



HM Revenue
& Customs

HMRC adds an off-payroll working indicator to RTI

After 6 April 2020, payroll software updates mean that you may have noticed the addition of an ‘off-payroll worker subject to the rules’ indicator in PAYE RTI.

The off-payroll working rules

The off-payroll working rules are designed to ensure that individuals (sometimes known as contractors) working like employees but through their own limited company or other type of intermediary, pay broadly the same income tax and National Insurance Contributions (NICs) as those who are directly employed, for that contract. These rules are also known as ‘IR35’.

The rules changed for the public sector in April 2017. The changes meant that the client or an agency in the supply chain for public sector engagements became responsible for deducting income tax and NICs before paying the contractor’s intermediary for their services if the rules apply to a particular contract. The rules are changing again in April 2021 and will include medium and large non-public sector organisations as well.

The ‘off-payroll worker subject to the rules’ indicator in PAYE RTI

The indicator was introduced to highlight payments on which PAYE has been operated under the off-payroll working rules and to stop the deduction of student loans for these contracts.

As workers of these engagements are deemed employees for income tax and NICs purposes only, the indicator also ensures that employee entitlements (such as statutory payments) are not accrued.

An ‘off-payroll worker’ is a worker that provides their services through their own intermediary (usually a limited company). The indicator is only to be used by deemed employers of contractors where contracts are inside the off-payroll working rules. The person responsible for deducting income tax and NICs is known as the deemed employer.

Who should use the indicator

On 11 May 2020, the use of the indicator became mandatory for deemed employers of engagements that are affected by the 2017 off-payroll public sector reform (of Chapter 10, Part 2 of ITEPA 2003).

Therefore, the PAYE RTI indicator in payroll software must be used by the client or agency who is responsible for deducting income tax and NICs for public sector contracts that are inside the off-payroll working rules.

If you have used this indicator incorrectly for employees of non-public sector engagements, please could you ensure that this is amended through a corrective Full Payment Submission (FPS) for the relevant period. This is to ensure that the correct PAYE is being deducted, and that workers are building up entitlement to statutory payments where eligible.

Please see <https://www.gov.uk/payroll-errors/correcting-your-fps-or-eps> for guidance on how to submit a corrective FPS.

The indicator should **not** be used by a contractor's own intermediary.

Changes from 6 April 2021

From 6 April 2021, the 'Off-payroll worker subject to the rules' indicator must ALSO be used by deemed employers of contracts that are inside the off-payroll working rules where services are being provided to a medium or large sized organisation outside the public sector.