

Small Businesses Face A Staffing Challenge In 2019

January 2, 2019



Samantha Batch Of Dynamo Accounts

Businesses that use the flexible workforce provided by an estimated 1m contractors are set to have their working relationship redefined due to the enforcement of taxation under the IR35 Rules.

The move will impact both the business and contractor by fundamentally changing the way they work together and pay tax to HMRC. From April 2020, every medium

and large private sector business in the UK will be responsible for setting the tax status of any contract worker they use.

It means that business will carry the tax liability of any contractor should HM Revenue & Customs decide it has made any incorrect assessments of the person's tax status.

Contractor specialists, Dynamo Accounts is concerned that many businesses that use contractors have yet to act and are not prepared for the changes under the IR35 rules.

Samantha Batch from Dynamo Accounts said: "The same rules were applied to all public sector organisations in 2017 and had an immediate impact on the use of contractors and the shape of their workforce. The IR35 rule, also known as the off-payroll working rules, are not as clear and both contractors and companies are unclear on their working and tax relationship.

"It is impossible to provide generic advice on establishing the relationship under IR35, and I would encourage any business to seek expert advice from an accountant as soon as possible or face a potentially large tax liability."

The rules were introduced in an attempt to stop 'disguised employment' and prevent contractors working through their own limited company to avoid tax when in reality, their working arrangement reflected employment.

However, IR35 has been criticised for being overly complicated and failing to recognise the increasingly flexible nature of a growing self-employed workforce. If working outside the scope of IR35, a contractor could benefit from a tax saving by paying themselves through their limited company.

If a company is using contractors that operate inside IR35 rules the person is deemed 'employed for tax purposes', which means have to pay income tax and national insurance contributions. The employer's NICs will also be levied.

IR35 relates to legislation and rules intended to apply a PAYE and national insurance contributions (NICs) charge on earnings from a company or partnership.

Samantha said: "The rules are intended to prevent the lower rates of tax which would otherwise apply from being available to work which is regarded as disguised employment. We are worried they are a blunt instrument and could provide real issues for both companies and contractors.

"The example most frequently quoted is the consultant who, rather than working under a direct contract with a customer, contracts his services through his one-person company. Such a company has become known as a personal service company – a company which exists to provide the services of one or more particular individuals. The test for IR35 is whether, ignoring the existence of the company, the contract as it operates between the customer and the consultant is one which would lead to the

consultant being classified as an employee of the customer, rather than self-employed. If the answer is that the consultant would, indeed, be classified as an employee, then IR35 applies. If he would be classified as self-employed, it does not.”