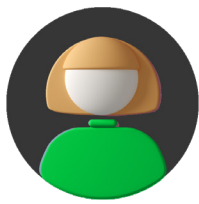


# Self-Employed Compliance Guide

Everything You  
Need To Know!



LIQUID FRIDAY<sup>®</sup>

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# What Is Self-Employment

At its most basic, self-employment is the state of working for yourself rather than an employer. If someone is self-employed, they run their business for themselves and are responsible for its success or failure. Self-employed workers are not paid through PAYE and don't have the rights of employees. They pay tax via an annual self-assessment tax return.

We understand that agencies can be concerned about the potential risk of engaging self-employed individuals directly. As part of Liquid Friday's onboarding process, a full Employment Status check is carried out with the worker before engagement begins. This looks at the suitability of self-employment and ensures that the worker is fully aware of all requirements and obligations, keeping you and the supply chain safe.

## What Does The Legislation Say

There are two legislative considerations that need to be taken into account when considering the application of Self Employment within a contracting environment.



**The Income Tax (Construction Industry Scheme) Regulations 2005. This legislation deals with the application of CIS and focuses on handling deductions correctly.**



**Employment Intermediaries and False Self Employment, incorporated into the 2014 Finance Act amended s44 ITEPA 2003. This legislation deals with the determination of Self Employment and the feasibility of applying the CIS rules in a contracting environment.**

If assessed properly managing these two important legislative requirements will mean that Self Employment can be compliantly utilised to pay contractors who satisfy the prerequisite Employment Tests.

# What Is It?

Contractors working, or agencies hiring others to work, on construction operations may have to register for the Construction Industry Scheme (CIS). This requires the hirer to deduct income tax directly from the contractor's or worker's gross earnings.

Special arrangements for the construction industry have been around for many years but the CIS scheme has been in its present form since 2004. (The Income Tax (Construction Industry Scheme) Regulations 2005)

The scheme only applies to genuine self-employed contractors and sub-contractors with the main objective of preventing self-employed subcontractors avoiding tax by simply not registering as self-employed.

If the subcontractor/worker is registered with the scheme and performing construction operations, then the contractor/hirer needs to deduct 20% of the subcontractor's gross fees as income tax.

# Requirements

Any engager/ contractor is required to assess the feasibility of applying CIS for its workers. This will involve assessing the supply chain both contractually and in reality to ensure that all of the prerequisites are in place to prove that an Assignment is deemed suitable for Self Employment.

These checks will usually include the following:



