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Overcoming IR35 - Quick Guide - Version 1.0

Have you got a mountain to climb?

OVERCOMING IR35

Quick Guide

● WHAT IS IT?

The Intermediaries Legislation (IR35) was first mentioned in a 1999 Inland Revenue press release. The rules, to counter alleged tax avoidance via the use of 'personal service companies' (PSC's), became law in 2000.

The counter avoidance measures aimed to prevent 'disguised employment'. In a nutshell this was where a person performs the same or a similar role to that of a company employee but is being paid via their Ltd Company.

To determine whether a worker is either inside IR35 (deemed an employee) or outside IR35 (deemed a genuine PSC contractor) a test was introduced by HMRC called CEST (Check Employment Status for Tax). Other independent tests are also available via third parties.

● WHAT DOES IT MEAN?

It means that, where previously the PSC contractor was liable for any unpaid taxes, if they were deemed to be working as an employee (while being paid as a PSC), the liability as of April 2021 will now fall on the end client who is paying the worker. This puts pressure on these businesses to ensure they are engaging and paying contractors in the correct way, to avoid any future investigations and penalties.

● HOW WILL IT AFFECT ME?

The rules may not apply if during a 12 month period you fulfil two of the following:

- **Turnover – not more than £10.2 million**
- **Balance sheet total – not more than 5.1 million**
- **Number of employees – no more than 50**

Otherwise, if you still have a need for this type of flexible resource in your business, you'll need to determine the status of all of these workers, and pay them accordingly to ensure you stay compliant & risk free.



● WHAT OPTIONS DO I HAVE?

You could do nothing, but we don't recommend this as you could then face an investigation and heavy penalties.

1. Pay them through your own payroll

- ✗ May need to take on additional HR/payroll staff to administer
- ✗ Resistance from PSCs
- ✗ Higher rates of pay = greater costs
- ✗ Additional employment responsibilities, liabilities, and costs (insurances, Statutory etc.)
- ✓ Total control over workforce
- ✓ No time spent explaining Umbrella payslips

2. Engage via 3rd party Umbrella company

- ✗ Resistance from PSCs
- ✗ Higher rates of pay
- ✗ VAT on all payments to umbrella companies (reduced cash flow)
- ✗ Need to vet/monitor and understand umbrella company compliance
- ✓ Maintain outsourced engagement
- ✓ Industry recognised model

3. Partner with a Professional Employment Organisation (PEO)

- ✓ No Employer deductions (margin, NICs, etc.) from Candidate payments
- ✓ Free to the contractor
- ✓ VAT efficiencies on invoice
- ✓ Joint-employment means that the PEO is the employer of record and takes the employment responsibilities
- ✓ No time spent explaining umbrella payslips

● WHO ARE PEOPLE GROUP?

Our focus on the UK labour market for payroll and compliance is comprehensive. Combined with our practical experience of navigating off payroll in the public sector makes us the go-to specialists for private sector clients. We've processed millions of payslips, and worked with thousands of clients large and small. We understand the world of contingent work; the big strategic challenges and the day-to-day recruiter, end client and contractor frustrations.

GET ADVICE FROM THE EXPERTS

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