



IR35 BUSINESS IMPACT TOOL

USER GUIDE

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with you all the way

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Introduction

Changes to the off-payroll working rules, more commonly known as IR35, are expected in the private sector from April 2020. While most involved with contracting know that it's going to impact them, understanding exactly what this impact might be is another matter.

And that's the key question.

“How will these changes affect me?”

What's changing?

From April 2020, the responsibility for determining the IR35 status of any given assignment will shift from limited company contractors to medium-or-large sized private sector end-hiring businesses utilising their services.

If the end-hirer's decision is that IR35 applies to the assignment, then the 'fee-payer'* will become liable for making the necessary tax deductions and NI contributions at source on behalf of the worker before paying the contractor's limited company.

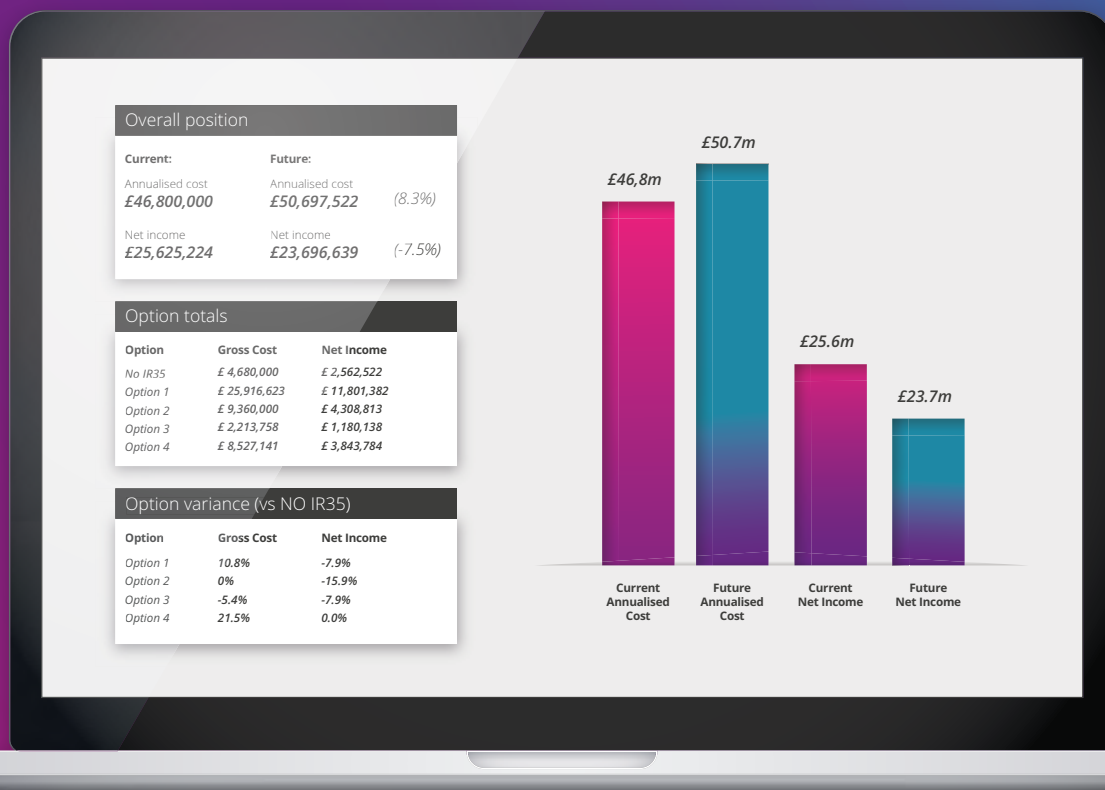
As the clock counts down to April, it's important **for recruitment agencies and the end-hirers** who engage limited company contractors to **quantify the potential financial implications and risks of these reforms.**

Unfortunately, we haven't got a magic wand to make these risks and costs go away. However, we do have all the tools you need to help you manage these changes in a compliant and efficient manner.

Jargon Buster:

* The fee-payer is the entity that pays the contractor's limited company, which depending on the contractual chain, is often the agency.

Problem Solved...



Introducing our cutting edge IR35 Business Impact Tool.

Our tool can help you calculate the financial impact that the IR35 status decisions will have on your supply chain, allowing you to understand the costs and risks involved with those assessments. It takes away the guesswork around the financial implications and importantly, gives you peace of mind knowing exactly how to plan for what's around the corner.

So the next set of questions we guess you've got are

*“How can I get this tool
and how do I use it?”*

We can answer both.

For your unique login details; get in touch with your Account Manager who can arrange a visit to provide an in-depth demonstration on how to use the tool. If you haven't yet got a Parasol Account Manager, **please speak to our Agency team on 01925 644 474.**

Our straightforward user guide will explain how to use the tool and how to assess the financial impact the IR35 decisions will have.

