uk/esi/app/index.html>

Summary

During the session we have looked at:-

- What is IR35 and why was it introduced
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