FREE GUIDE

IR35: A Practical Guide for Consultants and Contractors

A clear, jargon-free guide to understanding the off-payroll working rules, how they affect your business and what you can do to stay compliant.

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If you work as a consultant, contractor or freelancer through your own limited company, IR35 is something you need to understand. The rules determine whether your working arrangement is treated as genuine self-employment or as disguised employment for tax purposes, and the outcome has a significant impact on your take-home pay.

This guide explains what IR35 is, how the off-payroll working rules apply, what determines whether you are inside or outside IR35 and what practical steps you can take to manage your position. It is written for professional services contractors who want a clear understanding of the rules without wading through HMRC jargon.

What is IR35?

IR35 is the name commonly used for the UK's off-payroll working rules. These rules are designed to ensure that individuals who work like employees but operate through an intermediary such as a personal service company, pay broadly the same tax and National Insurance as employees.

The test is straightforward in principle: if you removed the company from the arrangement, would the relationship between you and the client look like employment? If yes, the engagement is inside IR35 and the income is taxed as employment income. If no, the engagement is outside IR35 and you can continue to receive income through your company and extract it via salary and dividends in the normal way.

Who decides your IR35 status?

This depends on the size of your client.

Medium and large private sector clients

Since April 2021, medium and large private sector clients have been responsible for determining IR35 status. A client is medium or large if it meets at least two of the following: turnover above £10.2 million, balance sheet above £5.1 million, or more than 50 employees. The client must issue a Status Determination Statement (SDS) setting out whether the engagement is inside or outside IR35 and their reasons. If the engagement is inside IR35, the fee-payer (usually the agency or the client) deducts PAYE and National Insurance before paying your company.

Small private sector clients

If the client is small (below those thresholds), the responsibility stays with you. Your company determines whether the engagement falls inside or outside IR35 and accounts for any deemed employment tax if it is inside.

Public sector clients

In the public sector, the client has been responsible for making IR35 determinations since April 2017. The same process applies: the client issues an SDS and the fee-payer operates PAYE if the engagement is inside.

> **Not sure who is responsible?** If you are working through an agency, the agency usually handles the PAYE deductions on inside-IR35 engagements. But the status determination itself comes from the end client. If you have not received an SDS, it is worth asking for one so you know where you stand.

What determines inside vs outside IR35?

Tribunals and HMRC look at the reality of the working relationship, not just the paperwork. Three factors carry the most weight:

Personal service and substitution

If the client requires you personally and there is no genuine right for your company to send a suitably qualified substitute, this points towards employment. A real right of substitution, one that could actually be exercised in practice, supports an outside-IR35 position.

Control

If the client dictates how, when and where you do the work, with close supervision and integration into their management structure, that looks like employment. Genuine project-based work where you decide your own methods, schedule and approach supports self-employment.

Mutuality of obligation

An ongoing obligation for the client to provide work and for you to accept it is a feature of employment. Fixed-scope projects with a clear start and end, and no expectation of further work, are more consistent with a business-to-business relationship.

Beyond these three, other factors include whether you bear financial risk (such as correcting defects at your own cost), whether you provide your own equipment, whether you work for multiple clients and whether you market your services to the wider market.

The financial impact

The difference between inside and outside IR35 is significant. Outside IR35, your company receives gross fees, deducts allowable expenses, pays corporation tax on profits and you extract income through a combination of salary and dividends. This is typically more tax-efficient than employment.

Inside IR35, PAYE and National Insurance are deducted at source on the deemed employment income. The tax treatment mirrors employment, but without employment rights such as holiday pay, sick pay or redundancy protection. The result is lower net take-home compared to an outside-IR35 engagement at the same headline rate.

> **Why this matters commercially:** If an engagement moves from outside to inside IR35, your effective income from the same day rate drops significantly. Understanding your IR35 position before you agree commercial terms helps you price accordingly and avoid surprises.

HMRC's CEST tool

HMRC provides a free online tool called Check Employment Status for Tax (CEST) that asks questions about the working arrangement and gives an opinion on whether it falls inside or outside IR35. HMRC has said it will stand by CEST results where the information entered is accurate.

However, CEST has limitations. Professional advisers and tribunals have noted that it does not always capture the nuances of control, substitution and mutuality of obligation in complex engagements. If CEST returns an "undetermined" result, or if you have any doubt, it is worth getting independent advice rather than relying on the tool alone.

How to support an outside-IR35 position

If you are genuinely operating as an independent business, the following practical steps help demonstrate that to clients, agencies and HMRC:

1. **Work for multiple clients.** Having more than one client at a time, or a demonstrable pipeline of different clients, is one of the strongest indicators of genuine self-employment.
2. **Define deliverables, not roles.** Contracts should describe the project scope, milestones and outputs rather than a job title and ongoing responsibilities. Avoid language that reads like a job description.

3. **Include a genuine right of substitution.** If your contract includes the right to send a qualified substitute and this could realistically happen, it supports an outside-IR35 position. A clause that exists only on paper and would never be exercised carries little weight.

4. **Use your own equipment where feasible.** Working from your own laptop, using your own software licences and providing your own tools reinforces the business-to-business nature of the relationship.

5. **Maintain your business presence.** Professional indemnity insurance, your own website, marketing activity and membership of professional bodies all support the argument that you are running a genuine business rather than filling a staff position.

6. **Avoid behaving like an employee.** Accepting a corporate email address, line-managing the client's staff, attending staff appraisals or using an internal job title can undermine your position, even if the contract says otherwise.

Common mistakes

Relying entirely on the client's Status Determination Statement without reviewing it, even when your day-to-day working practices clearly differ from what the SDS describes. If the determination does not reflect reality, challenge it through the client's disagreement process.

Focusing on the contract while ignoring what actually happens. HMRC and tribunals look at the reality of the working arrangement. A perfectly drafted contract means little if you spend every day at the client's desk, reporting to a line manager and using their systems exclusively.

Not revisiting IR35 status when engagements change. A project that started as a clearly defined piece of work can drift into ongoing support over months or years. If the nature of the work changes, the IR35 position may change too.

Assuming an umbrella company removes IR35 risk. Working through an umbrella shifts the tax mechanics, but it does not make the underlying engagement outside IR35. It also introduces its own costs and considerations.

IR35 and professional services businesses

Consultants, HR advisers, marketing specialists and project managers are particularly vulnerable to inside-IR35 determinations because their work often involves embedding within a client's team. The line between "consulting to" and "working for" can blur quickly.

The strongest position is one where you are clearly delivering a defined project with measurable outcomes, using your own judgement about how to get there, and operating

visibly as an independent business. Keeping clear digital records of your business activity, including multiple clients, your own marketing and professional insurances, supports that position and is useful evidence if HMRC ever asks questions.

Need help with IR35?

We work with consultants and contractors across the professional services sector. If you are unsure about your IR35 position or want to make sure your contracts and working practices support an outside-IR35 determination, we can help.

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