

## **Alert** | Labor & Employment/Tax



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### **Threshold Changes to UK Off-Payroll Working Rules (IR35): End User and Contractor Considerations**

The UK's IR35 regime, also known as the off-payroll working rules, continues to play an important role in how businesses engage contractors operating through personal service companies. Since the IR35 reforms for the private sector in April 2021, medium and large entities have borne responsibility for determining a contractor's tax status and, where relevant, operating Pay As You Earn (PAYE) and National Insurance contributions (NICs).

Starting on 6 April 2026, the financial thresholds used to determine whether an end user (that is, the organisation receiving the contractor's services) is classified as small, and therefore exempt from the 2021 IR35 reforms, will increase. Accordingly, some companies currently within scope of IR35 will fall outside the regime at the start of the 2026-2027 tax year.

This GT Alert summarises the current IR35 framework, the upcoming changes, and the potential impact on both organisations and contractors.

#### **Current Legal Framework**

IR35 is a tax regime designed to prevent disguised employment where an individual provides services to an end user through an intermediary, usually a personal service company (PSC), but would be regarded as an employee for tax purposes if engaged directly.

Since April 2021, the UK has required that medium and large private sector end users:

- Assess whether IR35 applies to each engagement;
- Exercise reasonable care in doing so;
- Issue a Status Determination Statement (SDS), setting out the reasons for the conclusion, to the contractor and any agency involved before the first payment is made; and
- Provide a process for the contractor or agency to challenge the determination.

Under current regulations, where IR35 applies, the fee payer, which may be the end user or an agency, must deduct PAYE and employee NICs from payments to the PSC. The fee payer must also pay employer NICs and any apprenticeship levy. If an end user fails to take reasonable care or does not issue an SDS, His Majesty's Revenue and Customs (HMRC) may transfer liability for the tax and NICs to the end user.

Small private sector end users are exempt from the 2021 reforms. Where the exemption applies, the PSC remains responsible for determining status and paying tax under the original IR35 rules.

IR35 applies only for tax purposes and does not alter a contractor's employment status for employment law purposes, though the criteria used to determine employment status are similar to those applicable to the tax assessment.

### **Determining Employment Status**

To assess whether IR35 applies, end users must consider whether the contractor would be regarded as an employee for tax purposes if they were hired directly. This requires examining both the contractual terms and the working practices. Key factors include:

- The level of control the end user exercises over how, when, and where the contractor works;
- Whether the contractor has a genuine and practical right of substitution;
- Whether there is an obligation to offer and accept work;
- The degree of integration into the end user's business; and
- Whether the contractor is operating a genuine business on their own account, including financial risk and provision of equipment.

End users may use HMRC's [Check Employment Status for Tax \(CEST\) tool](#) to assist with this analysis. CEST highlights factors HMRC considers central to tax status. If employers enter accurate information that reflects actual working arrangements, HMRC will be bound by the outcome. However, CEST does not always produce a determination, and it does not test every aspect of employment status, so end users must still exercise reasonable care and should be prepared to make their own assessment where necessary.

### **April 2026 Changes: Expanded Small Company Thresholds**

From 6 April 2026, two of the three statutory size thresholds that currently determine whether an end user is classified as small for IR35 purposes will increase. The new thresholds are:

- Turnover increasing from £10.2 million to £15 million;
- Balance sheet total increasing from £5.1 million to £7.5 million; and
- Employee headcount remaining at 50 employees.

A corporate end user that is not part of a group is treated as small in its first financial year and will remain small unless and until it meets at least two of the above size thresholds for two consecutive financial years. Only at that point would it become medium or large for IR35 purposes, and IR35 obligations then apply from the start of the tax year following the accounting filing date for the second financial year.

Because IR35 size tests operate by reference to the previous financial year, these changes will apply in practice from April 2027 at the earliest.

In parallel with these IR35 size-threshold changes, new PAYE rules for labour supply chains involving umbrella companies will also take effect from 6 April. The upcoming changes will make agencies or end users jointly and severally liable if an umbrella provider fails to account for PAYE and NIC correctly. The reforms apply to all payments made on or after 6 April and increase the level of due diligence required when engaging contingent labour. End users should therefore consider reviewing umbrella-company arrangements alongside their IR35 processes as part of their wider governance review for the 2026-2027 tax year.

### **Practical Considerations for Employers**

Ahead of the threshold changes, end users may wish to:

- Review their company size classification to assess whether they will remain within the IR35 regime;
- Examine existing and upcoming contractor engagements to ensure status determinations are accurate and consistently documented;
- Confirm that internal processes for preparing SDSs and demonstrating reasonable care remain robust;
- Update contractual terms with PSCs and agencies to reflect IR35 obligations, including provisions relating to tax deductions, substitution rights, and indemnities; and
- Ensure hiring managers understand the importance of aligning day-to-day working practices with the contractual basis on which determinations are made.

### **Conclusion**

The April 2026 changes to the small company thresholds represent an important development in the operation of the IR35 rules. Although stakeholders may not feel the practical effects until April 2027, these changes may move thousands of organisations outside the IR35 regime. Employers should consider using the coming year to review the application of the exemption to their business, assessing contractor engagement models, and confirming that IR35 compliance processes remain fit for purpose.

## Authors

This GT Alert was prepared by:

- [Sophie Allen](#) | +44 (0) 203 349 8764 | [Sophie.Allen@gtlaw.com](mailto:Sophie.Allen@gtlaw.com)
- [Virginia Allen](#) | +44 (0) 203 349 8758 | [Virginia.Allen@gtlaw.com](mailto:Virginia.Allen@gtlaw.com)
- [Kate Martin](#) | +44 (0) 203 523 8501 | [Kate.Martin@gtlaw.com](mailto:Kate.Martin@gtlaw.com)
- [Julia Nefedovica](#) | +44 (0) 203 349 8768 | [Julia.Nefedovica@gtlaw.com](mailto:Julia.Nefedovica@gtlaw.com)
- [Alex Tostevin](#) | +44 (0) 203 100 6779 | [Alex.Tostevin@gtlaw.com](mailto:Alex.Tostevin@gtlaw.com)

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