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CONTRACTORS

ZMARTLY FACTSHEET SERIES

IR35 and Off-Payroll Working: A Contractor's Guide

IR35 decides whether HMRC treats your engagement as genuine self-employment or as disguised employment. Getting it right protects your take-home pay and keeps you compliant.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **3 December 2025** · Sources: gov.uk

PERSONAL ALLOWANCE	DIVIDEND TAX	CORPORATION TAX	CLASS 4 NIC
£12,570	10.75% · 35.75% · 39.35%	19% – 25%	6% · 2%

01 What IR35 actually is

IR35 (the off-payroll rules) is anti-avoidance legislation that tests whether a contractor working through their own limited company is, in substance, an employee of the client. It targets engagements where the company structure exists mainly to reduce tax.

GOOD TO KNOW
IR35 is about how you actually work day to day, not just what your contract says.

02 Inside vs outside IR35

"Inside IR35" means HMRC treats the engagement like employment, so it is taxed via PAYE with no limited-company tax efficiency. "Outside IR35" means you are genuinely self-employed through your own limited company and can plan tax efficiently.

- Inside: taxed under PAYE, employee-style deductions
- Outside: salary plus dividends at 10.75%, 35.75% and 39.35%, with a £500 dividend allowance
- Both share the £12,570 personal allowance

03 Who decides your status

For medium and large clients, the client determines status and must issue a Status Determination Statement (SDS). For small clients, your own company makes the decision and carries the responsibility.

GOOD TO KNOW
HMRC's CEST tool can help you and the client assess status, though it is not the final word.

04 Compare the structures on your day rate

How much you keep depends on whether you are inside or outside IR35 and how you split salary and dividends. Use the calculator below to model your own day rate before deciding on a structure.

GOOD TO KNOW
Corporation Tax runs from 19% to 25%, so profit level changes the maths too.

05 Umbrella vs limited company

Through an umbrella company you are employed by the umbrella and taxed under PAYE, which suits short or clearly inside-IR35 work. Running your own limited company gives more tax planning room but only makes sense for genuinely outside-IR35 engagements.

- Umbrella: simple, PAYE, no company admin

- Limited: dividends and profit-extraction planning, but more responsibility
- Class 4 NIC for the self-employed is 6% then 2% above the upper limit

06 Staying compliant

Compliance rests on two things: a contract that reflects genuine self-employment and working practices that match it. Keep evidence of substitution rights, control over how you work and absence of mutuality of obligation.

GOOD TO KNOW

If your contract says outside but you work like an employee, HMRC looks at the reality.

Common questions

Does the client always decide my IR35 status?

Only for medium and large clients, who must issue an SDS. If the client is small, your own limited company decides and is responsible for getting it right.

Is an umbrella company the same as being inside IR35?

No. An umbrella employs you and taxes you under PAYE regardless of IR35, while IR35 is a status test applied to work done through your own limited company.

Can I rely on the CEST tool?

CEST is a useful starting point and HMRC will stand by a result given honest inputs, but it does not cover every situation, so it should not be your only check.

NEXT STEP

Get expert eyes on your tax

Book a free 30-minute Tax Health Check — we review your situation, sense-check the figures and show you where you could save.

Scan to book a free call

For guidance only — this factsheet does not constitute professional advice and is not a substitute for advice based on your specific circumstances. Whilst every care has been taken in its preparation, it may contain errors for which we cannot be responsible. Figures are for the 2026/27 UK tax year (England, Wales & Northern Ireland) and may change. Scottish taxpayers face different income tax rates; dividend rates are UK-wide. Last reviewed 3 December 2025.

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