

IR35 GUIDE

**Making sense of the
new IR35 rules as
a contractor**

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We all know that Off Payroll IR35 Private Sector Reform is coming. From 6th April 2020, the new rules will be rolled out across the private sector, impacting the way contractors and freelancers engage with companies. Worried about how this will affect your self employment status and take-home pay? Want to know what your responsibilities are? You can't afford not to know. But, don't panic. We've produced an essential guide to get you up to speed.

What is IR35?

In a nutshell, IR35 is a tax law designed to prevent contractors or freelancers from inappropriately providing services through a limited company.

As you probably know, limited company owners don't have to pay National Insurance Contributions (NICs) on company dividends, whereas permanent staff do have to pay income tax and NICs on their entire salary.

Under a One Man Limited Company (or Personal Service Company (PSC)), you can invoice the client, pay yourself a minimal 'salary' and take the rest of the payment as 'dividends' so that both parties can limit or reduce tax payments and NICs.

In HMRC's eyes, this takes unfair advantage of tax laws that are favourable to businesses. Many contractors are simply providing services to a client whom they would otherwise be employed full time by.

While IR35 was first introduced in 2000, the government still believe that too many limited company owners are operating outside the rules. Reforms were brought in to the public sector in 2017, and soon they're coming to the private sector too...

What's changing?

Currently, responsibility lies with you (the limited company director) to determine whether your contract and working practices are inside or outside IR35. However, from 6th April 2020, the responsibility shifts to the end client (known as the engager).

What does this mean? Your employment status for each assignment will be determined by the engager (end client) in the very first instance then, by the fee payer (agency), second - taking the control away from you.

If your end client deems your contract to be inside the new IR35 rules, the fee payer (either the end client or another agency) will be responsible for deducting PAYE tax and NIC from your earnings. You will have the right to appeal to HMRC.

Does this impact me?

These proposed changes apply to contractors providing services via a One Man Limited Company to medium and large private sector businesses.

If you're working through an umbrella company, don't worry. Umbrella companies are IR35 compliant because you're taxed the same way as a full-time employee. What's more, you enjoy a host of benefits otherwise unavailable to flexible workers.

What do I need to do?

Think you might be affected by the changes? It's critical to act now to protect your employment status and lifestyle. First, identify whether or not your assignment, project and therefore you yourself are classed as inside or outside IR35 under the proposed rules.

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You then need to find out whether your agency or hiring manager is aware of the changes, and how they're planning to approach them. By working together, you can minimise the impact of Off Payroll IR35 Private Sector Reform on your assignment.

Bear in mind it will also be harder to claim on certain expenses from 6th April. The current rules allow limited companies to claim back 5% of income generated through a contract to cover the costs of 'running a company'. However, as the responsibility of determining employment status will no longer fall to you, this will no longer be available. In short, if you're providing services through a limited company, now is the time to be gathering evidence to support your employment status or, if necessary, explore alternative pay options such as umbrellas.

Energy Jobline are here to help

Our exclusive partnership with Workr group offers a wealth of resources for contractors looking to prepare for the reforms, and we want to support you in any way possible.

Unsure of your exact employment status? We'll carry out an IR35 assessment to give you complete clarity. If you have a direct contract, we can also introduce you to trusted agency partners who will act as an intermediary to protect and even grow your take-home pay.

Our market-leading services cover you from all angles - from accountancy to PAYE. We'll advise you on how to speak to your clients and agencies regarding the new changes, and how to stay on the right side of the taxman.

Think you may be caught out by the new IR35 rules?

Switching to an umbrella company could be beneficial. Not only will it save you money and paperwork – it also gives you a range of employment benefits you wouldn't have access to as a limited company.

So, what are you waiting for?

Now is the time to think about the future. To organise your IR35 review today, or for any more information on umbrella companies, please complete the form at:

www.energyjobline.com/IR35-contractors