

IR35 in 2025

THE ULTIMATE GUIDE
FOR BUSINESSES





INTRODUCTION TO PROSPECTUS

[Prospectus IT Recruitment](#) is a recruitment agency that has been placing candidates in specialist IT roles in a range of industries for over 30 years. Placing candidates in roles across a range of tech sectors, our approach prioritises honesty and ethics to deliver an outstanding service to our clients and candidates which has helped to establish our outstanding reputation over the years.

Working with Prospectus not only means you benefit from our experience in exclusively sourcing talented candidates in a range of IT roles, but that you also get a total recruitment service. We take the time to build a strong relationship with every one of our clients and learn the specifics of what they're looking for and where previous issues have arisen, ensuring a successful recruitment experience every time.

Our previous clients have come from a range of sectors, including financial organisations, retail establishments and manufacturing companies. As well as our usual sectors of the tech industry, we can also source candidates for roles in additional technologies, at the client's request.

At Prospectus, our combined experience spans over 50 years within the recruitment industry. Focusing on specialist IT roles that have given us unique insight into hiring in this particular area.

[FIND OUT MORE](#)

We are also experts in all kinds of recruitment legislation, especially IR35, working with our clients to ensure compliance and help them understand the relevant regulations for their organisation.

The introduction of IR35 was a confusing time for many businesses, with many feeling confused as to where to start, how to understand the nuances of the legislation, and feeling trepidation about calculating employment statuses incorrectly and facing legal consequences. This may have led to recruitment hold-ups, which in turn resulted in increased workloads, issues with internal systems, delays in development and a general lack of business growth.

If any of the above scenarios feel relevant to your position right now, or you're just looking to find out more about IR35 and how it might affect your company, you're in the right place.

In this eBook, we present a complete guide to IR35 for businesses in 2025, sharing advice on the necessary legislative process as well as insight into how it might affect your company.





TESTIMONIALS

"Through understanding my strengths and requirements, I was interviewed for 2 positions and got through to a second interview. For a personal and professional service, I thoroughly recommend Prospectus."



Simon Fossel
The Visual Learning
Company

"I've used Elkie to recruit people for over 20 years, which in itself should be recommendation enough. In my view, she is the only person to go to when recruiting people with these specialist development skills. She looks after both the employer and the employee, and is honest enough to say 'no' when she thinks a seemingly good candidate won't fit into the organisation."



Rob England

"I have known Elkie, and Prospectus, for longer than I care to remember. She is one of those rarest of rare breeds - a recruiting/contract agent who actually cares more about the well-being of the candidates she supplies than she does about the bottom line, and who will take a stand on welfare rather than caving in for the commission.

A better recruiter you could not find. I only regret that my current career has taken me out of her agency fold. I do not hesitate to recommend her without reservation."



Gulraj Rijhwani





WHAT IS IR35?

IR35 is a term used to describe two pieces of tax legislation in the UK. These legislations aim to stop workers from avoiding tax by claiming to be 'contractors' and offering their services to clients through an intermediary instead of being hired as an employee.

The reason that this legislation came into effect is that companies were registering employees as limited companies, which meant that the organisation saved money by avoiding paying National Insurance Contributions or providing benefits. Even after it was initially introduced, initially in the public sector, many contractors decided or self-determined that they belonged 'outside' of IR35 and still reaped the benefits of working full-time without paying the appropriate levels of tax

The recent change is that companies must now determine whether a contractor falls inside or outside of IR35, instead of the contractor themselves. Companies can also be liable if a wrong determination is made, which is something that all businesses want to avoid.

In order to comply with IR35 now, organisations must assess the status of their contractors to determine whether they are essentially working as an employee and therefore require a different kind of tax treatment, or whether their work and role mean that they are outside IR35 and the company doesn't have to pay additional tax for their hire.

The terms 'inside IR35' and 'outside IR35' are used when discussing this legislation, and will be referred to in the rest of this guide.



Being inside IR35 means your contract falls in the off-payroll working rules and HMRC sees you as an employee for tax purposes. Being outside IR35 means your contract points towards self-employment, so you can operate tax efficiently.

