

112C Roman Road
Basingstoke
Hampshire
RG23 8HE
Tel: 0871 218 5152
Fax: 01978 368 809
Email: office@contractorcalculator.co.uk
Web: www.contractorcalculator.co.uk

29th September 2015

HM Revenue & Customs
100 Parliament Street
London SW1A 2BQ

Re: IR35 Discussion document response

Dear Sir/Madam,

Please find attached the response to the above HMRC consultation by ContractorCalculator. We would be pleased to expand on any of the points raised in our response – don't hesitate to contact me directly using the details below.

We believe that the world of business and work has moved on, and that IR35 is no longer relevant. This is supported by changes in the marketplace fifteen years on from when the legislation was first introduced, coupled with HMRC's compliance failures and the introduction of the dividend tax changes.

However, we recognise that HMRC is looking for solutions. So, whilst we don't believe that IR35 will ever meet HMRC's revenue projections because not only is the scale of the perceived problem of disguised employment just not there, the differences in earnings of employees and contingent workers such as contractors result in similar taxes being paid. This is something that policymakers at HM Treasury and HMRC fail to understand.

We suggest a certification framework as a possible answer. This framework could share the compliance burden between contractors and clients, as well as the sanctions if the rules are broken, without presenting an undue burden. And it could mean IR35 becomes fair and enforceable, with genuine contractors having nothing to fear from the process.

We look forward to hearing about the next stage of this process.

Yours faithfully

A handwritten signature in black ink that reads "D. Chaplin". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Dave Chaplin
CEO, ContractorCalculator
Web: www.ContractorCalculator.co.uk
Email: office@contractorcalculator.co.uk
Office: 0871 218 5152
Mobile: 07990 525790

Executive Summary

1. IR35 was created over 15 years ago to address the loss of income tax and National Insurance Contributions (NICs) tax revenue caused as a result of disguised employment.
2. Extreme market distortions of supply/demand in sectors such as IT resulted in employees becoming contractors – the ‘Friday to Monday’ phenomenon.
3. From the outset, IR35 was flawed – it is highly complex, subjective, does not offer tax certainty and can only be effectively used by experts.
4. Fifteen years later, and the market conditions that created so much disguised employment have changed, so little tax is now lost to the phenomenon.
5. As a result, R35 is irrelevant and no longer fit for purpose. In its current form, the legislation has become unenforceable.
6. HMRC’s assumptions to justify IR35, and the deterrent effect (£520m) and avoidance cost (£430m), are deeply flawed.
7. The comparisons of tax take between employees and contractors are not comparing like with like. Contractors always pay the same or more tax.
8. The elephant in the room is that engagers/clients are the ones that escape without paying employers’ NICs.
9. Despite its irrelevance, we know IR35 will not be abolished, so somehow it has got to be made to work.
10. If IR35 must be kept going, only a framework that shares compliance, risk and punishment between contractors and engagers will work.
11. Simplifying the existing tests, or using an alternative such as supervision, direction and control (SDC), are not the solution.
12. Engagers/clients should be responsible for compliance but within a framework where contractors must gain certification that can easily be validated.
13. For such a framework to succeed, third parties must be responsible for accreditation and verification – HMRC lacks the resources and capabilities.
14. Only after significant research into the profile of disguised employees, genuine contractors and their attributes should such a solution be considered.

1.0 IR35 is no longer relevant to the core contracting sector

The business environment and the UK's labour market have changed considerably since IR35 was first introduced fifteen years ago. In fact, the market and contractors have changed so much we believe that IR35 is no longer relevant to the vast majority of the UK's highly skilled contingent workforce.

1.1 What are contractors?

When considering whether IR35 has a role and who it affects, it is important to understand exactly what kind of worker we are talking about.

We are not considering low skill low paid agency workers and some self-employed sole traders who are told what to do and often forced into unsuitable and abusive trading arrangements, such as limited companies and offshore solutions

- Site labourers, first line IT helpdesk staff, some drivers, warehouse staff, and some care workers.
- This group has existing legislation to protect them, such as the agency legislation.

