

## Working with IR35

### What is IR35?

If your limited liability company acts as Personal Services Company, you may have contracts with clients which will be deemed to be taxable under schedule E (PAYE, Pay as you earn) as employment income. The purpose of the IR35 rules is that you will pay approximately the same PAYE and NIC's (National Insurance Charges) as an individual who is an employee of the end client. There is a seven-point plan for determining the deemed schedule E (PAYE) tax charge for a (personal) tax year.

- ◆ Add up all the payments your company has received for your services, under contracts to which the IR35 rules apply. Deduct 5% from this total. This is to allow for the costs involved in running your company.
- ◆ Add any other payments and the value of any benefits in kind (such as the use of a car) you have received directly, not through your company, for services provided under the contract, if they are not already taxable.
- ◆ Deduct any allowable expenses met by your company, that could have been claimed had you been your clients employee.
- ◆ Deduct any capital allowances that could have been claimed had you been your client's employee.
- ◆ Deduct any contributions paid by your company to an approved pension scheme for your benefit.
- ◆ Deduct any employer's NIC that your company has already paid on salary paid to you in the year, and class 1A NICs due on the benefits in kind (usually reported on a form P11D)
- ◆ Deduct any salary or wages, any payments to reimburse allowable expenses and the value of any benefits in kind you have received from your company on which PAYE and NICs have already been paid or will be paid when you send in form P11D. *Note: If after step 7, the result is nil or a negative amount, there is no deemed Schedule E payment and no further tax or NICs payable. However, if the result is positive, then a deemed Schedule E payment must be calculated as follows:*
- ◆ Work out the amount which, together with the employer's NIC due on it, comes to the amount calculated at step 7. The result is known as the deemed payment.

### Dealing with IR35

The system provides for collecting all the relevant information to present accounts for your company and the basis for calculating the corporation tax due on its activities. The effect of IR35 regulations is to both impact your personal tax position by deeming a salary paid to you subject to PAYE as well as your company in its having to account and pay the deemed PAYE and NIC to the HM Revenue and Customs

The burden of dealing with IR35 regulations is eased by ensuring compliance with current regulations and also by allowing you to:-

- ◆ Input opening data if you are starting working with Liberty Accounts in the middle of a personal tax year (6<sup>th</sup> April to 5<sup>th</sup> April)
- ◆ Identify Invoices and specific expenses on an ongoing basis that are related to contracts which are subject to the IR35 rules.
- ◆ Input the additional data to allow Liberty Accounts to calculate the deemed payment.
- ◆ Record the relevant accounting entries.
- ◆ Provide reports for verification of IR35 data and calculations.

