

IR35

What is it?

IR35 (otherwise known as the Intermediaries Legislation) is a piece of tax legislation that came into effect in April 2000. The aim of the legislation was to eliminate the avoidance of tax and national insurance contributions through the use of intermediaries such as personal services companies (PSC's) or partnerships, where an individual worker is not genuinely self-employed.

The legislation ensures that, if the relationship between the individual and the client is one of disguised employment (i.e. would have been an employer/employee relationship but for the intermediary) the worker will pay tax and national insurance on a basis which is fair in relation to what an employee and employer would broadly pay.

What does this mean to you?

If you provide your services to a third party (the client) through a limited company (an intermediary) then you have to consider IR35 for every contract you undertake. A limited company contractor who falls outside of IR35 rules would usually withdraw a small salary and take the rest of their income as dividends instead of salary.

Dividends are not subject to national insurance contributions or PAYE income tax. If the limited company contractor's contract falls within IR35 they can still claim traveling and accommodation expenses, 5% of their turnover, benefit from the VAT flat rate scheme and receive interest on the funds held within their own company, but most of the income from that contract will be deemed payment and subject to PAYE and national insurance contributions.

IR35 does not affect contractors who work on PAYE contractors or those who work through an umbrella company.

How can I tell if I am inside IR35?

To establish your IR35 status you should consider whether you are "self employed" as per HMRC's employment status guidelines. In the event that HMRC challenge your employment status, they will look at the overall relationship between yourself and the client and will consider a number of factors to determine if your contract is within the IR35 rules.

Even if you are deemed as being inside IR35 then there may still be benefits to trading through your own limited company.