We are speaking about contractors and freelancers who are highly skilled highly paid expert professionals and para-professionals who mostly choose to work as a limited company, but may also work via an umbrella company, because they supply a B2B service to other businesses

- IT consultants, engineers, scientists, solicitors, marketers, media/new media experts, executives, accountants.
- This group are experts – they are not hired to be told what to do and would be caught by tests that are underpinned by control, and supervision, direction and control (SDC).

1.2 What has changed since 2000 when IR35 was first introduced?

IR35 was first introduced to tackle a very real problem of disguised employment. So that businesses could retain key workers and skills in an era of high demand where contractors were charging significantly more than their permanent counterparts, many firms facilitated workers to leave employment on a Friday and return on Monday to the same desk, doing the same job with the same organisation that used to employ them but which is now their client.

This 'Friday to Monday' phenomenon was responsible for a significant amount of disguised employment. It was a direct consequence of the difference in the supply and demand, particularly in IT. The motivation was about staff retention and skills hoarding and not about reducing tax burdens. In fact, most businesses saw their cost of resourcing increase as a result of hiring contractors because they simply could not find permanent staff.

www.ContractorCalculator.co.uk

Your expert guide to contracting

+44 (0)871 218 5152 | office@contractorcalculator.co.uk

However, those market forces that drove ‘Friday to Monday’ behaviour have largely disappeared at the mid- and top-ends of the contracting market. Skills shortages persist in the core contracting disciplines of IT, engineering, energy/oil & gas, construction, finance, marketing and media and interim management. But there is less pressure on supply and demand.

For example, contractors are being paid the same day rates now as they were 15 years ago – this is a reflection of the demand and supply being closely matched. The recession forced many organisations to look at their business models and the understanding of the benefits of highly skilled contingent workers has grown hugely. The recession also made many individuals consider their own careers, lifestyle and work-life balance. Many decided that they preferred greater control over their own destiny in an uncertain world, so chose contracting as a positive lifestyle and career choice. It is these market forces that are now driving the increase in contractors, not tax.

There have been major recent tax changes that also impact on the contracting sector dynamics. The dividend tax changes have effectively imposed an equivalent of employee’s National Insurance Contributions (NICs) on those using a limited company. There is a tax advantage to be gained through incorporation, but the dividend tax changes mean that is significantly reduced. The elephant in the room is employers’ National Insurance Contributions (NICs), and currently contractors caught by IR35 pay that ‘tax’, not their engagers.

1.3 IR35 in its current form is no longer fit for purpose

In addition to the market and tax changes that make IR35 irrelevant, it is no secret that the legislation is unenforceable:

IR35 is too complex: IR35 is underpinned by employment legislation and case law that is a highly complex area. Not surprisingly, HMRC’s regular local inspectors of taxes do not have the detailed knowledge to understand and effectively apply the legislation. There are only up to 40 IR35 specialists within the entire organisation. They are required to police at least half a million workers. That’s akin to policing the UK’s motorway network with only ten patrol cars.

HMRC has limited capacity for IR35 inquiries: HMRC’s IR35 specialist teams have indicated that there is a maximum capacity of around 250 IR35 cases per year. They can at best hope to review only a tiny fraction of all contractors, even with highly sophisticated tools such as Connect to risk profile contractors for investigation.

Contractors are smart enough to work around IR35: They are experts typically working at the cutting edge of their respective fields, and are typically highly educated and professionally qualified. They are highly motivated to undergo continued professional development to maintain market leading skills and knowledge – they won’t be contractors for long if they don’t. This means they are not average taxpayers and will acquire the skills – and professional support - they need to ensure IR35 does not apply to them.