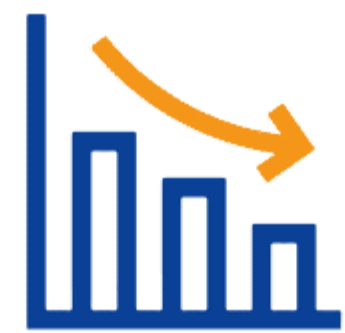
IR35 legislation was first introduced in 1999 as part of an Inland Revenue (now HMRC) press release and has been in force since 2000. However, the original version of the legislation wasn't very effective and was heavily criticised, which led to it being replaced and improved over the last five

New IR35 legislation, also known as 'Off-Payroll Working', was introduced into the public sector in April 2017 and then the private sector in April 2021. This most recent introduction has had the biggest impact on the recruitment industry and our clients, but is easy to comply with as long as you take the time to understand whether it applies and what necessary actions or adjustments need to be made.



COMMON IR35 MYTHS BUSTED

There are plenty of misconceptions and questions floating around about IR35 that are misleading or even downright wrong. Here are some of the most common myths about the IR35 legislation and the facts to set the record straight.



HMRC's Check Employment Status for Tax (CEST) tool is accurate

Therefore, human intervention and assessment are also needed in order to make a clear and accurate assessment and decide on any action that needs to be taken, which is why we recommend that our clients use private-sector tools or work collaboratively with experts offering IR35 services, which Prospectus Recruitment facilitate and provide free of charge.

Whilst the CEST tool is incredibly useful when it comes to determining your IR35 status, HMRC has admitted that 19% of the results produced by the tool are inaccurate. You can find out [more here](#).



HMRC won't investigate determinations made with the CEST tool

The UK government's CEST tool is a really useful resource for organisations to use as part of their IR35 strategy, but as we've previously mentioned, it isn't a totally accurate or comprehensive way of assessing your status. Therefore, HMRC may still investigate determinations made using their CEST tool, as the results from this can be inaccurate if the information is entered incorrectly.



SOW is outside IR35

A Statement of Work (SOW) is a document that is often used as an IR35 defence tactic, as contractors part of an SOW are guided by the "scope of services" and therefore are outside of the legislation. It isn't always the best approach however, as an SOW isn't an accurate reflection of the true working relationship and the work that has been carried out, and an assessment by HMRC may find that IR35 does apply to the situation.



A contractor working for multiple organisations is outside of IR35

A contractor who works for multiple clients is much less likely to be outside of IR35, but this isn't a definitive rule. Other factors relating to employment status may impact whether they're affected, so an assessment is still needed for each assignment to be sure that everyone involved remains compliant.



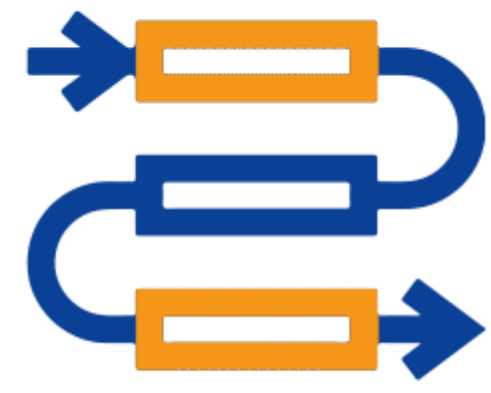
If some contractors working for an employer are outside IR35, all other contractors will be as well

IR35 is based on a situation-specific assessment, so a status determination needs to be done for every role, every assignment and every extension. Contractors hired by the same organisation usually do very different work for them, so just because one contractor might be outside of the legislation, this doesn't mean that all the others will be too.



IR35 does not apply to contractors hired for a very short period of time

The length of time that a contractor works for a company doesn't necessarily affect whether IR35 will apply to them. A proper assessment needs to be made in every instance, even if someone is only temporarily employed for a couple of days.



THE IR35 PROCESS

In order to determine whether an assignment falls inside or outside of the IR35 laws, employers or contractors must assess the nature of their work and determine their tax status to see whether they are paying the right amounts and staying in line with the legislation. The process should be undertaken by:

- ✓ Any worker providing their services through an intermediary;
- ✓ Any organisation receiving services that are offered by a worker through an intermediary;
- ✓ Any agency that provides their worker's services through an intermediary

According to [official guidance](#), IR35 applies to these individuals and organisations if:

- ✓ A worker uses an intermediary to provide their services to clients, but "would be classed as an employee if they were contracted directly"
- ✓ Off-payroll working rules have been decided in a "written, verbal or implied agreement between parties"

It's important to remember that a status determination is required for every new role or assignment when it comes to contract work, as the conditions upon which the assessment is made are very specific. Even if a contract is extended or another contractor is hired in a very similar role, a new assessment must be completed.



