

IR35 Reform in the Private Sector September 2020

Background

“IR35” was originally introduced in 1999 in response to concern over false self-employment and the impact to the Exchequer.

The Government believes that less than 10% of Personal Service Companies (PSCs) who should comply with the IR35 legislation currently do, at a cost of over £1 Billion in unpaid taxes and National Insurance (NIC). Public Sector reforms were introduced in April 2017 to help tackle this supposed non-compliance.

Changes to the private sector were originally det to go live in April 2020 but the impact of COVID-19 saw a one year delay introduced.

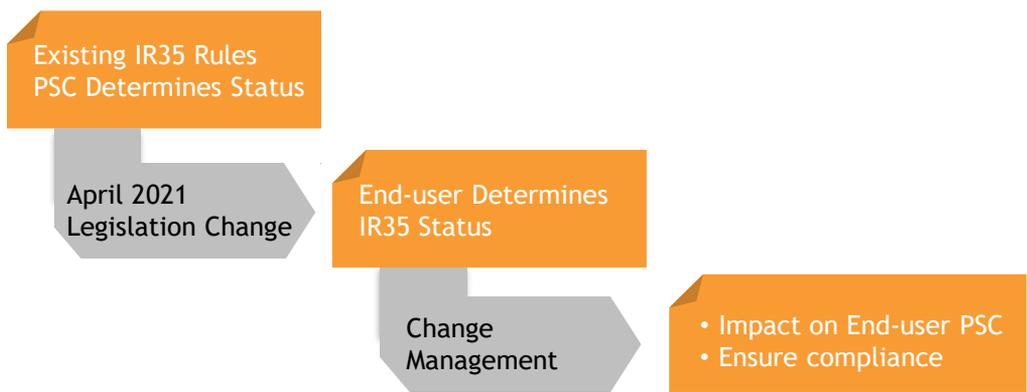
The Private Sector Changes

Consequently, the IR35 ‘off payroll’ public sector reforms will now be extended to the private sector from April 2021 onwards. This will see responsibility for determining whether an engagement falls within the ‘IR35’ regime moving from the worker’s Personal Service Company (PSC) to the end user (including where PSCs are engaged via an agency).

Where an employment relationship is deemed to exist, the end user will be responsible for operating PAYE/NIC on payments made to those PSCs if it pays them directly. Otherwise, the agency would be responsible for applying PAYE/NIC to those payments based on the end user’s ‘IR35’ determination.

These changes will take effect from April 2021 and be limited to large and medium sized enterprises that engage contractors through PSCs.

Those who start the planning process now will not only give themselves a head start to ensure compliance with the new regulations, but also ensure the changes are cascaded throughout the business as appropriate.



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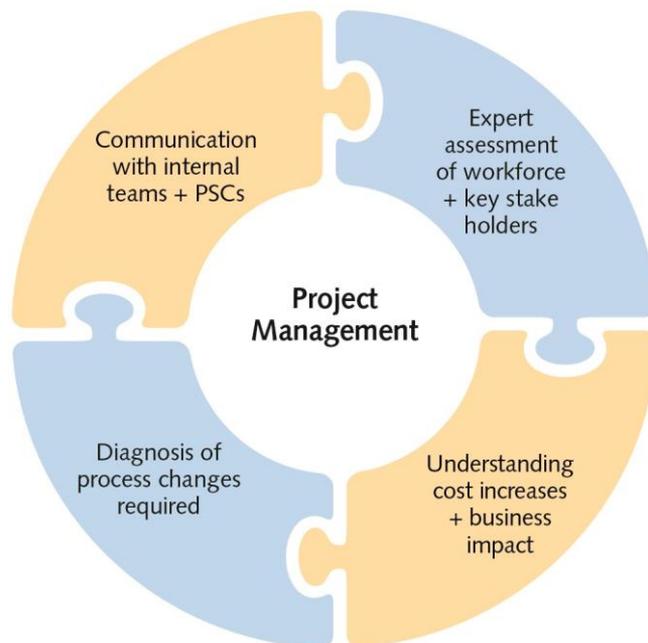
Preparing for Change

As an end user or agency that engagement with PSCs, there are a number of steps that you need to take to help you ensure compliance with the changes:

- + **Identify** potentially impacted workers
- + **Assess** those contractors to determine which would be deemed to be employee under the status tests
- + **Engage** with key stakeholders, including legal, tax, finance, operations and HR and agree responsibilities and ownership areas
- + **Estimate** any likely cost increases due to Employers' NIC and Apprenticeship Levy charges rising under 'IR35', and potential changes in contractors' rates
- + **Consider** whether tax fee protection insurance should be purchased to protect in the event of HMRC enquiry
- + **Design and implement** new systems and processes for dealing with those contractors impacted by the changes
- + **Train** relevant internal teams on the changes in systems and processes and ensure they are able to effectively determine the IR35 status of engagements
- + **Communicate** with contractors to ensure they are aware of the changes and fully aware of the decisions that are being made
- + **Critical assessment and ongoing review** of your systems and processes to ensure continued compliance with the legislation

How AAB Can Help

Our experience and expertise will help ensure businesses are fully prepared for the reforms to the IR35 rules.



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