Contractors are experts and not controlled: The typical profile of contractor means that most fail any kind of control or supervision, direction and control test used for IR35 and the agency legislation – clients don't hire experts and then tell them what to do. Control, which underpins IR35, was cited by tribunal judges in recent key IR35 cases that HMRC lost, such as Marlen, Primary Path and ECR Consulting. Most know exactly what they need to do to ensure they are never 'caught' inside IR35 – they hire other experts to advise them, secure the right paperwork from clients and invest in tax investigation insurance.

IR35 experts nearly always successfully close inquiries: There are many IR35 consultancies and contractor accountancy practices that are expert in IR35 – much more so than any HMRC inspector outside of the specialist teams. These experts advise contractors and can usually shut down an IR35 enquiry before it even gets started.

IR35 is inherently unfair and fiercely contested: When applied, contractors must pay even more tax than employees – paying both employee's and employer's NICs as well as income tax - but with no rights or benefits in return. The 'employer'/client is not required to pay any employers' NICs – or anything at all. Most contractors are highly savvy businesspeople who strongly resent the unfairness of the tax – this makes them highly motivated when it comes to taking measures to ensure it does not apply to them. The current regime is based on the premise that the entire cost of the employee is used to fund the gross cost of the contractor. That might have been the case 15 years ago, but it is no longer the case now.

Disguised employee numbers are lower than HMRC believes: There are simply not high numbers of disguised employees using limited companies to be found out and caught by HMRC – they just don't exist (they mostly work via umbrellas or agency payroll and pay income tax and NICs like employees already). The claim by HMRC that there it is a widespread problem is not substantiated with empirical evidence.

As a result, HMRC's IR35 record speaks for itself. Year after year, the data released about IR35 tax yield shows that the legislation is not working and not even covering its costs. No business would do something that does not work for fifteen years – IR35 is fundamentally flawed.

HMRC estimates that the deterrent effect of IR35 is £520m, and that a further £430m is lost as a result of avoidance activity (page 5 of the discussion document). However, when challenged the organisation refuses to provide any justification for these estimates.

For example, HMRC believes that a major element of the deterrence effect is that highly paid employees choose not to incorporate to save tax because they are afraid that IR35 applies. ContractorCalculator has published results of a survey that shows most highly paid employees who have considered incorporating to save tax don't incorporate because their employers won't let them, not because of IR35 – most employees are not even aware that IR35 exists let alone how it may affect them.

An incredibly useful exercise that would inform the debate would be for HMRC to conduct detailed research into where IR35 avoidance takes place and segmenting this according multiple

www.ContractorCalculator.co.uk

Your expert guide to contracting

+44 (0)871 218 5152 | office@contractorcalculator.co.uk

factors, including industry sector, engager/client type and size, income band of the worker and type of trading vehicle.

If they do the research and compares salaries to contract rates they will find that perhaps there isn't a problem anymore.

It is likely that there is considerable avoidance by lower skilled, lower paid contingent workers. This 'demographic' are not true contractors, but are typically grouped with highly skilled, highly paid contingent workers often because they are not employees. This is the group that attracts much attention and is target of other anti-avoidance measures, such as the Onshore/Offshore Employment Intermediaries legislation.

An incredibly useful exercise that would inform the debate would be for HMRC to conduct detailed research into where IR35 avoidance takes place and segmenting this according to multiple factors, including industry sector, engager/client type and size, income band of the worker and type of trading vehicle.

There is certainly anecdotal evidence to suggest there are many workers using limited company solutions that have no idea this is happening to them, and whose service providers have evaded the attention of compliance, despite the existence of anti-avoidance legislation such as the Managed Service Companies (MSC) rules.

1.4 Assumptions about the financial justification for IR35 are flawed

The IR35 Discussion document attempts to make comparisons between the income and taxation of an employee and a contractor. If the deterrent effect (£520m) and avoidance cost (£430m) estimates are based on such assumptions, then they are deeply flawed.

