

## What is IR35?

### Introduction

All contractors need to consider the IR35 issue.

This article explains what it is and how it affects contractors.

### What is IR35?

"IR35" is a piece of tax legislation announced in 1999, which took effect from April 2000.

The legislation means that the Revenue can tax some contractors as though they are employees of their clients.

Contractors caught by IR35 pay significantly more tax reducing their take home pay by up to 25%.

### Why did the government introduce IR35?

HMRC's intention was to tackle tax and National Insurance (NIC) avoidance schemes through the use of intermediaries, such as Partnerships or Personal Services Companies (PSC).

Contractors often use the Limited Company as a PSC to obtain work either direct from an end client or via an agency.

The Revenue's view was that a large number of IT Consultants, Engineers, non-executive directors and "one man band companies" were often treated as self-employed when in fact they should have been treated as employees of the end Client. This was based on the terms and conditions that the Contractors worked under.

The Revenue argued that if the agency or the PSC were removed, a large number of contractors would really be "disguised employees" who should be included on the client payroll and have tax and NIC deducted each month.

The Government announced the "rule changes" which would take effect from 6 April 2000. The first reporting and payments would be due from 19 April 2001.

### Does IR35 affect all contractors?

Yes, in the sense that all contractors need to consider IR35 and take action to protect themselves from it. However, not all contractors are caught by IR35.

[Determining whether you are caught by IR35](#), (or being 'inside IR35') depends on a number of factors. It is not entirely objective whether a contractor is caught and depends on the terms and conditions in the contract, together with the contractors working arrangements.

Being inside or outside IR35 is not a black and white issue. Estimates are that 20% of contractors are definitely inside IR35, 20% are definitely outside and the rest are in a grey area in the middle.

### How can contractors determine if they are caught?

The law for tax and social security legislation does not define 'employment' and 'self-employment'. Over the years Courts have considered the issue and their guidance on this issue is known as [IR35 case law](#).

To determine your IR35 status it is best to [seek expert IR35 advice](#) and have your contract and working arrangements reviewed by an expert.

### What happens if you are caught?

If you are "caught by IR35", then all fees are considered "deemed salary" through your PSC and Tax and NIC will need to be deducted similar to an employee.

The [financial impact of IR35](#) is significant for the contractor, since those caught by IR35 pay significantly more tax.

“ Contractors caught by IR35 pay significantly more tax.. ”

“ A contractor caught by IR35 will typically receive 20 ”

A contractor caught by IR35 will typically receive 20% less in their pocket each month than a contractor who falls outside IR35. For a contractor on £40 per hour this equates to around £800 per month.

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You can get an accurate estimation of how much it would cost you using our [IR35 Calculator](#)

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