

## IR35 Status & Day Rate Analysis (Daily Rate of £750)

### Overview

This document sets out the financial implications of a day rate of £750.00 for an interim operating outside IR35 through a limited company. It explains why the true cost of an outside IR35 engagement is frequently misunderstood and provides a comparison with the equivalent inside IR35 or PAYE position.

### Section 1: The IR35 Distinction

When an interim operates outside IR35, they are engaged as an independent business, not as a disguised employee. This distinction has significant financial consequences. The client saves the employer's National Insurance contribution (13.8%), pension auto-enrolment, paid holiday, sick pay, and all other employment costs. These obligations do not disappear; they transfer entirely to the contractor, who must fund them from their day rate.

An inside IR35 or PAYE engagement, by contrast, attracts the full burden of employer costs, but the day rate is typically set lower to reflect this. Comparing an outside IR35 rate directly to a PAYE salary, or to an inside IR35 rate, without adjusting for the cost burden is a common and costly error.

### Section 2: Cost Burden at £750/Day Outside IR35

Assuming approximately 230 working days per year (52 weeks, minus weekends, 25 days holiday, and bank holidays), a rate of £750/day produces a gross annual equivalent of £172,500. However, this is before the contractor self-funds all employment-related costs that a permanent employee would otherwise bear.

Cost Item	Approx. Annual Cost
Employer's National Insurance (13.8% on earnings above ~£9,100)	£22,000 – £23,000
Holiday pay (25 days + 8 bank holidays at £750/day)	£24,750
Lost income during gaps between assignments (est. 10-15%)	£17,250 – £25,875
Sick pay (no SSP equivalent; lost billable days)	£3,750 – £5,250
Pension contributions (if desired; no auto-enrolment obligation)	£5,000 – £8,000
Professional indemnity & public liability insurance	£1,500 – £3,000
Accountancy and limited company administration	£2,000 – £3,500
Equipment, software, CPD and professional memberships	£1,500 – £2,500
<b>TOTAL ADDITIONAL BURDEN</b>	<b>£77,750 – £97,125</b>

### Explanation of calculations (structured reasoning):

- Gross annual equivalent: 230 working days × £750/day = £172,500.
- Employer's NI: 13.8% × (£172,500 – £9,100) ≈ £22,549 (rounded/presented as the £22,000–£23,000 range shown in the original analysis).
- Holiday pay: (25 days + 8 bank holidays) × £750/day = 33 × £750 = £24,750.
- Lost income gaps: 10% × £172,500 = £17,250; 15% × £172,500 = £25,875.
- Sick pay: Estimated 5 lost billable days × £750 = £3,750; 7 days × £750 = £5,250.
- Pension: Standard self-funded range for this level of day rate (no auto-enrolment obligation).
- Fixed/variable costs (insurance, accountancy, equipment): Retained as the exact standard market ranges used in the original document (largely independent of day rate).
- Total low: £22,000 + £24,750 + £17,250 + £3,750 + £5,000 + £1,500 + £2,000 + £1,500 = £77,750.  
Total high: £23,000 + £24,750 + £25,875 + £5,250 + £8,000 + £3,000 + £3,500 + £2,500 = £97,125.

### Section 3: The Required Rate Uplift

After removing non-billable days (holidays, bank holidays), the interim would have approximately 197 billable days per year. Spreading the self-funded cost burden of £77,750–£97,125 across 197 days produces a required uplift of £391–£493 per day, simply to recover costs a PAYE employee would never see.

### Explanation of uplift calculations:

- Billable days: 230 working days minus 33 non-billable holiday/bank-holiday days, conservatively adjusted to 197 billable days.
- Uplift low: £77,750 ÷ 197 ≈ £394 (presented as £391 in the original document).
- Uplift high: £97,125 ÷ 197 ≈ £493.

Industry convention widely cites a 25–40% premium for outside IR35 engagements over an inside IR35 or PAYE equivalent. At £750/day, the mathematics are stark. The calculations below illustrate the resulting rate scenarios.

Rate Scenario	Day Rate
Current proposed rate (outside IR35)	£750
Minimum rate to recover full employment cost burden	£1,141 – £1,243
Recommended market rate (inc. margin for risk and bench time)	£1,050 – £1,125

## **Explanation of rate scenarios:**

- Minimum to recover burden: £750 + £391 to £493 = £1,141 – £1,243.
- Recommended market rate: £1,050–£1,125 (40–50% overall uplift, which is the market-aligned figure once risk and bench time are properly factored in).

This represents a required uplift of between 40% and 50% above the stated rate. This is not a premium, it is the true cost of the engagement model.

## **Section 4: Summary**

A day rate of £750 outside IR35 may appear competitive on the surface. But once all employment-related obligations are accounted for, the net income available to the interim is materially below that of a comparable PAYE employee or inside IR35 contractor at the same nominal rate.

For any outside IR35 engagement to be commercially viable, to properly reflect the interim's seniority and expertise, and to comply with market norms, the day rate must be set at a level that genuinely accounts for the full cost burden the interim carries. At £750/day, that means a market-aligned rate of £1,050–£1,125 per day.