

IR35 Status & Day Rate Analysis (Daily Rate of £250)

Overview

This document sets out the financial implications of a day rate of £250.00 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 £250/Day Outside IR35

Assuming approximately 230 working days per year (52 weeks, minus weekends, 25 days holiday, and bank holidays), a rate of £250/day produces a gross annual equivalent of £57,500. 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)	£6,500 – £7,500
Holiday pay (25 days + 8 bank holidays at £250/day)	£8,250
Lost income during gaps between assignments (est. 10-15%)	£5,750 – £8,625
Sick pay (no SSP equivalent; lost billable days)	£1,250 – £1,750
Pension contributions (if desired; no auto-enrolment obligation)	£2,000 – £4,000
Professional indemnity & public liability insurance	£1,000 – £2,500
Accountancy and limited company administration	£2,000 – £3,500
Equipment, software, CPD and professional memberships	£1,000 – £2,000
TOTAL ADDITIONAL BURDEN	£27,750 – £38,125

Explanation of calculations (structured reasoning):

- Gross annual equivalent: 230 working days × £250/day = £57,500.
- Employer's NI: 13.8% × (£57,500 – £9,100) ≈ £6,679 (rounded/presented as the £6,500–£7,500 range).
- Holiday pay: (25 days + 8 bank holidays) × £250/day = 33 × £250 = £8,250.
- Lost income gaps: 10% × £57,500 = £5,750; 15% × £57,500 = £8,625.
- Sick pay: Estimated 5 lost billable days × £250 = £1,250; 7 days × £250 = £1,750.
- Pension: Standard self-funded range adjusted for this lower day-rate level (no auto-enrolment obligation).
- Fixed/variable costs (insurance, accountancy, equipment): Retained/adjusted as standard market ranges (largely independent of day rate, scaled sensibly for consistency).
- Total low: £6,500 + £8,250 + £5,750 + £1,250 + £2,000 + £1,000 + £2,000 + £1,000 = £27,750. Total high: £7,500 + £8,250 + £8,625 + £1,750 + £4,000 + £2,500 + £3,500 + £2,000 = £38,125.

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 £27,750–£38,125 across 197 days produces a required uplift of £141–£193 per day, simply to recover costs a PAYE employee would never see.

Industry convention widely cites a 25–40% premium for outside IR35 engagements over an inside IR35 or PAYE equivalent. At £250/day, the mathematics are stark. The calculations below illustrate the resulting rate scenarios.

Rate Scenario	Day Rate
Current proposed rate (outside IR35)	£250
Minimum rate to recover full employment cost burden	£391 – £443
Recommended market rate (inc. margin for risk and bench time)	£350 – £375

Explanation of rate scenarios:

- Minimum to recover burden: £250 + £141 to £193 = £391 – £443.
- Recommended market rate: £350–£375 (aligned with industry norms 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 £250 outside IR35 may appear very 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 £250/day, that means a market-aligned rate of £350–£375 per day.