

**Pat and PatCo Limited**  
**Tax Liabilities 2025-26 under IR35**



**Assumptions**

Pat provides services through PatCo Limited to MegaCo PLC.  
 The contract is for £10,000 a month.  
 Assuming Pat works 12 months of the year, PatCo's turnover will be £120,000  
 Patco incurs operating expenses of £10,000 a year  
 Pat draws a salary of £12,000 and a dividend of £50,000  
 Pat also receives £4,000 of rent a year from a buy to let

Case study 1 shows the outside IR35 position  
 Case study 2 shows the inside IR35 position if PatCo operates IR35  
 (2) is the position for Private Sector contracts with an Engager who qualifies as a Small Company  
 Case study 3 shows the inside IR35 position if MegaCo operates IR35  
 (3) is the position for contracts with Public Sector Engagers or Private Sector Engagers who are Medium / Small Companies

<b><u>Deemed Payment</u></b>	case study 1 £		case study 2 £	case study 3 £
	Outside IR35	Inside IR35 - Small Client	Inside IR35 - Public Sector or Medium / Large Client	
Contract Revenue			<u>120,000</u>	<u>120,000</u>
5% deduction			6,000	
Total after 5%			114,000	
Deemed Payment - after 5% allowance and grossed down for Ers NI			<u>99,783</u>	
Deemed payment - equates to contract revenue				<u>120,000</u>
Employers NI - met by Client (or agent if in chain)				17,250
Employees NI - deducted under PAYE				4,411
Tax deducted under PAYE <sup>(note 1)</sup>				<u>41,832</u>
Pat's take home deemed payment				<u>73,757</u>
Payroll Cost to Client				<u>137,250</u>
PAYE/Ers/Ees to HMRC				<u>63,493</u>

Note 1 - assume that Pat's rent has been adjusted on tax code, so Personal Allowance reduced by £4,000

**Business Accounts**

Turnover	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
Business Expenses	(10,000)	(10,000)	(10,000)
Salary to Pat <sup>(note 2)</sup>	(12,000)	(99,783)	-
Deemed payment <sup>(note 3)</sup>			(120,000)
Employers NI	<u>(1,050)</u>	<u>(14,217)</u>	=
Total expenses	<u>(23,050)</u>	<u>(124,000)</u>	<u>(130,000)</u>
Profit /(loss) for Corporation Tax	96,950	(4,000)	(10,000)
Corporation Tax	<u>(21,942)</u>	=	=
Profit after Tax	75,008	(4,000)	(10,000)
Dividend	<u>(50,000)</u>	=	=
Retained Profit / (loss) <sup>(note 4)</sup>	<u>25,008</u>	<u>(4,000)</u>	<u>(10,000)</u>

Note 2 - salary = deemed payment which is contract income less 5% and grossed down for Employers NI

Note 3 - deemed payment show as a deduction against company profit as its already been taxed

Note 4 - in scenarios 2 and 3 the company creates a loss, as there is not enough non IR35 income to cover expenses

**Company Payroll (annualised)**

Pat's salary	<u>12,000</u>	<u>99,783</u>
Employers NI	1,050	14,217
Employees NI	-	4,006
Income Tax	-	<u>29,702</u>
Pat's take home	12,000	66,075
Payment to HMRC	<u>1,050</u>	<u>47,925</u>

**Pat's Self Assessment**

Salary	12,000	99,783	120,000
Rental Income	4,000	4,000	4,000
Dividend	<u>50,000</u>	-	-
Total	<u>66,000</u>	<u>103,783</u>	<u>124,000</u>
Income Tax (excluding Dividend Tax)	686	29,702	41,832
Less Tax paid at source	-	(29,702)	(41,832)
Dividend Tax	<u>8,264</u>	-	-
Total	<u>8,950</u>	-	-

Note 5 - assume that Pat's rent has been adjusted on his tax code, so no Self Assessment on scenarios 2 and 3

**Total Taxes to HMRC**

Corporation Tax	21,942	-	-
PAYE/NI	1,050	47,925	63,493
Self Assessment	<u>8,950</u>	-	-
	<u>31,942</u>	<u>47,925</u>	<u>63,493</u>

**Overall Summary for Pat and PatCo**

Company Turnover	120,000	120,000	120,000
Employers NI borne by client			17,250
Rent	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
	<u>124,000</u>	<u>124,000</u>	<u>141,250</u>
HMRC	31,942	47,925	63,493
Pat's net income	57,050	70,075	77,757
Retained Profit <sup>(note 6)</sup>	25,008	(4,000)	(10,000)
Expenses	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>124,000</u>	<u>124,000</u>	<u>141,250</u>

Note 6 - in practice Pat will need to use some personal money to meet the negative retained profit, reducing tax home in scenarios 2 and 3

Adjusted take home, after funding company		<u>66,075</u>	<u>67,757</u>
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**VAT**

Turnover	120,000	120,000	120,000
Vat @ 20%	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>
Total invoiced to MegaCompany PLC	<u>144,000</u>	<u>144,000</u>	<u>144,000</u>
Vat to pay over each quarter	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>

(Assume no vat to recover on expenses)