This is why. In its case studies on page 3 of the discussion document, HMRC compares an employed lawyer being paid a £70,000 salary and a legal contractor. The case study rapidly departs from reality from the second sentence onwards that says "The company pays the lawyers gross payments of £70,000 per year".

IR35 Discussion Paper:

A legal company hires two lawyers in 2015-16 who do the same job and work on the same cases.

The company pays the lawyers gross payments of £70,000 per year.

Jo works as a direct employee. The company deducts income tax and employee NICs from her salary and pays employer NICs on top. The total tax and NICs paid on Jo's salary is £30,612 (£22,071 by Jo and £8,541 by the company).

Ben works through a PSC and does not operate IR35. He pays himself the most tax advantageous remuneration strategy combining a low salary and dividends. His total tax and NICs liability is £16,900.

www.ContractorCalculator.co.uk

Your expert guide to contracting

+44 (0)871 218 5152 | office@contractorcalculator.co.uk

No contractor is ever paid the same gross fees as an employee performing in a similar role. To suggest otherwise is to simply ignore the realities of the contracting marketplace.

A more realistic example is to consider the options available to Sandra. She could become an employed senior developer that gets paid a gross salary of £70,000 per year. Alternatively, Sandra could choose to become an IT contractor delivering essentially the same skills on £500 a day, which equates to a gross fee income of £110,000 (£500 x 5 days per week x 44 weeks per year).

In the discussion document's example, the employee pays £30,612 in tax each year, which is income tax, employee's National Insurance Contributions (NICs) and employer's NICs (Note – we actually calculated this to be £30,410.94 using 2016 allowances, comprised of income tax £17,100.60, employee's NICs £4,670.80 and employer's NICs £8,540.54). This is a realistic calculation of the employee's total tax liability, including their employer's contribution.

The tax liability of the contractor is calculated by HMRC to be £16,900, versus £30,612 paid by the employee. Whilst this may be an accurate calculation of the tax paid by a contractor trading via a limited company with a gross fee income of £70,000, it is not realistic and does not show the full picture. Furthermore, the calculation does not apply the dividend tax changes, which will have a significant impact on contractor tax from April 2016.

A contractor on £500 per day will typically work 220 day per year, generating revenues of £110,000. Taking into account costs of running their company, they will actually pay £36,153 in tax. This is £5,742 more than the employee pays. From April 2016, when the dividend tax changes tax effect, the contractor will pay an additional tax of £4,407 than they do now.

So, if Sandra decides to go contracting via a limited company (personal service company/PSC), she pays more tax in total than if she decided to become an employee. And this is set to increase significantly from April 2016, when the dividend tax changes kick in.

Estimates of the tax yield lost as a result of IR35 avoidance are massively overstated – not only is disguised employment simply no longer the problem it was fifteen years ago, but the projections in the discussion document don't add up due to the differences between salary costs and costs of hiring an equivalent contractor. They are simply not the same.

If we assume that our analysis of the market is wrong and HMRC is right. To believe HMRC's thinking and example, you need to believe that somehow employers are managing to hire contractors at a cost that is less than their permanent members of staff, and that there are people who will choose to work like this rather than be an employee.

Whilst the free market can make these distortions happen when there is a significant difference between supply and demand, in most cases where supply is not an issue this simply won't happen because the workers won't accept those conditions.

Market forces:

- 1. The cost to firms of hiring an employee is not the same as hiring a contractor**
- 2. Contractors charge more, because market forces allow them to**
- 3. The tax generated by either employment or contracting, when genuinely comparing like for like, is now roughly the same (from April 2016 with the new dividend taxes)**
- 4. Market forces can distort the differences. For example, in 1999 this happened to IT contractors, but the free market manages to redress the balance, again as it has done in IT. Many new workers entering IT and an injection of workers from outside of the UK have kept contract rates the same now as they were 15 years ago, when IR35 was introduced.**

It appears that HMRC has thus far assumed that any new IR35 legislation will somehow magically make those 'disguised employee PSC workers' stay using the same trading vehicles and pay considerably more tax. They won't. They will just go on the payroll, earning less as an employee than they were as a contractor, and the tax generated for the Exchequer will be roughly the same.

