

IR35 reforms: the threat to contractor accountants



The public sector IR35 reforms have sent shockwaves throughout the contractor supply chain, bringing in major changes for agencies, public sector bodies (PSBs) and even contractor accountants, who risk losing clients and revenue as a result.

With industry experts warning that an expansion of the rules into the private sector is not a matter of 'if', but 'when', the problems faced by contractor accountants look likely to intensify in the near future.

Accountants unable to present a compliance solution to keep their contractor clients outside IR35 could suffer catastrophic consequences.

- More contractors will either be caught by IR35, or be forced inside IR35 due to blanket decisions
- These contractors will no longer need accountants, who will lose clients
- Accountants could lose annual revenues running into tens of thousands of pounds

"The reality is that around 30% of contractors currently operating outside IR35 will find it hard to keep their outside IR35 status," says Dave Chaplin, CEO of ContractorCalculator. "As we saw with the public sector, long-term contractors clearly caught by IR35 had no option but to accept inside status if they wanted to keep their current contracts."

How will the IR35 reforms affect contractor accountants?

The public sector IR35 reforms shifted the IR35 compliance burden from public sector contractors onto hirers and agencies. Typically, the hirer is responsible for determining the contractor's IR35 status and the agency calculates and processes the contractor's tax if deemed to be inside IR35.

Contractors caught by IR35 have traditionally sought their accountant's guidance on how to treat their income. However, as we have seen for public sector contractors, they have been placed on a payroll and now have income tax and National Insurance Contributions (NICs) deducted at source - all of which negates the need for running a limited company and therefore having an accountant.

Accountancy firms that do ensure their clients are genuinely operating outside IR35 by the time these same reforms hit the private sector may find themselves with a sharp reduction in their bottom line as their clients no longer need their services.

Does the IR35 compliance shift give accountants cause for concern?

There are several factors that increase the chances their contractor clients will be assessed as 'inside IR35':

- Agencies have little or no prior experience of IR35
- Many organisations have little capacity to test IR35 status or process taxes
- Risk averse firms make blanket decisions and simply say "no limited company contractors"

Uninformed or risk adverse agencies and hirers are reluctant to engage contractors outside of IR35 - as we have seen recently. Blanket decisions resulted in many contractors being pushed into using umbrella companies to eliminate the compliance burden for agencies and hirers.

Many contractors have now moved onto private sector projects, meaning they have retained the services of their accountants. But when the measures are introduced to the private sector, contractors will have no choice but to battle to prove their IR35 status to their clients.

IR35 reforms: measuring the cost to contractor accountants

So what might the financial impact on contractor accountants be?

It's realistic to assume that roughly 30% of current contractors would find it hard to remain outside IR35. To avoid this the entire contracting industry would need to ensure contractors were working on projects on a contract for services and therefore outside IR35. But that's unlikely to happen.

The reality is that some less proactive accountants will find themselves losing many clients. For a firm with 100 clients who pay £1,000 a year, that's £30,000 in lost revenue each year.

Some hiring firms, accountants and agencies are already getting ready for the roll out, because they correctly anticipate the risk to their business. With a private sector roll out of the rules seemingly right around the corner, it's vitally important to take mitigating action now.

How you can keep your contractor clients with IR35Testing.co.uk

[IR35Testing.co.uk](https://www.ir35testing.co.uk) is an IR35 assurance solution which exists to help contractors pass IR35.

It can offer firms an IR35 Audit of all their contractors, within a single day. Each contractor gets an extensive 28 page report, and the firm receives a comprehensive firmwide assessment of their current IR35 risk in an extensive audit report. Granular details and observations are provided to highlight the individual contractors that need help.

Contractors who access the system can obtain a free IR35 review in 15 minutes by answering 101 questions. They then get a 'pass' or 'fail' verdict and can access bespoke reports demonstrating their status, or advice on how to achieve outside an IR35 result.

With IR35Testing.co.uk you get fast accurate testing across your entire contractor client base, enabling you to strategically manage your risk and protect your business in the wake of the inevitable roll out of the reforms to the private sector. To find out more - [contact the team at IR35 Testing](#).

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