Because IR35 determinations are done on a case-by-case basis, many contractors or companies use tools or specialist IR35 agencies to help determine tax statuses. There is an official tool from HMRC called the [Check Employment Status for Tax \(CEST\)](#), but this isn't always accurate and shouldn't be used as the sole evidence that IR35 compliance is present.

Our experience of IR35 comes from working with our clients whilst hiring contractors to ensure that the correct procedures are followed and an accurate employment status is determined. In the process we have outlined below, we recommend using private-sector status determination tools or services which offer collaborative determinations as they are stronger and more accurate and in-depth. Working with a professional well versed in IR35 legislation is also invaluable, as they can help explain the differences and nuances of substitution.

1

Client Completes an Indicative Assessment

At the start of the contractor recruitment process, we recommend completing an indicative assessment, as the result will affect the price of the hire. Typically, a determination that is inside IR35 will offer more money than an outside IR35 determination, so it's important to know to set a correct market rate for the role and know how much it will cost you before you start advertising it.

2

Contractor Completes a Collaborative Assessment

When a contractor has been found for the role, we recommend that you complete another stage status determination assessment in collaboration with the new hire. Not only will it stop the contractor from being able to exercise their right to challenge a determination, which can be a time-consuming setback, but it will also indicate that the process has been done properly if it comes under scrutiny from HMRC.

3

Get SDS Sign Off and Confirm Insurance by Client and Contractor

At this stage, both the client and the contractor sign the combined Indicative and collaborative assessments which then become the full IR35 Status Determination (SDS). This ensures that all of your legal obligations have been completed and indicates that reasonable care has been taken.

Some tools offer insurance-backed status determinations that will secure the whole supply chain should HMRC choose to challenge the decision. It's definitely worth opting for tools that offer this as part of their service, not only for peace of mind but also to provide support if an SDS is investigated.



TESTS OF EMPLOYMENT

1. Control

Control refers to the degree of control that a client has over the work that a contractor does. This includes what they do, how the work is completed, when it gets completed and where the work is carried out.

The more control a client has over a contractor's work, the more likely that contractor is to be inside IR35.

2. Substitution

When it comes to the tests of employment, a 'substitute' refers to someone that can be brought in short-term if a contractor is unavailable. If a substitute can be sent in a contractor's place to do their work and nothing about the employment contract changes because of this, it breaks the chain of personal service.

HMRC can examine the tax statuses of a company or contractor at any time to determine whether it is correct. If it is found to be incorrect, they may be required to pay relevant fees and a penalty for the mistake.

This examination is done based on three factors, which are known as the principal 'tests of employment'.

This means that the contractor is essentially a business providing a service instead of an individual, and if personal service is not required then it isn't an employment relationship. It's not a hard and fast rule, but if a contractor can provide a substitute then it strongly indicates that they are outside of IR35.

3. Mutuality of Obligation

The concept of 'mutuality of obligation' refers to how obligated a person is to accept the work that a company has asked them to do. An independent contractor has no obligation to take on any of the work that they are approached to do and can choose how they spend their time, whilst an employee or an employee masquerading as a contractor will be required to complete the work they are asked to do. If a contractor has what is deemed as a 'mutuality of obligation', they are more likely to be deemed as inside IR35.



HOW DOES IR35 AFFECT MY BUSINESS?

No matter the industry, IR35 can affect any business that hires contractors as part of its staff. The biggest impact that this can have is that some organisations may be caught out by IR35 laws and have to pay a penalty fine as well as an additional tax for the contractors deemed 'inside' the legislation, which can have a significant impact on the business.

The new IR35 legislation requires all businesses to be much more careful when hiring contractors and assessing their tax codes and status. If you determine a status incorrectly, you may be charged and end up paying a lot more tax on contractors as if they were an employee, without being able to offer them the same benefits.

IR35 statuses are calculated on a case-by-case basis, which can create a lot more work for businesses that hire a lot of contractors. Correctly determining an IR35 status can also be difficult if you're not really familiar with the legislation and general employment law, which is why many organisations work with specialist agencies and outsource the assessment to avoid any penalties looking for and where previous issues have arisen, ensuring a successful recruitment experience every time.

Some businesses may choose to avoid issues with IR35 altogether by stopping hiring contractors and only using permanent members of staff to complete work. This can be a costly choice, as contract workers can be a great way of managing additional workloads or bringing in specialist expertise which is not available through permanent hires.

