



Changes to the contractor tax and compliance rules: how can you minimise your risk?

By **Ben Smith & Raoul Parekh** - 30 November 2018

Last month, the government announced big changes to the way that medium and large-sized companies engage individuals through personal service companies (“PSCs”) – [see our previous coverage](#). These changes will shift the burden of ensuring compliance with off-payroll working rules (known as IR35) from the PSC to the company which engages the PSC. This will mean that, if the end client considers that IR35 applies, it will need to deduct income tax and employee National Insurance Contributions (**NICs**) from, as well as pay employer NICs on, payments it makes to the PSC. The alternative is risking expensive claims for back taxes, penalties and interest.

While these changes aren’t projected to come into effect until 6 April 2020, it’s important for businesses affected to start planning now. The changes create a significant administrative burden for businesses – not to mention potentially significant additional costs – and several mitigation options will require considerable lead to implement. There are a few steps your business can take now:

- Audit your workforce to gather information on your business’ existing use of contractors and assess their compliance with existing rules;
- Following that audit, you may need to further assess your risks arising from these changes and consider steps to mitigate that risk, particularly if your business is heavily reliant on PSC-engaged contractors. You might decide to adopt an alternative employment model, to deduct tax and national insurance contributions at source, or to engage the contractors differently;
- Take the time to consider your standard practices when engaging contractors via PSCs and decide on your strategy for future agreements;
- Ensure HR and payroll staff understand these changes and that your internal systems are able to accommodate the influx of new payments that will need to be made via PAYE from 6 April 2020.

If you would like to discuss these changes further, please contact your usual [GQ|Littler contact](#).