

IR35 is 'riddled with problems', says Lords report

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The House of Lords economic affairs finance bill sub-committee has published a report urging the government to use this extra time to rethink IR35 legislation as it is "riddled with problems".



As a result of the coronavirus outbreak the government previously revealed that the changes to IR35, which is intended to ensure contract work is not used to avoid tax, would be delayed until 6 April 2021.

Now the committee formed to review the changes has warned the government that the rule change was so flawed as to require wholesale change.

Lord Forsyth of Drumlean, chair of the House of Lords Economic Affairs Finance Bill Sub-Committee, said: "The Committee welcomed the Government's decision to defer these off-payroll working rules in the wake of the Covid-19 pandemic.

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"However, our inquiry found these rules to be riddled with problems, unfairnesses, and unintended consequences. The potential impact of the rules on the wider labour market, particularly the gig economy, has been overlooked by the Government. It must devote time to analysing all of this. A wholesale reform of IR35 is required."

He also called on the Government to announce in six months' time whether it will go ahead with reintroducing these proposals.

"Contractors already concerned by these uncertain times now have the added worries of paying more employment taxes and having their fees cut by clients making additional National Insurance Contributions. Also concerning is the number of companies getting rid of contractors in anticipation of the implementation of these new rules," he added.

However, Chris Biggs, managing director of Theta Financial Reporting, said that the calls for delay may be "too little too late".

He said: "The delays of the IR35 legislation have raised additional questions about the viability of the new rules and this report from the House of Lords' sub-committee is a blow to the government's plans. However, this may be too little too late.

“From what we have witnessed in the accounting space, many hiring companies have already adapted their practices to be compliant with the new rulings that were due to come into effect on the 1st April 2020.”

He added: “These companies have spent time, money and effort to be compliant, so it was unlikely that they would immediately revert back to old practices when the implementation was delayed. If these rules are scrapped, it could cause major disruption to companies that tried to be hit the initial deadline in 2020.”