

# **The Crewing Company**

## **Guide to IR35**

# In Brief: Inside vs Outside IR35 (2025 Update)

In Brief: Inside vs Outside	Inside IR35	Outside IR35
<b>Status Decision</b>	Engagement considered to be one of employment (for tax purposes) and thus subject to income tax and national insurance deductions.	Engagement considered to be a genuine business partnership, with no employer-employee relationship.
<b>Tax and NIC Obligations</b>	Fee-payer deducts tax and national insurance before paying the intermediary. Employers' national insurance is also due.	Fee-payer can pay intermediary gross. The intermediary is responsible for its own tax affairs.
<b>Reporting Obligation for Fee-Payer</b>	Fee-payer reports this via Real Time Information.	Fee-payer reports the gross payment via quarterly ITEPA reports.

## Next Steps to Consider...

### Who Does the Exemption Apply To?

IR35 applies to contractors working through intermediaries (e.g., PSCs). Engagements on a PAYE basis are not required to be assessed. The rules apply to all medium and large businesses, and small businesses are exempt. However, if part of a larger group, the parent company's size determines IR35 applicability. Overseas companies with no UK presence are also exempt.

Effective from 6 April 2025, the criteria for classifying a company as a small business in the UK will change. A company will be considered small if it meets at least two of the following three criteria:

- **Annual turnover:** Not more than £15 million (increased from the current £10.2 million)
- **Balance sheet total:** Not more than £7.5 million (up from £5.1 million)
- **Number of employees:** 50 or fewer (unchanged)

Under these rules, small businesses are exempt from certain responsibilities related to determining the employment status of contractors. It's important to note that these changes take effect from 6 April 2025. However, for IR35 purposes, a company's size is assessed based on its financial year ending in the previous tax year. Therefore, the practical implications of these threshold changes on IR35 responsibilities will commence from 6 April 2026.

### 1. Confirm Whether You Are Affected by Off-Payroll Rules

Small businesses as defined by the **Companies Act 2006** remain exempt from these rules. If your business qualifies under the small companies' exemption, no immediate action is required, but **ongoing monitoring is essential** to ensure continued exemption.

If your company is part of a **group or joint venture**, the exemption applies **only if all associated companies also qualify as small**. If your business **ceases to be small** during an accounting period, you will no longer be exempt **from the start of the following tax year**. If you qualify for an exemption, you should notify **agencies and contractors** you engage with to clarify your status.

### 2. Assess Contractor Roles to Determine IR35 Status

Businesses **not exempt** must evaluate contractor roles to determine IR35 classification. Consideration should be given to **all roles** that could be filled by contractors operating through PSCs. For **ongoing contracts extending beyond April 2025**, businesses should assess **IR35 status** and renegotiate terms as necessary.

Additionally, **non-contractual working practices** must be reviewed, as **HMRC assesses both contract terms and actual working arrangements**. If multiple parties exist within your **supply chain**, discussing **liabilities, financial implications, and process adjustments** can help ensure a smooth transition. A key cost consideration will be **employer's national insurance contributions** and how to manage increased costs while maintaining contractor rates and talent attraction.

### 3. Establish an IR35 Assessment Process

Under the reforms, end hirers must **issue a formal status determination statement (SDS)** for each engagement. This involves reviewing arrangements with freelancers to determine if the engagement **would be considered employment if the PSC did not exist**.

Employers must demonstrate **reasonable care** in their IR35 decisions and provide evidence of their assessments. Blanket determinations are **not permitted** and could lead to **employment tribunal cases or HMRC reviews**. Several tools can assist with IR35 assessments, including HMRC's **Check Employment Status for Tax (CEST) tool**. However, **CEST has been criticised for oversimplification**, so businesses may consider **alternative assessment methods**, ensuring compliance with reasonable care requirements.

If **reasonable care is not taken**, businesses may become liable for **unpaid tax and national insurance**. Early communication with freelancers is key, as an **inside IR35 determination will significantly impact net pay**.

## 4. Implement a Dispute Resolution Process

End hirers must **address disputed IR35 determinations within 45 days** by:

1. **Reviewing representations from the contractor** and confirming whether the original SDS remains valid, providing reasons for this decision, OR
2. **Issuing a new SDS with a different determination**, thereby withdrawing the previous SDS.

## Appendix 1: Useful Links

- [HMRC Employment Status Manual](#) – Detailed tax treatment guidance.
- **Industry-Specific Guidance** – HMRC provides updated guidance for **Film, TV, and Production** industries, helping inform employment status decisions.
- [HMRC's CEST Tool](#) – Official tool for employment status checks.
- [Contractor Factsheet](#) – A summary of key off-payroll rules.

## Upcoming Events

HMRC continues to offer **webinars** on off-payroll changes, including guidance on **status determinations**. Dates for **2025 webinars** will be available soon, with past recordings accessible for reference.

## Get in Touch

At **The Crewing Company**, we are fully prepared for these changes. Our **Team** undergo regular training to ensure compliance when booking freelancers whose engagements fall within **IR35 scope**.

If your business is not exempt and **off-payroll rules apply**:

1. **When discussing a job/project**, please confirm if the work falls **inside or outside IR35**.
2. **Before confirming a booking**, provide us with a **Status Determination Statement (SDS)**. You may use an internal process, **HMRC's CEST tool**, or request an SDS template from us.

To ensure smooth compliance, **collaboration and accuracy is key**. If you need guidance on how these rules affect your freelancers, please reach out.

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