The result will be a reduction in the flexible workforce, not an increase in total tax take.

We strongly encourage HMRC to commission a survey to understand the rates of pay for people in certain sectors dependant on whether they are salaried or contractors.

2.0 How the effectiveness of IR35 could be improved

Despite the evidence that shows IR35 is no longer relevant and should be abolished, we understand that abolition is not an option that is being considered. That means somehow the legislation that after fifteen years remains stubbornly unworkable must be made to work.

However, we would warn at this stage that expectations of increased tax yield should be managed – no matter how well IR35 is implemented, it will never yield £430m because, as we have explained, there simply aren't that many disguised employees anymore. In addition, as we have highlighted in the previous section, the impact of forcing disguised employees to pay more tax simply results in them becoming employees, with no additional tax generated. The £430m expectation is unjustified and based on very simplistic assumptions.

2.1 Simplifying or changing the test won't change the situation

On page 8, the discussion document asks whether the existing tests used to determine IR35 status could be simplified. IR35 is flawed because it tries to apply employment law tests designed to be applied for the purposes of determining employment status for employment rights to a tax scenario. It is so complex that only experts in HMRC and specialist tax consultancies can properly apply it.

The ideal scenario would be a straightforward test that provided an unambiguous answer and could be applied by non-experts. But employment status is not a binary condition – employment status is a continuum and it is only at its extremes that a worker is categorically an employee or not an employee. Many employees have the characteristics of the self-employed, and many contractors have employee-like characteristics but are without doubt not disguised employees.

If employment status could be simplified, the UK's finest legal minds that have spent decades interpreting and applying employment law and case law would have found a way by now.

What we can say with confidence is that anyone suggesting that a simple test must be possible doesn't understand employment status case law.

Trying to change the test, for example by using supervision, direction and control (SDC - which is after all only a subset of the existing IR35 tests), will have the same end-result – contractors are highly skilled, motivated and savvy individuals who rapidly learn how to 'game' a system, so SDC would go the same way as IR35, as contractors work out how to get around it. An industry of expert consultants and various products and services would spring up to offer contractors solutions that would place them outside SDC. Nothing would change.

2.2 Engagers (clients) becoming responsible for IR35 compliance

Engagers, or clients as they are more often referred to in the contracting sector, typically fall into two groups when presented with compliance issues:

1. They are risk averse and over-regulate
2. They are results focused/practical/realists and under-regulate.

Risk averse clients may insist all contractors go on fixed-term contracts that operate Pay As You Earn (PAYE). This is akin to the situation some public sector clients have imposed following the introduction of the Off-Payroll Rules. The result has not been to catch more contractors inside IR35 – the result has been to deter many talented experts from working within the public sector, and all taxpayers have suffered as a result.

In many situations, contractors hold the power in the relationship and most will say no if a client tries to over-regulate. The impact – the UK becomes less competitive and less attractive to inward investors who value the flexible highly skilled workforce.

Results focused clients want the job done and want the contractor to get on and do it. They will sign/do what they are told to by the contractor who wants to prove they are outside of IR35. The impact – no change from the current position.

It should be remembered that the balance of power in the contractor/client relationship is very often with the contractor – they have hard to source skills and experience the client needs. Therefore contractors choose the basis on which they engage, not the clients. This is important if asking clients to enforce IR35 as contractors confronted with a client in group 1 can simply walk away and choose to work with a client from group 2.

2.3 A possible solution that spreads the compliance burden

If there is a necessity to retain and change IR35, then a potential middle ground could be to legislate for a framework where the burden of compliance is shared:

- Engagers are responsible for compliance, but
- Contractors must gain certification that clients can easily validate when engaging them.