**We strongly recommend that advice is sort from your advisor if you believe you will be subject to IR35.**

## **IR35 Procedure in summary**

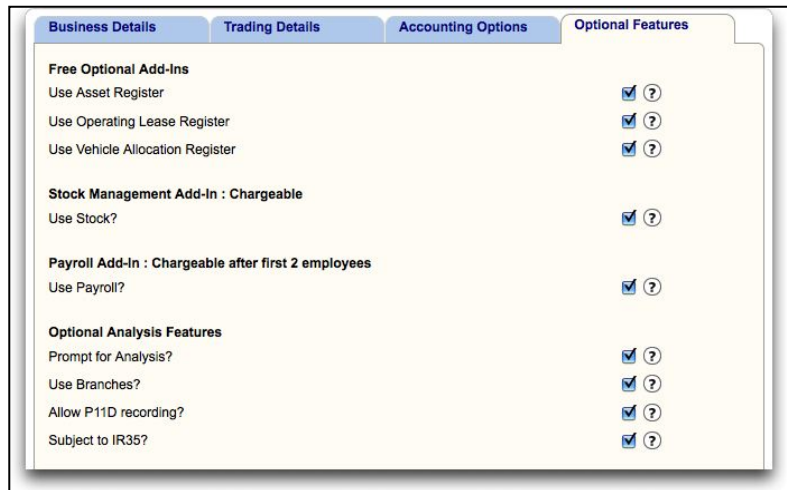
- ◆ Set the system to track IR35 by checking the box in profile.
- ◆ Enter the employee details of all persons undertaking IR35 contracts.
- ◆ Set up contract reference for each contact subject to IR35 rules. You will need to include all contracts ongoing since the start of the income tax year (commencing 6<sup>th</sup> April).
- ◆ Input details of each invoiced raised since the previous 6<sup>th</sup> April up to the date of starting work with Liberty Accounts.
- ◆ Input details of each expense item incurred since the previous 6<sup>th</sup> April up to the date of starting work with Liberty Accounts.
- ◆ From starting to work with Liberty Accounts any invoiced raised or expense item can be referenced to an IR35 contract and the data is a then automatically collected.
- ◆ On or after the 5<sup>th</sup> April, but before the 19<sup>th</sup> April, run the IR35 year closure procedure. This will require additional data
- ◆ Details any other payments and benefits received. Step 2 in What is IR35
- ◆ Details of any capital allowances. Step 4 in What is IR35
- ◆ Details of any allowable pension contributions. Step 5 in What is IR35
- ◆ Review the IR35 reports (with your accountant if necessary) and confirm the figures.
- ◆ Make relevant payments to the Inland Revenue using the usual payment processes. The deemed payment and the tax and NICs due on it should be included in the totals of pay, tax and NIC in the year end PAYE returns (P35 and P14) and also the employees P60.

## Setting up for tracking IR35

The use of IR35 functions is initiated by ticking the **Subject to IR35?** box on the **Optional Features** tab of Profile.

**ENTITY NAME → PROFILE → OPTIONAL FEATURES tab**

An **IR35** sub-menu is now visible under the **ADD-INS** menu.



Business Details	Trading Details	Accounting Options	Optional Features
<b>Free Optional Add-Ins</b>			
Use Asset Register			<input checked="" type="checkbox"/> ?
Use Operating Lease Register			<input checked="" type="checkbox"/> ?
Use Vehicle Allocation Register			<input checked="" type="checkbox"/> ?
<b>Stock Management Add-In : Chargeable</b>			
Use Stock?			<input checked="" type="checkbox"/> ?
<b>Payroll Add-In : Chargeable after first 2 employees</b>			
Use Payroll?			<input checked="" type="checkbox"/> ?
<b>Optional Analysis Features</b>			
Prompt for Analysis?			<input checked="" type="checkbox"/> ?
Use Branches?			<input checked="" type="checkbox"/> ?
Allow P11D recording?			<input checked="" type="checkbox"/> ?
Subject to IR35?			<input checked="" type="checkbox"/> ?

IR35 features are accessed via the **ADD-INS** menu

**ADD-INS → IR35**

### Employee Details

Each contract which is designated as an IR35 contract must have an Employee connected with it.

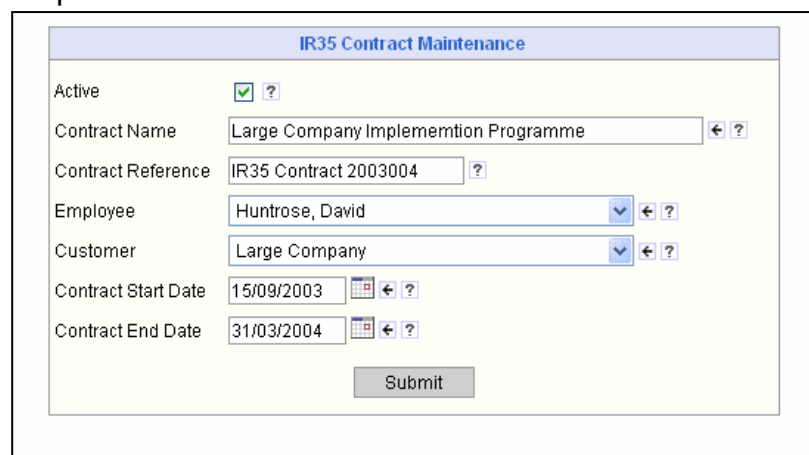
See **Setting Up Officers and Employees** user guide for more information.

