

IR35: 12% more tax than permanent employees

Introduction

There is a significant [financial impact for contractors caught by IR35](#).

Contractors caught by [IR35](#) also argue that they pay far more tax than normal employees without receiving any of the benefits of employment. The example below shows that, in real terms, contractors pay an extra 12% more tax than their equivalents in permanent employment.

Example

A fictitious contractor, Mr Worried, had his contract reviewed and found that there were [factors making the contract fail IR35](#). Lets suppose his revenue and expenses are as follows:

Revenue:	£75,000 per year
Salary:	£10,000 per annum
Legitimate expenses:	£3,000
Tax allowance:	£4745

“ ...contractors pay an extra 12 percent more tax than their equivalents in permanent employment. ”

Tax Calculations Under IR35

Deemed payment : [£51,042](#).

Effective gross income : £61,042. [salary + deemed payment]

Net Income: £41,155

Total tax: [£27,094](#)

The tax bill for Mr Worried under IR35 is 45% of his effective gross income.

Tax Calculations as Permanent Employee

If Mr Worried was a permanent employee earning £61,042 his figures are:

Gross Income: £61,042

Net Income: £41,155

Total tax: [£19,885](#)

The tax bill for Mr Worried in an equivalent permanent position is 33%.

[Note: The cost to the employer is £70,000 since Employers NI of around £8970 is applied before Mr Worried gets his salary of £61,030. Further, the company will pay more due to additional benefits. e.g. health.]

Conclusion

The calculations show:

- o a contractor earning revenue of £75,000 per year pays around 12% more tax than their equivalent in permanent employment.
- o the cost to the company of hiring either a contractor or a permanent employee is the same when benefits are taken into account.
- o the tax raised by the treasury is about the same in both scenarios.

However:

- o permanent employees get extra benefits: sickness pay, personal development, training and pensions.
- o contractors get no benefits and have to fund their own personal development.

You can calculate your own figures using the [IR35 Calculator](#) and the [IR35 Taxes Calculator](#).

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