This potentially adds a level of complexity by adding a new process – contractor certification – but consider the alternatives. There is the status quo, where the intermediary (contractor's limited company) is responsible for compliance, or clients becoming solely responsible with the significant burden that will introduce, particularly for small businesses.

Other contracting service providers and membership organisations have in the past proposed a similar approach. A similar framework has been established for the construction sector – the

Construction Industry Scheme (CIS). It is not perfect and has many critics, not least those who struggle with HMRC's poor call and response handling performance to confirm that the labour only subcontractors who have provided their CIS number are indeed legitimate.

The solution to this issue could be for HMRC to certify independent third parties – such as contractor accountants and IR35 consultancies that already have IR35 expertise – to in turn certify contractors. An online verification scheme could be established for clients to quickly and cheaply check contractor certification numbers, again using a trusted third party, not HMRC resources. The added benefit would be to not take valuable resources away from HMRC's core activities,

Contractors would apply to the independent certification bodies for accreditation – a paid for process - as legitimate contingent workers who can be paid gross by their clients. The clients could consult the online register and verify the contractor's certification. Clients hiring contractors without a certificate must pay them via Pay As You Earn (PAYE).

For this framework to succeed, it would require a number of features:

- 1. Straightforward and accessible categorisation:** The criteria for categorising a worker as a legitimate contractor must be straightforward and fair, and also take into account sector variances. But they can be in-depth, as the accreditation will be done by experts in employment status for tax purposes (note in-depth and straightforward are not necessarily mutually exclusive). This ensures that HMRC/HM Treasury and policymakers can have confidence in the framework. For example, length of assignment can be significantly different between sectors. A design freelancer could work on a project for an hour – an engineering contractor specialising in the design of components for nuclear power stations could work on a project for several years. They are both in business on their own account and legitimate businesses.
- 2. Fair, transparent and affordable accreditation:** The contractor accreditation process must be fair, transparent, affordable/good value and efficient. Contractors already view IR35 as intrinsically unfair, so HMRC should not have a role in the accreditation of contractors. But HMRC should drive the accreditation and ongoing quality assurance of independent third party certification organisations, such as contractor accountants and IR35 consultants. These businesses will also have the resources to endure any time-consuming and complex process accreditation process imposed by HMRC.
- 3. Ongoing and updated accreditation:** The accreditation process must be a regular/ongoing occurrence. A feature of IR35 is that it applies on a contract by contract basis. However, HMRC accepted that contractors who scored as low risk according to the Business Entity Tests (BETs) introduced in May 2012 could have three years of trouble-free contracting, unless their circumstances changed significantly. A similar strategy and re-certification timescale could be adopted here.
- 4. Low administrative burden:** The burden on clients must be light. This is not just for the benefit of client organisations, which include many small to medium sized enterprises (SMEs) and public sector organisations. Any costs will be passed on down the supply chain to

recruitment businesses and contractors – that’s what clients do now and it is unlikely to change. Recruitment agencies and businesses will become the compliance arm of many clients by proxy (that’s what happens now), so recruiters and those clients that do undertake compliance directly should be able to check a register of accredited contractors easily and cost effectively.

- 5. Proportionate sanctions:** Sanctions must be proportionate and fair and allow for genuine error, although they should also act as a deterrent. No validated certification should mean no work, or payment of ‘emergency tax’ from gross fees, just like with the CIS. If a contractor who is a disguised employee is caught falsifying a certification, then they should pay any outstanding tax, plus penalties and possibly face prosecution. If the engager/client colluded, they should pay employers’ NICs, plus penalties and possible prosecution. If the engager merely failed to check properly, they should still be liable for employers’ NICs but no penalty. And so on. The sanctions for certifying organisations failing to perform should be demanding, as this is a key element of the framework.