### Setting IR35 Contract References

For each contract ongoing since the start of the income tax year, commencing 6th April, reference details need to be set up.

From the **add-ins** menu select **IR35** then either select **LIST CONTRACTS** and then **ADD NEW** or select **ADD CONTRACT**. The IR35 Contract Maintenance screen is displayed.

- ◆ Ensure that the **ACTIVE** box is checked. Enter a **CONTRACT NAME** and a **CONTRACT REFERENCE**



IR35 Contract Maintenance	
Active	<input checked="" type="checkbox"/> ?
Contract Name	Large Company Implementation Programme ← ?
Contract Reference	IR35 Contract 2003004 ?
Employee	Huntrose, David ↓ ← ?
Customer	Large Company ↓ ← ?
Contract Start Date	15/09/2003 [calendar] ← ?
Contract End Date	31/03/2004 [calendar] ← ?
Submit	

- ◆ Select the relevant employee from the **EMPLOYEE** drop down list.
- ◆ Select the relevant **CUSTOMER** from the drop down list.
- ◆ Enter the **CONTRACT START** and **END DATES**
- ◆ Save the data by clicking on **SUBMIT**

The details may subsequently be edited by selecting the relevant contract from the **LIST of CONTRACTS** by clicking on **EDIT**

**ADD-INS → IR35 → LIST CONTRACTS → Select**

**Opening Figures for IR35**

If you start using the system after the 6<sup>th</sup> April and you have been involved in IR35 contracts, then to ensure that the IR35 report is complete details of any IR35 transactions incurred between 6<sup>th</sup> April and the start date for using the system need to be entered using the dedicated process.

This process is accessed via the **ENTITY NAME** menu

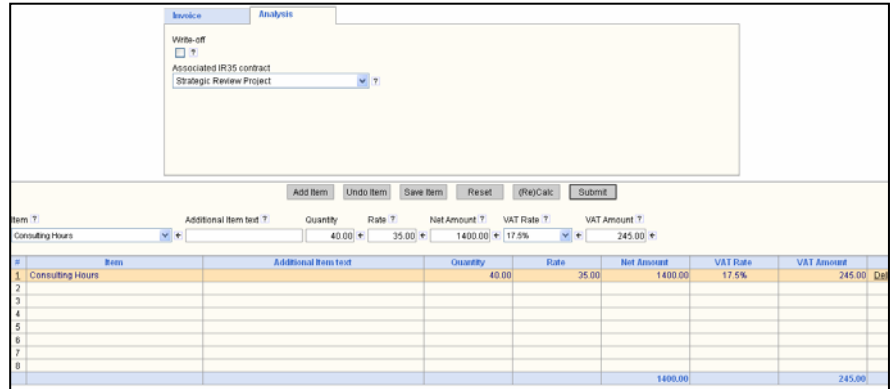
**ENTITY NAME → OPENING BALANCES → IR35 HISTORY**

<div style="border: 1px solid black; padding: 5px;"> <p>Transaction Type <input type="text" value="Invoice"/> ↕ ?</p> <p>IR35 Contract <input type="text" value="Strategic Review Project"/> ↕ ?</p> <p>Tax Date <input type="text" value="2/01/2006"/> ↕ ?</p> <p>Reference <input type="text" value="105689"/> ↕ ?</p> <p>Net Amount <input type="text" value="1500.00"/> ↕ ?</p> <p> <input type="button" value="Add Item"/> <input type="button" value="Undo Item"/> <input type="button" value="Save Item"/> <input type="button" value="Reset"/> <input type="button" value="Submit"/> </p> </div>						
#	Transaction	Contract Name	Tax date	Reference	Net Amount	Del
1	Invoice	Strategic Review Project	2/01/2006	105689	1500.00	
2						

- ◆ The IR35 history screen is displayed.
- ◆ **ADD NEW** to start the input.
- ◆ From the **TRANSACTION TYPE** drop down select whether the transaction is for an Invoice or an Expense item.
- ◆ Select the relevant contract from the **IR35 CONTRACT** dropdown and enter the date of the transaction in the **TAX DATE** box.
- ◆ Add a **REFERENCE** if required.
- ◆ Finally enter the net amount in the **NET AMOUNT** box.
- ◆ Complete by clicking on **SAVE ITEM**
- ◆ Process further items by repeating the process by clicking on **ADD NEW**.
- ◆ When all transactions have been entered, complete by clicking on **SUBMIT**.

