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What is IR35?

18 JULY 2019

The IR35 legislation was brought in to force to tackle loss of tax revenues from individuals supplying their services through an intermediary, usually a PSC. This meant that they paid themselves principally in dividends rather than salary and both the individual and the user of their services benefited from a more favourable tax regime that avoided employee income tax ('PAYE') and employer and employee National Insurance ('NI') contributions.

However, the Government recovered very little tax from the original IR35 regime and decided to change the rules. Rule changes were introduced in the public sector in 2017 and from 6 April 2020 it was planned that these would extend to large and medium sized businesses in the private sector. From that date the end user of the individual's services, or the intermediary paying the PSC, would become liable for PAYE and NI, rather than the PSC itself.

Having initially insisted that it would adhere to this timetable, the Government announced on 17 March 2020 that it would be postponing the extension of the rules to the private sector by 12 months to 6 April 2021.

What could the rule changes mean for you?

1. **If you are an organisation that uses contractors**
The new rules mean that private sector organisations large enough to be caught by the rules may become liable for PAYE and NI on the fees paid to individuals who are working for them through PSCs. If the rules apply to you, you need to prepare. For further information, click here.

2. **If you are an agency**
Agencies who are involved in providing consultants (rather than just introducing them) could find themselves liable to operate PAYE on payments made to PSCs. If the rules are likely to affect you, you need to prepare. For further information, click here.

3. **If you are an individual**
Individuals operating through a PSC should prepare for the impact of the new rules, which could have a considerable impact on your level of remuneration. For further information, click here.