

UK IR35 – Important Changes From 6 April

Following a pandemic-related delay, significant changes to the IR35 regime come into force on 6 April 2021. From then, affected businesses which engage contractors who provide services through their own limited company intermediary (often, a personal service company) will be responsible for determining if the individual contractor is employed or self-employed for tax purposes and, if the contractor is employed, will be obliged to account for income tax and National Insurance contributions (NICs) through PAYE.

Who is impacted?

The new rules apply to “medium” and “large” entities which have a UK connection, and are applied on a group basis (which includes both UK and non-UK group companies). An entity is “small”, and is not subject to the new IR35 rules, if two or more of the following apply:

- annual turnover of no more than £10.2m
- balance sheet total of no more than £5.1m
- not more than 50 employees

What is changing?

From 6 April, the end-user has responsibility for determining whether a contractor is employed or self-employed for tax purposes, rather than (as currently) the intermediary.

If the contractor falls within the new IR35 rules, the end-user client is responsible for accounting for income tax and NICs on the fees it pays.

What is the impact?

Where an end-user is subject to the new regime, there are some significant results including:

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- they must make a “status determination” to ascertain the contractor’s status
- they must provide a “status determination statement” and deal with appeals
- where the contractor is deemed to be an employee for tax purposes, the end-user must account for income tax and NICs
- HMRC can impose penalties for non-compliance

Act quickly

Whilst HMRC has indicated that it will be lenient in enforcement in the first year, it is important to ensure that contractor arrangements are compliant, if this has not already been done.