## Recording IR35 Information

When the flag for tracking IR35 is set, then any Sales Invoice or Expense transaction will display a drop down field at the in the **Analysis Tab** for a **IR35 contract** to be selected.



Item ?	Additional Item text ?	Quantity	Rate ?	Net Amount ?	VAT Rate ?	VAT Amount ?	
Consulting Hours		40.00	35.00	1400.00	17.5%	245.00	
11	Consulting Hours		40.00	35.00	1400.00	17.5%	245.00
2							
3							
4							
5							
6							
7							
8							
9							
				1400.00		245.00	

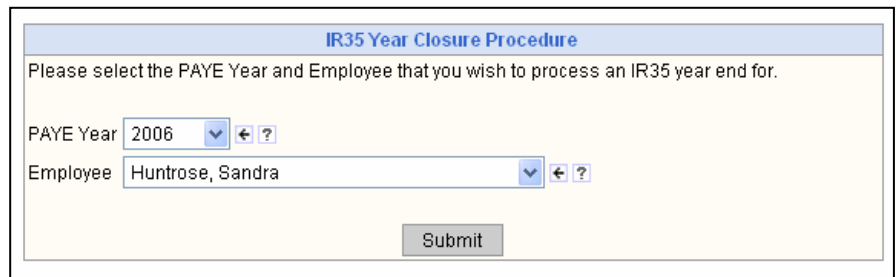
Note that if the **Prompt for Analysis** box (set in **Profile**) is ticked then when transactions are entered

which require analysis to IR35 reporting; the analysis tab is presented first by default so that the required analysis is not forgotten.

The system retains the information for preparing the tax year end for the employee attached to any particular contract.

## Income Tax Year End

The system provides a record of the transactions recorded as being IR35 relevant as well as a calculation of the deemed payment for the Income tax year and the National Insurance element.



**IR35 Year Closure Procedure**

Please select the PAYE Year and Employee that you wish to process an IR35 year end for.

PAYE Year: 2006

Employee: Huntrose, Sandra

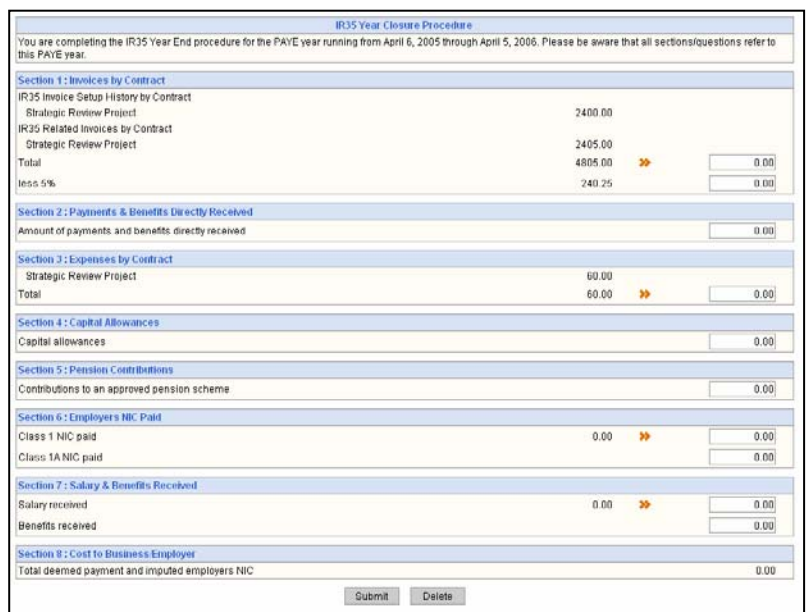
Submit

This process is accessed via the **ADD-INS** menu

**ADD-INS → IR35 → YEAR END**

A listing of existing tax year end and employee reports is presented to be **EDITED** or click on **ADD NEW** to start a new calculation.

