Aldermore insight

What do IR35 changes mean for self-employed clients?

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If your client is a contractor, they could find their borrowing power cut by new rules from April.

There are 4.37m self-employed people in the UK – a fall from the peak of over 5.03m at the start of 2020 and the lowest level since mid-2015.

The pandemic has been largely responsible, with many small businesses hit hard by lockdown restrictions and some falling between the cracks of government support.

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Self-employed clients might find they have reduced borrowing power, not just due to changes in their finances but because some lenders have moved to tighten their self-employed criteria.

What was already a tough call has become more challenging, and there's another change affecting self-employed clients that you need to be aware of, because it could have a big impact on their borrowing ability.

Contractor champions

At Aldermore, we champion the self-employed and all of our mortgages are available to those who work for themselves.

We lend to contractors with at least six months remaining on their current contract and we take retained profits into account.

Our personal approach to underwriting means we consider each case individually and continue to support self-employed borrowers at this challenging time.

Whether they're affected by IR35, the pandemic or shifting mainstream criteria, we'll look for a way to say yes when we assess their application.

IR35 changes

The introduction of IR35 rules into the private sector in April will affect an estimated **170,000 self-employed workers**, according to Which?.

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IR35 aims to tackle 'disguised employment', where contractors benefit from tax efficiencies and employers don't pay National Insurance or provide employee benefits, such as sick pay and holidays.

The big change on 6th April is that the responsibility for deciding whether a contractor falls under IR35 passes from them to the business 'employing' them.

This is already the case in the public sector, but it will now be up to large- and medium-sized firms to decide the status of their contractors and freelancers. Small businesses remain exempt.

If a contractor or self-employed worker is deemed to be a disguised employee, they are 'inside IR35', are paid as an employee (net of tax and NI) and given the benefits of being one. If they are considered to be 'outside IR35' they're self-employed and can be paid gross.

The financial impact

From 6th April, if a contractor is deemed to be working inside IR35 they'll potentially see a reduction in income.

This could mean they have problems getting a mortgage or remortgaging. Their affordability may be reduced and, when combined with the current restrictions on self-employed borrowers, the overall impact could be significant.

Hopefully, your self-employed clients already know what the changes mean for their income, but they might not have considered how it impacts their mortgage eligibility.

As their broker, it makes sense to be proactive and get in touch with contractor and freelance clients now.
Here's where to start:

1. Find out if they're aware of IR35 and if they will be affected. If they're not sure, they can check by accessing the government's **CEST (Check employment status for tax) tool**.
2. Advising your client on tax is outside your scope as a mortgage broker but signposting them to more information and independent tax advice means they can get the support they need.
3. If you have clients with deals coming up for renewal later this year, get in touch now to start the process. Changes to their income could make their case more complex plus tighter criteria for the self-employed could lead to longer processing times.
4. Consider a product transfer if IR35 impacts a client's income significantly and makes it difficult for them to remortgage.
5. Stay up to date with lenders' criteria for self-employed borrowers, particularly their approach to contractors.

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