However, such a framework should only be considered following considerable work by HMRC to prove that it will raise additional tax revenues. To place any additional burden on business, HMRC must develop very compelling arguments with empirical transparent evidence that suggests this is what is needed. None of the usual obfuscation and reluctance to share its assumptions and the basis of its calculations should be allowed. Otherwise the cost to business of introducing this burden may be more than the £430m HMRC and HM Treasury think they might get.

Anecdotal evidence suggests that the vast majority of medium and top end highly skilled and highly paid contractors who use limited companies should have nothing to fear from independent third party accreditation by IR35 experts. After all, large numbers already use such service providers to ensure they are legitimately outside of IR35 through contract reviews, confirmation of arrangements, tax investigation insurance and other IR35 best practice. HMRC is unlikely to see a huge increase in tax yield from this demographic because there simply are not great numbers of disguised employees at this level.

However, workers calling themselves contractors at the lower paid lower skill end and who are incorrectly using limited companies are likely to be caught. The additional tax from each worker will be small, but HMRC believes there to be a lot of this type of disguised employee. If that is the case, then HMRC’s objective to increase tax yield from IR35 will be met.

Conversely, there will be behavioural effects that could reduce the tax yield, as many lower paid contractors will choose not to work via intermediaries. Engagers may be forced to hire employees instead – on lower pay than contractors – having a neutral impact on tax revenue in a normally balanced supply/demand market.

This is not designed to be the complete solution. There are challenges with this approach. But HMRC is looking for potential solutions that help to tackle the challenge of disguised employment, such as it is in the modern workplace, at the same time as not imposing an unnecessary burden on business.

Appendix: Comparing Tax Revenues

Salaries and contract rates are not the same. Someone earning £70K gross salary will not be charging the same in gross fees as a contractor. It is this false assumption that underpins much of the IR35 rhetoric and concerns about tax loss.

In a balanced free market the fees a contractor charges will be considerably more than the salary they would attract as a permanent employee.

Consider the IT market in 2015. Sandra is an IT expert, and she can either take a permanent role for £70,000 per year or go contracting. If she went contracting, in today's market she could command about £500 per day. Typically a contractor will work for 220 billable days per year, so Sandra will attract gross fees of £110,000 per year as a contractor. This might be for one client, or a series of clients.

Option 1: Salary of £70,000 per year. Tax tables for 2015/2016.

Gross Salary	70,000
Allowance	10,600
Employees NI	4,671
Employers NI	8,541
PAYE	17,403
Total Tax	<u>30,614</u>

Option 2: Contractor on £500 per day. £110,000 annual revenue. Tax tables for 2015/2016

Revenue	110000
Expenses	3000.00
Salary	10000.00
Gross profit	97000
Corporation tax	19400
Dividends	77600
Allowance	11000
Tax on dividends	12113
Employees NI	233
Total taxes	<u>31746</u>

NOTE: More tax is collected if she chooses to be a contractor.

www.ContractorCalculator.co.uk

Your expert guide to contracting

+44 (0)871 218 5152 | office@contractorCalculator.co.uk

April 2016 onwards – dividend tax changes.

Option 1: Salary of £70,000 per year. Tax tables for 2016/2017.

Gross Salary	70,000
Allowance	11,000
Employees NI	4,671
Employers NI	8,541
PAYE	17,200
Total Tax	<u>30,411</u>

(Less tax than current tax year since allowance rises to £11,000)

Option 2: Contractor on £500 per day. £110,000 annual revenue. Tax tables for 2016/2017

Revenue	110000
Expenses	3000.00
Salary	10000.00
Gross profit	97000
Corporation tax	19400
Dividends	77600
Allowance	11000
Tax on dividends	16520
Employees NI	233
Total taxes	<u>36153</u>

NOTES

- 1. Sandra is now generating £5,742 more in tax than if she chose to be an employee.**
- 2. Not only is she contributing to the flexible workforce making UK Plc more competitive, she is generating more tax for HMRC.**
- 3. Why is this a problem for HMRC?**

ContractorCalculator
30 September 2015

END OF DOCUMENT