So put your feet up, grab a drink and let's get a bit further into the detail.

Workers

The first step is to identify all contractors that are in scope of the reforms. This will be all workers that are engaged via a PSC.

Once identified you will need to enter the below information:

Jargon Buster:

A PSC is short for Personal Services Company. It's a common term used to describe the limited company used by an individual worker to provide their personal services.

The individual is often the sole director and 100% shareholder of their own PSC.

Number of workers 300  

This is the total number of PSC contractors engaged, or that you wish to include in this analysis.

Day rate (£) 500  


The average agreed daily rate (excluding any VAT).

Days worked 5  

The average number of days worked per week.

Weeks worked 52  

The average number of weeks worked over the year.

For help when using the tool, just click on the  icons.

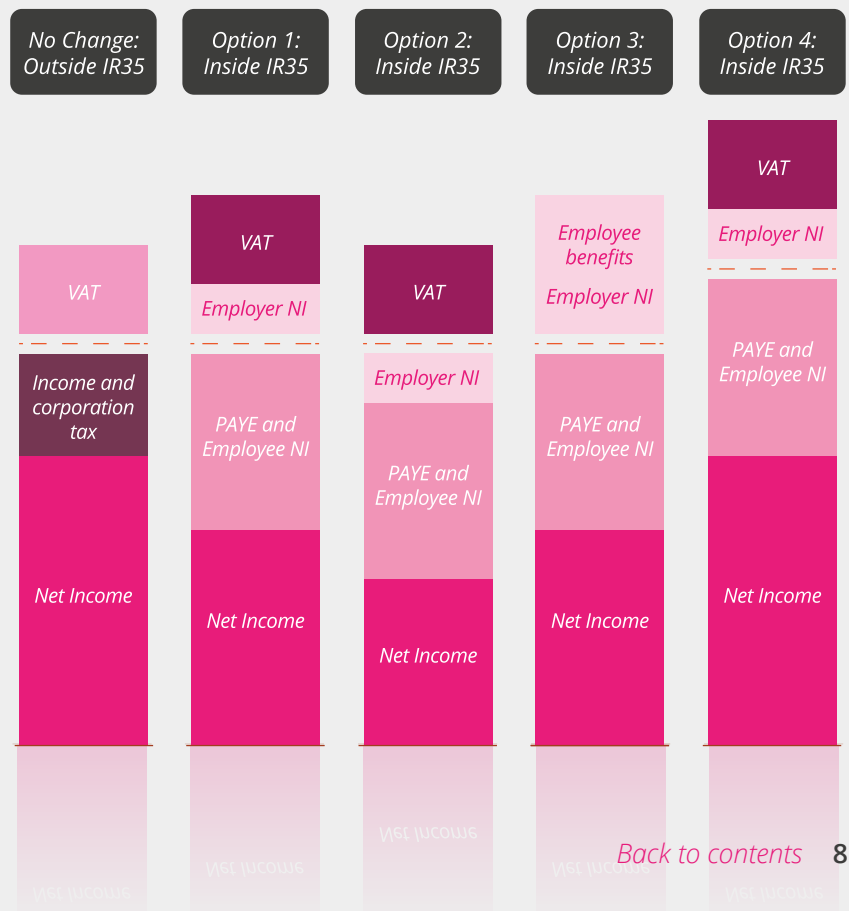
Option allocation

The next step is to identify how many of the assignments will fall outside IR35. To ensure accurate assessment of IR35 status, we have partnered with IR35 specialists, Qdos Contractor to provide an independent IR35 Assessment Review service. For access and a full demonstration of the service, please speak to your Account Manager.

If IR35 does not apply to the assignments, there will be no change to the end-hirer's costs and no change to the net income of the contractor, making for happy clients and happy contractors! This figure needs to be entered in the **Outside IR35** box.

Outside IR35	10%	30
Option 1	50% ▾	150
Option 2	20% ▾	60
Option 3	5% ▾	15
Option 4	15% ▾	45
	100%	300

For assignments assessed to be inside IR35, there will generally be four options to be considered:



Option 1: Inside IR35

Option one:

In the first option where an assignment is assessed to be inside IR35, the end-hirer factors in the cost of Employer's NI and apprenticeship levy (which applies to businesses with a total payroll of over £3M).

This means the cost to the end-hirer goes up by at least 14.3% (13.8% Employer's NI and 0.5% apprenticeship levy). As the end-hirer has deemed the assignment to be inside IR35, the contractor will be subject to PAYE tax and Employee's NI on the agreed rate, so their take home pay will be reduced. It is very unlikely that the contractor in this scenario will be happy about the decrease in their take home pay.