**Contractual Check throughout the supply chain**



**Any other documentation, including:  
Assignment Notes, Job Descriptions, Job Adverts etc.**



**Reality on the ground**



**Workers perception and experience whilst on site**



**Skills and expertise of the worker**

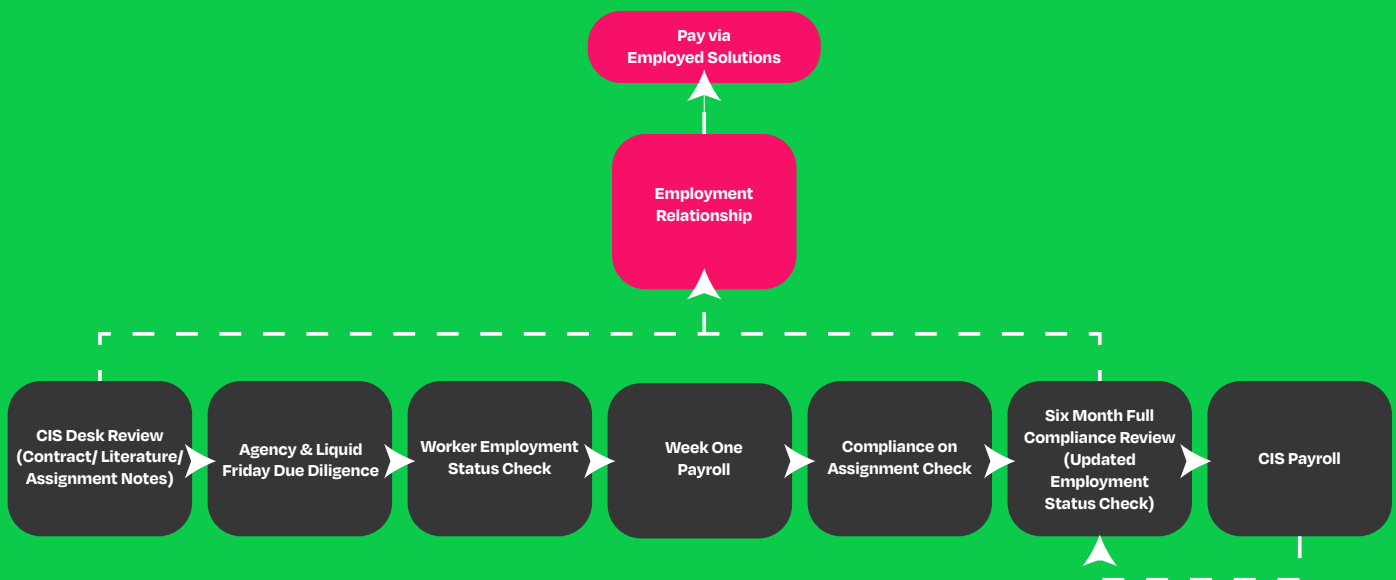
# Liquid Friday Advisors



## Requirements

Liquid Friday has developed an industry leading service (in combination with FCSA Approved processes) which enables those workers who satisfy the appropriate employment tests to be paid as a Self-Employed Sub Contractor.

Below is an over view of the robust process in place that manages this process and ensure that all of the requirements are tested and met throughout an Assignment.



## Step One - Desk Review

Liquid Friday in collaboration with the agency carry out a full desk review of all available documentation for the entire supply chain to assess the feasibility of Self Employed workers being engaged for relevant Assignments.

This Desk Review assess several key areas, primarily reviewing the following:



**Presence of Personal Service**



**Liability for rectifying defects**



**Rights of Substitution**



**Working Time arrangements**



**Supervision, Direction and Control**



**Mutuality of Obligation**

Substantial emphasis is placed on SDC within the supply chain; Liquid Friday takes this seriously and will ensure both contractually and the reality that this is paramount.

## Step Two - Due Diligence

To ensure the very highest levels of compliance, it is incumbent on the agency to complete a full Due Diligence assessment of Liquid Friday. This should be wide ranging and concentrate on the following key areas;



**Business Structure**



**Industry Body Status**



**Financial Stability & Performance**



**Insurances and Indemnities**



**Processes and Procedures**

## Step Three - **Worker Employment Status Test**

As part of Liquid Friday's onboarding process, a full Employment Status check is carried out with the worker before engagement begins. This looks at the suitability of Self Employment and ensures that the worker is fully aware of all requirements.

In conjunction with HMRC and FCSA, Liquid Friday has developed a process which assesses every assignment against a set of clear criteria designed to detect False Self Employment. This is in line with requirements laid out in the Employment Intermediaries and False Self Employment guidance.

This consultation concentrates on the key subject areas of:



**Benefits of Self Employment**



**Attitudes towards Self Employment**



**Responsibilities of Self Employment**



**Commercial Position**



**Eligibility to Work in the UK**



**Expected Income Levels**



**Prior Experience of Self Employment**



**The Supply Chain**



**Self Employment Future**



**Other engagement types available. I.e Employment etc.**

Liquid Friday is a **Fully Accredited Member of the FCSA** and has therefore passed the industry's most stringent quality and compliance checks.

## What we discussed

Thanks for contracting with Liquid Friday. This document is to confirm what was discussed on the phone. Should you have any questions, or if anything is not right, please contact your dedicated Customer Relationship Consultant; **Sarah Taw**, or the team on 0800 3166030 / 02392 883300.

### 1. The benefits of self-employment

There are benefits of choosing to be Self Employed in the UK, but there are also some important responsibilities you need to be aware of. We are able to help with some of these, if needed.

Your responsibilities	Can we help?
Registering with HMRC as Self Employed	✓
Providing some advice on the amount of tax to put by	✓
Complete a tax return each year to HMRC	✓
Keeping your own financial records	✓
Starting paying your own Class 2 NICs	✓
Being covered by Professional Indemnity insurance	✓
Having your own Personal Accident Cover	✓
Invoicing / Self billing	✓
Construction Industry Scheme (CIS) Tax Deductions	✓

### 2. Eligibility to work in the UK

As part of our standard compliance checks we need to make sure you have the right to work in the UK. This will mean periodically checking some of your personal documents, as required by the Home Office.

### 3. Changes in status

It's really important you let us know of any changes to your assignment, especially if the client starts to treat you like an employee. This can be done by calling us, sending an email or even a quick text.

