

IR 35 - Changes to the Taxation of Intermediaries

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Reform of IR35 will affect public sector bodies from April 2017

The Government announced in its 2016 Budget that it intends to reform the rules governing payments to public sector workers who operate through an intermediary. The proposed changes will take effect from April 2017.

The intermediaries legislation (more commonly known as IR35) was introduced by the Finance Act 2000 to prevent circumvention of tax and National Insurance rules by individuals who provide their services through a company but whose employment situation, apart from the method of their payment, is substantially the same as that of an employee taxed under PAYE. Intermediary relationships include engagements via employment agencies, outsourcing companies and consultancy firms, all of which are widely used in the public sector.

Why is the Government doing this?

The Government believes that there is widespread non-compliance with IR35 with the result that significant amounts of tax are not being paid. It estimates that the lost tax is currently in the region of £440 million a year, and notes that there is evidence of employment agencies and public bodies insisting that workers are only engaged if their services are provided through a personal service company.

What change is planned and how will it impact on public sector bodies?

Public sector bodies will be obliged to analyse every engagement and determine whether the personal service company should be taxed as an employee. Currently this task must be performed by the person who runs the personal service company. The assessment will involve analysing whether the individual has to provide personal services, the degree of control that they have over how the job is done, whether they supply their own equipment and whether holiday or sick pay is paid.

- the date on which the local authority became a registrable person in relation to the company; and
- the nature of the local authority's control over the company.

Local authorities should take care that their subsidiaries include these details on their PSC registers and submit them to Companies House with their confirmation statements.

If you have any queries relating to this guide or wish to seek legal advice, please contact

If you have any queries relating to this guide or wish to seek legal advice, please contact:

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