It is important to note that although the contractor will be paying the same tax as a regular employee, the April 2020 reforms do not confer any employment rights to them. This means there won't be any additional costs of employment, such as auto enrolment pension contributions or holiday pay.

This could lead to contractors looking to renegotiate rates to compensate for their loss in earnings. It could also lead to businesses losing talent due to contractors looking for outside IR35 contracts.

BEST FOR: *Spreading the cost over both parties*



Option 2:

The contractor effectively absorbs the entire additional cost

The second option is to re-negotiate the contractor's day rate to offset the additional cost of the Employer's NI and apprenticeship levy that the fee-payer is now responsible for.

In this scenario, the cost to the end-hirer will remain the same as before the reforms. However, it is likely to make the contractor very unhappy as their take home pay will be reduced even further; in addition to all their income being subject to PAYE and Employee's NI, on the newly agreed reduced rate.

There is a significant risk of losing the contractor here, and as a consequence the commercial impact from stalled projects and replacement costs need to be considered carefully.

Option 2:
Inside IR35

VAT

Employer NI

PAYE and
Employee NI

Net Income

BEST FOR: Preserving the end-hirer's costs

Option 3: Inside IR35

Employee
benefits
Employer NI

PAYE and
Employee NI

Net Income

Option 3:

The end-hirer takes the contractor on as a fixed term or permanent employee

This of course will come with all the additional costs and risk associated with regular employment and the loss of a flexible contingent workforce. In addition to bearing the cost of the Employer's NI and apprenticeship levy (as in Option 1) the contractor will now have employment rights and will be entitled to holiday pay, auto-enrolment pension and all other statutory employment benefits.

For the purposes of the IR35 Business Impact Tool, we include the cost of Employer's NI, apprenticeship levy, auto-enrolment pension contribution and holiday pay in the calculations.

This may seem like the simplest option, and there are potentially some VAT savings to be had if the end-hirer is unable to reclaim VAT. However, many contractors or end-hirers may not want to go down the employment route, so this option may not be feasible.

BEST FOR: Contractors that are happy to switch to employment

Option 4:

The contractor's rate is increased to maintain net income

The final option is the costliest for the end-hirer but might be necessary to retain the skills of valuable contractors. This option allows the preservation of the contractor's take home pay by increasing the day rate to a level to compensate for their loss of earnings under PAYE. This means the contractor's rate is increased to the level whereby their net income is the same as when operating outside of IR35. It is important to note that on top of the increased rate, the end-hirer will also need to account for the additional costs of the Employer's NI and apprenticeship levy.

While costly for the end-hirer, this option may still cost less than losing talent resulting in a stalled project or further recruitment fees.

Option 4:
Inside IR35



BEST FOR: Keeping essential contractors happy

Outside IR35	10%	30
Option 1	50% ▾	150
Option 2	20% ▾	60
Option 3	5% ▾	15
Option 4	15% ▾	45
	100%	300

