

Limited company contractors with contracts inside and outside IR35

An occupational hazard of contracting is that some contractors find themselves working on a combination of contracts both inside and outside of the [IR35 tax legislation](#). This need not be an issue, as long as contractors adopt the right approach and are methodical in their calculations.

"Contractors who have earned income on a contract that was within IR35 must calculate the [deemed payment](#) once a year at 5th April," explains Phil Richards of contractor accountant [BFCA Chartered Accountants](#). "Payment of income tax and Schedule E National Insurance Contributions (NICs) then has to be made to HMRC by 19th April."

In addition, a [contracting limited company](#) may also have profit from income other than contracts, such as bank interest or from the [flat rate VAT scheme](#), which can be paid to the contractor as a [dividend](#).

When to calculate deemed payment for multiple contracts

Richards suggests that contractors calculate the deemed payment for all contracts inside IR35 during the year in one calculation, and then pay themselves the deemed payment as salary. This effectively leaves them with a zero deemed payment at the end of the year.

"If the contractor has paid their entire deemed payment as salary, then all the resulting paperwork, such as P14, P60 and P35, is accurate and consistent with actual salary, income tax and NICs paid," says Richards.

"In practice, the contractor will probably complete their final deemed payment calculation towards the end of the financial year, when they know what contracts are inside and outside IR35 for that year."

But complications can arise, warns Richards, when contractors don't end up with a zero deemed payment at the end of the year and make drawings against future earnings net of the deemed payment. "The contractor may have a negative [director's loan account](#), which could cause compliance problems with HMRC. In such cases, contractors should consult their accountant to ensure the correct payments are made."

The deemed payment calculation

Richards has created a [comprehensive worked example in his IR35 blog](#) to assist contractors with calculating their deemed payment throughout the year, taking into account [pension](#) payments, [contractor expenses](#) and capital equipment purchases. The process is as follows:

- o Add together the income earned from all contracts that were within IR35 during the year, and net of VAT
- o Take away 5% of this total, to give the fees earned minus the [5% IR35 expenses allowance](#)
- o Deduct from the above total [travel and subsistence expenses](#) for the contracts within IR35 only, plus any other specific costs, such as subscriptions
- o Take away capital allowances on any assets purchased during the year and used on the IR35 contracts, such as a laptop
- o Deduct any pension payments made to employees of the contractor limited company
- o Deduct total salary, class 1a NICs already paid, employer NICs and any benefits paid on contract, both inside and outside IR35, during the year.

If this final total is negative, or zero, then there is no deemed payment to be made. Ideally, a contractor should adjust the salary in the last step above to reach the zero figure. If, however, there is a positive figure or profit, then:

- o Take the positive balance and calculate Employers NICs by dividing by 112.8 then multiplying by 12.8; the balance is the deemed payment on which income tax and Schedule E NICs should be calculated.

"Salary totals during the year should include salaries paid in both IR35 and non-IR35 contracts," says Richards. "But the only applicable expenses are those incurred during the contracts within IR35."

For those contractors who work inside IR35 all year but still prefer to [run their own contracting limited company](#), Richards recommends that their company accounting year end is 31st March, which makes the whole accounting exercise very much easier.

Other trading options

Some contractors who work entirely within IR35 may consider using an alternative trading option, such as a [contractor umbrella](#)

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Phil Richards, BFCA

[company](#) or going on the agency payroll as an alternative to running their own contractor limited company.

However, for contractors with a mix of contracts, the limited company option is likely to be less expensive than running a limited company throughout the year and using an umbrella company for IR35 contracts.

"Professional long-term contractors who are serious about running a contracting business should have no problem coping with the occasional contract falling inside IR35," concludes Richards, "as long as they are organised and seek professional advice when appropriate."

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