ZAZEN TAX

IR35 and Off-Payroll Explained

Who decides your status, what it costs to be inside, and what changed on 6 April 2025.

Eight chapters. For anyone working through their own company.

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Contents

Chapters two and three decide which rules apply to you. Read them before anything else.

1. What the rules are actually for

IR35 asks one question: if you had been engaged directly, without your company in the middle, would this have been employment?

If the answer is yes, the rules treat the income roughly as employment income, and the tax advantage of the company disappears. If no, you are outside, and your company is taxed as a company.

It is judged engagement by engagement, not person by person. You can be inside on one contract and outside on another in the same week, and the answer is about the working relationship rather than about you.

2. Two sets of rules, and which one you are under

There are two regimes running side by side, and the difference is who decides and who carries the risk.

	Chapter 8, the original	Chapter 10, off-payroll
Applies when	Client is small and private	Client is medium, large, or public
Who decides status	Your company	The client
Who tells you	Nobody	The client, by an SDS
Who deducts tax	Your company	The fee-payer
Who carries the risk	Your company	Client or fee-payer

Public sector clients are always in the off-payroll regime, whatever their size. In the private sector it turns entirely on whether the client is small.

3. The small client exemption

From 6 April 2025 the thresholds rose, and clients that were medium became small.

A private sector client is small if it meets at least two of these three:

Test	Small if
Turnover	Not more than £15 million
Balance sheet total	Not more than £7.5 million
Employees	Not more than 50

THIS MOVED THE RISK BACK ONTO CONTRACTORS

A client above the old thresholds but below the new ones is now small. It no longer issues determinations, and the responsibility for getting status right, along with the liability for getting it wrong, sits with your company again. Some contractors gained that risk in April 2025 without being told.

4. The three tests that decide status

No single factor settles it. These three carry most of the weight, and the contract only helps if it matches what actually happens.

Control

Who decides what is done, how it is done, when and where. A client who specifies an outcome and leaves the method to you points outside. A client who sets your hours, gives you day-to-day direction and moves you between tasks points inside.

Substitution

Whether you could send a competent substitute at your own cost. A genuine, unfettered right to substitute is close to decisive. A clause that lets the client refuse any substitute for any reason is worth nothing.

Mutuality of obligation

Whether the client must offer work and you must accept it. A rolling expectation of continuing work, with no defined end, points towards employment. A defined piece of work that ends when it is finished does not.

And then the rest

- Financial risk: do you fix your own mistakes at your own cost.
- Equipment: whose.
- Part and parcel: are you on the org chart, in the team meetings, at the Christmas party.
- Exclusivity: could you work for others at the same time.

> **THE CONTRACT IS EVIDENCE, NOT THE ANSWER**
>
> If the paperwork says one thing and the working practice says another, the practice wins. A well drafted contract that nobody follows is a liability rather than a defence.

5. The Status Determination Statement

Where the client decides, they must tell you, in writing, with reasons.

An SDS must state the conclusion and the reasoning behind it, and it must be passed to you and to the party the client contracts with. Until the client issues one and takes reasonable care over it, the liability stays with the client rather than passing down the chain.

> **A BLANKET DETERMINATION IS NOT REASONABLE CARE**
>
> A client that puts every contractor inside without considering individual engagements has not met the requirement. That failure keeps the liability with the client, which is worth knowing when you are told the decision is not negotiable.

6. What being inside actually costs

On an assignment rate, the fee is not the pay. Employer National Insurance comes out of the rate first.

Where the rate quoted is the cost to the fee-payer, employer NIC at 15 per cent above £5,000 is deducted before the deemed employment payment is worked out. The deemed payment is then taxed as employment income, with income tax and employee NIC on top.

A worked example

An assignment at £500 a day for 167 days is £83,500 to the fee-payer.

	Amount
Assignment value	£83,500
Employer NIC absorbed	£10,239
Deemed employment payment	**£73,261**

THAT IS BEFORE ANY TAX ON YOU AT ALL

£10,239 has gone before your own income tax and National Insurance start. An inside IR35 rate and an outside IR35 rate of the same number are not the same offer, and the gap is wider than most people assume when they compare them.

7. Disagreeing with a determination

There is a formal process, and it has a deadline the client has to meet.

- Write to the client saying you disagree, and why.
- The client has 45 days to respond.
- They must either confirm the determination with reasons, or issue a new one.
- Fail to respond within 45 days and the liability passes to the client.

Put the disagreement in writing and keep it. A conversation with the agency is not a status disagreement and does not start the clock.

8. What to do about it

— Establish the client's size before you sign. It decides which regime applies and who carries the risk.
— Get the SDS in writing where one is due, and read the reasoning rather than the conclusion.
— Check the contract against what actually happens, and fix the practice rather than the paperwork.
— Keep evidence: other clients, your own equipment, work you declined, corrections made at your own cost.
— Price inside engagements as inside. They are worth materially less than the same number outside.
— Take proper advice on a borderline engagement before it starts, not after HMRC asks.

Where to go next

The Inside or Outside IR35 Cost Calculator runs chapter six on your own rate, so you can compare two offers properly. The New Client Onboarding Checklist puts the client-size question where it belongs, before you quote.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures and the same rates as the chapters here.

Zazen Tax

Accountants for people who work for themselves. If you would rather someone else did this, that is what we are for.

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General information, not advice for your circumstances. Rates are 2026/27 for the UK and change from time to time.