

## How small is small?

*How do the changes to small business thresholds affect IR35/off-payroll? Dave Chaplin explains all*

The government's recent changes to the 'small company' thresholds are designed to free more businesses from reporting burdens. However, they also affect which companies should consider the off-payroll rules – because small businesses in the private sector are exempt.

Navigation of the statute reveals that the earliest an existing medium company can qualify as small for the purposes of off-payroll is 6 April 2027. And it could be later than that.

This confusion is caused by differences between the criteria for 'small' for reporting purposes, and 'small' for off-payroll purposes.

### The scenario in more detail

On 10 December 2024, the government laid new Regulations before Parliament, [The Companies \(Accounts and Reports\) \(Amendment and Transitional Provision\) Regulations 2024](#) under Statutory Instrument number 2024/1303, enabling them to raise from 6 April 2025 the monetary size thresholds for micro, small and medium-sized enterprises.

The primary aim was to simplify regulatory and business reporting requirements. One side effect is that some existing medium-sized companies will qualify for being small and will later (i.e. not from April 2025) fall out of the scope of the off-payroll (IR35) rules (Chapter 10 ITEPA 2003), which only applies where workers are engaged through intermediaries (e.g. a limited company) and working for clients that are medium or large companies.

The rules for small companies under [section 382\(3\) of the Companies Act](#) refer to the need to satisfy two or more criteria, and the monetary thresholds are increasing by circa 50% from April 2025.

Measure	Existing threshold	New threshold
Turnover	Not more than £10.2m	Increases to £15m
Balance sheet total	Not more than £5.1m	Increases to £7.5m
No. of employees	Not more than 50	No change

### Two different triggers

The impact on classification for off-payroll purposes will not kick in immediately and will take two to three years for existing companies. The delay is because a firm qualifies as small for a specific tax year only if the reporting period for a company year-end precedes the tax year. In plain English, you take the company year-end, add nine months for the accounts reporting period, and then look for the start of the next tax year.

The tax year a medium company transitions to a small company based on the new thresholds will depend on the company year-end date. The earliest tax year for transitioning to small for off-payroll purposes will be 2026/27 or 2027/28.

Company year-end date	Tax year for off-payroll
28/02/2025	6 April 2027
31/03/2025	
30/04/2025	
31/05/2025	
30/06/2025	

Company year-end date	Tax year for off-payroll
31/07/2025	6 April 2028
31/08/2025	
30/09/2025	
31/10/2025	
30/11/2025	
31/12/2026	
31/01/2026	
28/02/2026	
31/03/2026	

### Off-payroll timings impact

To determine the date a medium company becomes small involves three areas of tax statute:

[Chapter 10 ITEPA Section 60A – When a company qualifies as small for a tax year](#)  
[Companies Act 2006 Section 382 – small companies thresholds](#)  
[Changes under SI/2024/1303 – Reg 3 – Transitional provision](#)

Section 382(3) tells us that a company meets the qualifying conditions in a year that satisfies two or more of the requirements. But Section 382(2) tells us that, for subsequent financial years after the first year, where a company meets or ceases to meet the qualifying conditions, that affects its qualification as a small company only if it occurs in two consecutive financial years. You must be small for two years before you are no longer medium.

Under the Reg 3 transitional provision we are told that a company is to be treated as having qualified (and met the qualifying conditions) as a small company in any previous year in which it would have so qualified if amendments to the same effect as the amendments made by regulations 9 and 10 (e.g. threshold changes) had had effect in relation to that year and preceding financial years. But that rule only applies if the financial year begins on or after 06 April 2025.

We now turn to [Section 60A ITEPA 2003](#) to see when a company qualifies as small for a tax year. For existing companies, the statute informs us that the small companies regime applies to the company for its last financial year that is relevant to the tax year and that a financial year of a company is ‘relevant to’ a tax year if the period for filing the company’s accounts and reports for the financial year ends before the beginning of the tax year.

### Threshold examples for medium companies

Let’s consider the tax year starting 6 April 2026. To be treated under off-payroll as small for a tax year beginning 6 April 2026, the latest the company year reporting period end could be is 31/03/2026, meaning a company financial year of 01/07/2024 to 30/06/2025. Reg 3 is unavailable because it can only be triggered if the financial year starts earlier than 6 April 2025. So, a second year is needed to become small, meaning the earliest year is 6 April 2027.

We can also look at a company with a start year of 01/05/2025, which falls within Reg 3(1). Its company year end is 30/04/2026, with a reporting deadline nine months later on 31/01/2027. The subsequent tax year would be 06/04/2027, and because of Reg 3(1), we can look back and effectively have two qualifying years in a row. So, 06/04/2027 is the year the company could become small for off-payroll.

When you run the analysis for medium companies with a company year-end on or after 31/07/2025, the companies become small in 2028.

The off-payroll tax burden for existing medium companies, who are turning small, will not take effect for 2-3 years, with the earliest date being the tax year beginning 06 April 2027.

### HMRC confirmation

The legislation's [Explanatory Memorandum](#) (point 9.5) by HMRC confirms that the changes will impact "the application of the off-payroll working tax rules, under Part 2 of the Income Tax (Earnings and Pensions) Act 2003, commonly referred to as IR35", and that it is "...expected to result in an Exchequer cost of approximately £20m per annum from 2026/27 onwards".

HMRC guidance [ESM10006](#), updated 8 April 2025, confirms that the earliest year is 2027/28: "Incorporating the principles regarding relevant years for OPW purposes, for the usual 12-month financial year, the earliest tax year the transitional provision will impact a client is 2027/28. This is because the earliest possible filing date for an accounting period beginning on or after 6 April 2025 is in January 2027, which would be relevant for the 2027/28 tax year."

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