### 4. Tax Liabilities

So as you don't get stuck with a big bill from HMRC, we'll give you an idea of what you need to put aside each month for Tax and Class 4 NICs. We'll re-look at this estimate every quarter, based on your actual turnover, to try and avoid a shortfall.

### 5. Your prior experience of Self Employment

When we spoke you let me know that you have been trading as self-employed for a year or more and have submitted at least one self-assessment tax return. If this is not the case please let me know and we'll help out as much as we can.

### 6. Your Self Employed future

Dependant on your circumstances, making the decision to be self-employed is usually a medium to long term commitment. It may be worth considering your other options if you expect to be self-employed for less than 6 months, or just for the duration of your assignment.



## 7. Your attitude towards the risks and responsibilities of being Self Employed

We discussed your opinion on being Self Employed, you identified to us that:

You feel really confident with being self employed and can't foresee any problems

## 8. Other options available

During our conversation we discussed that other options of employment are possibly available to you:

- 1) Umbrella PAYE through Liquid Friday
- 2) Self-Employment/CIS Self-employment through Liquid Friday
- 3) Being a Director of your own Limited company
- 4) Engaging with the agency directly on PAYE

If you would like to discuss any of these options further please let me know.

## 9. Your current commercial situation

I also discussed your current commercial situation and what this could mean for when you need to calculate your tax liability at the end of the year.

You let me know that currently work with only one client or many at any time

## 10. Level of Income Generated

We also discussed that you expect your annual income to the business is going to be between £10,000-19,999.

## 11. Previous work

You confirmed to me that your last piece of work/ assignment was not working directly with the same client as this assignment or any upcoming assignment, doing similar work.

## 12. Confirming Self Employment in future

We will also be providing you with a simple, regular review of your employment status, giving you peace of mind that you are operating in the correct way.

## 13. The Supply Chain

Below is a simple diagram designed to confirm to you how the Supply Chain works and allow you to identify where you fit in;



## 14. Declaration

I confirm the above sections faithfully represent the call I had with **Sarah Taw** and that I understand the responsibilities of being Self Employed.

## Step Four - Payment

If a contractor successfully completes their Self Employment Sign Up, Liquid Friday will notify the agency in order to prepare and ratify decision of the first initial payment.

For those caught under CIS; this payment will be processed accordingly and the relevant CIS deduction of 20% or 30% will be made. Any appropriate funds will be remitted to HMRC and the worker provided with a remittance detailing any and all deductions.

## Step Five - On Assignment Check

To ensure the highest level of compliance possible Liquid Friday understands that it is important to verify the Self Employed status of worker once they have attended work as circumstances can change and may vary the results from the initial Employment Status check.

Therefore Liquid Friday will conduct a compliance check after the initial week worked to assess if any circumstance has changed and if so complete an updated Employment Status Check and make any appropriate alterations to the engagement type.

## Step Six - Six Month Check

To verify that no changes in the Assignment have taken place, Liquid Friday will repeat the entire onboarding process with the worker to verify that the circumstances of the Assignment have not changed and will not require a revised engagement type, i.e. switching to an Employed model as the worker and/or Assignment is no longer suitable for Self Employment.

This process will repeat for the entirety of the Assignment.

**The worker will be supported throughout the process to ensure they choose the most appropriate solution.**

# Failures In Process/ **Not To Be Found Self-Employed**

Contractors working, or agencies hiring others to work, on construction operations may have to register for the Construction Industry Scheme (CIS). This requires the hirer to deduct income tax directly from the contractor's or worker's gross earnings.

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**Inhouse PAYE with the agency**



**PAYE Umbrella Employment with Liquid Friday**



**PSC Formation**

**(separate advice would be recommended as this may not be suitable for all and will likely result in a "Caught by IR35" resulting in receiving a deemed payment)**

## **What Guarantees Are There For The Supply Chain?**

Whilst it is not possible to indemnify against a breach in legislation, it is possible to minimise risk by only working with partners who take their responsibilities seriously and invest in robust processes and procedures to ensure the highest levels of compliance possible.

Liquid Friday has achieved this level of confidence by investing in industry leading tools, policies and procedures; delivering effective teams of experts with the one aim of ensuring that all contractors are paid compliantly and on time in a manner they are comfortable with.

Partnering with Liquid Friday, who has over a decade's worth of experience of being a market leader who sets itself apart by always "doing the right thing" and embodies accessible compliance that contractors and agencies understand, means that all in the supply chain can be comfortable with Self Employed or CIS Payroll being delivered honestly, compliantly and professionally

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