From a recruitment perspective, the introduction of IR35 has meant that some contractors have decided to change to permanent employment to avoid being caught out by the legislation and having to pay additional costs. This may present challenges to businesses that still wish to hire contractors, as the market is smaller and talented candidates are harder to come by.

To minimise the impact that IR35 has on your business, it is best to work with an expert who understands the legislation and can help to provide accurate status assessments, as well as offering guidance when it comes to hiring contractors.





FREQUENTLY ASKED QUESTIONS ABOUT IR35

What does IR35 stand for?

IR35 was a term that was first used in a press release distributed by Inland Revenue, which is now known as HMRC. It stands for Inland Revenue 35, with the '35' referring to the number of the press release that first introduced the legislation.

When was IR35 introduced?

The official IR35 rules were introduced in April 2000 after first being suggested the previous year and then undergoing a lengthy development and refinement process. The legislation that applies to businesses today was revised and reintroduced in the public sector in April 2017 and in the private sector in April 2021.

Who does IR35 apply to?

IR35 was a term that was first used in a press release distributed by Inland Revenue, which is now known as HMRC.

It stands for Inland Revenue 35, with the '35' referring to the number of the press release that first introduced the legislation.

What size company does IR35 apply to?

In the private sector, clients are exempt from off-payroll rules if they are classed as a small company. Therefore, IR35 applies to medium and large-sized clients outside of the public sector, or an agency that supplies contract workers to medium and large-sized clients outside of the public sector.

You can find more specific information about these conditions [here](#).

[FIND OUT MORE](#)

Which businesses are exempt from IR35?

After initial consultations when the latest version of IR35 was released, it was decided that small businesses are exempt from the legislation because the onus on them was too much. A 'small business' is defined as meeting two or more of the following criteria:

- ✓ Having an annual turnover of up to £10.2 million
- ✓ Having balance sheet assets of up to £5.1 million
- ✓ Having an average of up to 50 employees

If an organisation is classed as a small business, it is the responsibility of the contractor they hire to calculate their IR35 status and pay the appropriate tax.

What is an IR35 assessment?

An IR35 assessment is a process required of any organisation within the off-payroll working rules to determine the employment status and tax status of contractors. It may also refer to the assessment that HMRC will undertake to determine whether an organisation or contractor is working in line with IR35.

How do I check my IR35 status?

There are various ways in which you can check your IR35 status. HMRC provides a free tool which you can use, which is known as the Check Employment Status for Tax (CEST). You can also use specialist companies to calculate your IR35 status, which will be a paid service but is also likely to be more accurate and thorough.

What does inside IR35 mean?

Being inside IR35 means your contract falls in the off-payroll working rules and HMRC sees you as an employee for tax purposes.

What does outside IR35 mean?

Being outside IR35 means your contract points towards self-employment, so you can operate tax efficiently. More information is available [here](#).

How will IR35 affect my limited company?

Whilst IR35 was introduced to target contractors or companies using the guise of a 'limited company' to avoid paying additional tax, it has had a negative effect on legitimate limited companies that now have to ensure they're complying with the legislation. Limited companies may be impacted by IR35 and have to pay more money because of it, so it's important to ensure that your contract work is not falling into the scope of the legislation if you want to remain unaffected.



Gov.uk Check Employment Status for Tax (CEST) Tool



Kingsbridge IR35 Status Determination Tool



Off-payroll Working Rules for Agencies



How to Decide Which IR35 Tool Is Best for Your Business



Am I Affected by IR35? - A Guide for Contractors



Am I Affected by IR35? - A Guide for Client Organisations



STRUGGLING WITH IR35 STATUS DETERMINATION?

We're offering all contractors free consultations and collaboration to provide clarity on the regulations, as well as free indicative status determinations to ensure IR35 compliance.

MAKE THINGS SIMPLE FOR ME



SUMMARY

IR35 is seen as a thorn in the side of many organisations that hire contractors as part of their workforce, but it's a piece of legislation that is not going away. Therefore, getting to grips with the basis of the rules and understanding the best way to follow them is essential for any business affected by IR35, which is why we have used our knowledge and experience of the legislation to produce this guide.

If you're looking for a recruiter specialising in IT roles who understands the ins and outs of IR35 and can help you source and hire contractors in line with this legislation, Prospectus IT is the ideal recruitment partner. [Get in touch](#) with us to speak to a member of our team, or find more [information for employers on our website](#).

GET IN TOUCH

IR35 RESOURCES