- ◆ If **ADD NEW** is selected, the IR35 Year end Closure screen is presented.
- ◆ Select the correct **PAYE YEAR** from the drop down. HINT: PAYE Years run from the 6<sup>th</sup> April to the 5<sup>th</sup> April. So the PAYE Year 2006 is for the 12 months from 6th April 2005 to 5<sup>th</sup> April 2006.



**IR35 Year Closure Procedure**

You are completing the IR35 Year End procedure for the PAYE year running from April 6, 2005 through April 5, 2006. Please be aware that all sections/questions refer to this PAYE year.

<b>Section 1: Invoices by Contract</b>	
IR35 Invoice Setup History by Contract	
Strategic Review Project	2400.00
IR35 Related Invoices by Contract	
Strategic Review Project	2405.00
<b>Total</b>	4805.00
less 5%	240.25
	0.00
<b>Section 2: Payments &amp; Benefits Directly Received</b>	
Amount of payments and benefits directly received	0.00
<b>Section 3: Expenses by Contract</b>	
Strategic Review Project	60.00
<b>Total</b>	60.00
	0.00
<b>Section 4: Capital Allowances</b>	
Capital allowances	0.00
<b>Section 5: Pension Contributions</b>	
Contributions to an approved pension scheme	0.00
<b>Section 6: Employers NIC Paid</b>	
Class 1 NIC paid	0.00
Class 1A NIC paid	0.00
<b>Section 7: Salary &amp; Benefits Received</b>	
Salary received	0.00
Benefits received	0.00
<b>Section 8: Cost to Business/Employee</b>	
Total deemed payment and imputed employers NIC	0.00

Submit Delete

- ◆ From the **EMPLOYEE** drop down box select the employee for whom the calculation is being prepared.
- ◆ A screen is now presented with the data that has been recorded for that Income Tax year.
- ◆ The data may be accepted by clicking on the >> or new data may be typed in.
- ◆ When all data has been accepted and/or added click on **SUBMIT** to accept.
- ◆ A calculation of the deemed payment and National Insurance. This can be printed if required.
- ◆ If the data needs to be changed in some way then go back to the IR35 Year End listing, select the relevant Employee and Tax year and re-run as described above.

IR35 Year Closure Procedure	
PAYE Year End	<b>2004</b>
PAYE Period	<b>April 6, 2003 to April 5, 2004</b>
Employee	<b>Huntrose, Sandra</b>
Total Income	<b>£9,880.00</b>
Less Total Deductions	£0.00
Sub-total	<b>£9,880.00</b>
Deemed Payment	<b>£9,282.55</b>
Employers NIC	<b>£597.45</b>
<input type="button" value="Print"/>	

### IR35 Expense Transaction Report

A report of all expense transactions which have been recorded against a particular IR35 project and therefore a relevant employee is available.

Access the report via the **REPORTS** menu

#### REPORTS → TRANSACTION → IR35 EXPENSE TRANSACTIONS

- ◆ Select the **PAYE Year**
- ◆ Select the **Employee**
- ◆ **Generate** prepares the report

Consulting Company Limited								
IR35 Expense Transactions								
2004/2005 Tax Year								
<b>Employee: Huntrose, Sandra</b>								
Type	Date	Reference	Supplier	Memo	Net Amount	VAT Amount	Gross Amount	
Implementation Project								
Travel >> Air Travel Direct Costs								
Cheque	09/06/2004	200569	Bucket Travel		356.00	0.00	356.00	
Total for Travel >> Air Travel Direct Costs					356.00	0.00	356.00	
Total for Implementation Project					356.00	0.00	356.00	

**WE strongly recommend that advice is sort from your accountant or advisor when dealing with IR35 issues.**