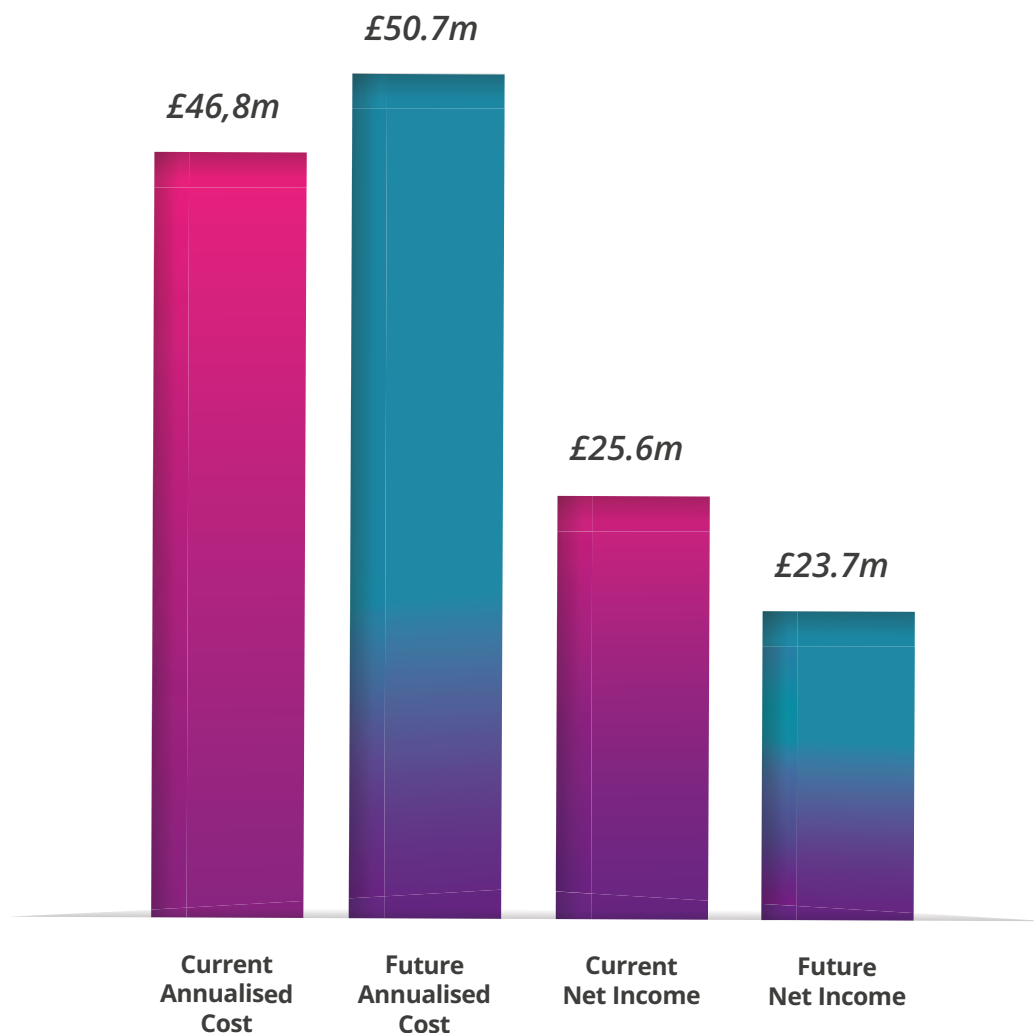
Calculate

Once you have decided how many 'Inside IR35' contractors will fall into each of the options, enter these into the 'option allocation' boxes and press calculate.

THE RESULTS

Our IR35 Business Impact Tool has been designed to provide agencies and end-hirers with visibility of all the potential financial implications involved in the IR35 decision making process. Our tool has done the complex calculations, all that remains is to review and plan around the results.

By entering the details, the IR35 Business Impact Tool will show you both the gross cost and contractor's net income calculations against the range of options.



Overall position

The overall position shows the current annualised costs to the end-hirer (inclusive of VAT) against the future annualised costs, based on the different options selected. The net income relates to the income received by the contractor(s) after tax.

Overall position		
Current:	Future:	
Annualised cost	Annualised cost	
£46,800,000	£50,697,522	(8.3%)
Net income	Net income	
£25,625,224	£23,696,639	(-7.5%)

Option totals

Option	Gross Cost	Net Income
Outside IR35	£ 4,680,000	£ 2,562,522
Option 1	£ 25,916,623	£ 11,801,382
Option 2	£ 9,360,000	£ 4,308,813
Option 3	£ 2,213,758	£ 1,180,138
Option 4	£ 8,527,141	£ 3,843,784

Option totals

This shows the future annualised cost broken down for each of the inside IR35 options meaning the different costs can be identified. It also identifies the option which has the least impact on the contractor's net income.

Option variance

The option variance shows the percentage variance of each inside IR35 option compared to an outside IR35 determination. Again, this shows the impact on both the end-hirer (Gross Cost) and the contractor (Net Income) based on the different options.

Option variance (vs Outside IR35)

Option	Gross Cost	Net Income
Option 1	10.8%	-7.9%
Option 2	0%	-15.9%
Option 3	-5.4%	-7.9%
Option 4	21.5%	0.0%

With you all the way

With our **20 years of experience** and working alongside over **3,000 recruitment agency partners** every day, we understand the concerns around these reforms. However, with the right tools and advice, these reforms can be compliantly and successfully managed.

The rules on how IR35 status is determined are not changing. What is changing is simply the party who is responsible for making the status determinations and withholding the tax and NI if it applies. We've been helping tens of thousands of contractors manage IR35 since it was introduced.

As founding members of the FCSA and the UK's leading contractor specialists, we have helped businesses and contractors navigate many legislative changes over the past 20 years. We are best placed to support our agency partners and end-hirers to once again, as we did in the public sector, successfully manage upcoming IR35 off-payroll reforms.

By choosing Parasol as your compliance partner, we can provide you with a trusted umbrella payroll solution and ensure you reduce your risk. Whether you're taking advantage of our IR35 Assessment Review service to determine the IR35 status of an assignment, or using our IR35 Business Impact Tool to inform your business strategy, when it comes to compliance, you can rely on us.

To find out more about how we can support you with IR35 or any help applying the tool, just get in touch with your Account Manager or speak to our Agency Support team on

01925 644 474.

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