

# COVID-19: IR35 delayed to 6 April 2021

March 2020

Owing to the spread of the Coronavirus (COVID-19), the Government have opted to delay the controversial [IR35 tax reforms](#), which were due to come into force on 6 April 2020, by one year.

The Government have stressed that this is not a cancellation of the policy but a deferral only. Whilst this decision removes the immediate pressure, employers and individuals should continue to prepare for the IR35 changes which will come into force on 6 April 2021.

## What are the IR35 – off payroll working rules?

IR35 is a piece of tax legislation that permits HMRC to collect additional payments where a contractor is an employee in all but name.

It applies where a worker provides their services through their own limited company, or another type of intermediary, to the client. An intermediary is usually the worker's own company, but it could also be a partnership, a personal service company or an individual. Provision is made that workers, who would have been an employee if the services were provided directly to the client, pay the same tax and National Insurance Contributions ([NIC](#)) as employees.

## What are the IR35 reforms?

Currently, individual contractors in the private sector can determine their own employment status for tax purposes and as such decide for themselves whether IR35 applies to them.

Following the IR35 reforms, if your business is a medium or large size business, this contractor self-assessment will cease, and will instead be the responsibility of the client or hirer (the “**end-user**”) to determine whether IR35 applies.

Clearly, the Government is concerned with non-compliance under the existing self-assessment regime, but these reforms will have a significant impact on medium and large size organisations.

The IR35 definition of medium and large sized organisations is based on the definition found in the [Companies Act 2006](#) whereby two or more of the following criteria must be present:

- a turnover of more than £10.2m
- a balance sheet total of more than £5.1m
- 50 employees or more

Whilst there is an exemption for smaller businesses in the private sector, there is no such exemption for businesses operating in the public sector.

## Impact of the reforms on the end-user

If the end-user determines IR35 will apply to the contractor, then the end-user is responsible for paying the required [PAYE](#) and NIC, including the Employers' NIC and Tax.

## Impact of the delay on the end-user

Clients who receive services from contractors must ensure they're ready for the IR35 reforms next year. The delay will give end-users, if they haven't already, enough time to prepare and review their existing business model and its future needs.

Whilst the Government had agreed to waive non-compliance fines for the first year, this was based on the original launch date of 6 April 2020. Given the delay, the fines are likely to be strictly enforced in circumstances...

where businesses now have an additional year to prepare.

Businesses who get it wrong face significant liability for unpaid tax.

Speak to [Karen Cole](#) today who can assist your business in a review of existing contracts and practices and advise on suitable steps forward to best protect your business.

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