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EMPLOYMENT STATUS REFORM

Representation by the Association of Taxation Technicians in respect of Budget 2026

1 Introduction

1.1 The Association of Taxation Technicians (ATT) believes that the government needs to reform the current framework for determining employment status in the UK. The existing position is somewhat fragmented, based on a combination of tax legislation, case law and ad-hoc reforms. This means that similar circumstances can, in some cases, produce different results for tax and employment law purposes.

1.2 The absence of a clear statutory framework for distinguishing between contractors, workers and employees causes additional administrative burdens for businesses that use different forms of labour as they grow and expand. This creates uncertainty for both the individuals carrying out the work and the businesses engaging them, potentially discouraging entrepreneurship and restricting opportunities for economic growth.

1.3 Businesses engaging workers need to have greater certainty over whether those carrying out the work are treated as employees, to ensure that they are meeting the necessary employer reporting obligations for Income Tax and National Insurance, as well as complying with National Minimum Wage/National Living Wage and employment rights legislation. This is particularly relevant following the additional employment protections in the Employment Rights Act 2025 and the establishment of the Fair Work Agency.

1.4 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This submission is written with that background.

2 Our recommendation

2.1 The government should consult with stakeholders on options to introduce a single common statutory framework for employment status in the UK. Such a framework should have a statutory underpinning similar to the Statutory Residence Test[1], such that it brings clarity on the treatment for most arrangements that is consistent for tax and employment rights purposes, with very few differences.

[1] Schedule 45, Finance Act 2013

2.2 Once such a framework is in place, the government should overhaul the existing HMRC Check employment status for tax (CEST) tool[2] and introduce a replacement which can reflect the new test, giving an indicative position for most working arrangements.

2.3 As well as providing greater clarity, where appropriate the government should consider the application of decisions made in employment tribunals for tax purposes and vice versa. It is not helpful to have different conclusions for the same set of circumstances.

2.4 This recommendation is particularly timely following the additional employment protections introduced by the Employment Rights Act 2025 and the establishment of the Fair Work Agency, both of which increase the importance of clear, consistent and reliable employment status determinations.

3 Background to our recommendation

3.1 The Taylor review of modern working practices[3] identified the importance of applying similar treatment for tax and employment rights purposes. However, to date successive UK governments have not brought forward proposals to make this a reality, leading to continuing uncertainty for individuals carrying out work and the businesses who engage them.

3.2 The current framework for employment status is complicated and has created inconsistencies in the treatment of the same circumstances for different purposes. This means that different tests apply for the purposes of Income Tax and National Insurance, National Living Wage and National Minimum Wage compliance and employment rights legislation. There can be broader impacts, including the requirement for an employer to pay Apprenticeship Levy and comply with pensions auto enrolment requirements.

As such, some individuals may be treated as self-employed for one purpose but as an employee for another, potentially being subject to Income Tax and Class 1 National Insurance as an employee without benefiting from the protections of the Employment Rights Act 2025 and previous employment rights legislation (and vice versa).

3.3 As well as different rules, the existing framework has created different levels of compliance and enforcement bodies. Examples include HMRC and tax tribunals on the one side, with employment tribunals and the Fair Work Agency on the other.

3.4 By introducing a statutory framework like the Statutory Residence Test, businesses would have greater certainty over the status of all those who carry out work for them. This would give businesses confidence that decisions taken at the outset are less likely to result in unanticipated liabilities arising at a later date due to uncertainty over whether an individual should be treated as a contractor, worker or employee.

3.5 Greater certainty will improve, and reduce the cost of, compliance and this in turn will ensure that the correct amount of Income Tax and National Insurance is paid to HMRC, enabling it to reduce the tax gap by focusing on those arrangements that deliberately do not comply with the rules.

3.6 Employment status is not just relevant for those employed directly. It is also important to the application of the off-payroll working rules (IR35) for assignments in both the private and public sectors and the application of the Agency Worker Regulations.

[2] https://www.gov.uk/guidance/check-employment-status-for-tax
[3] https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices

3.7 Misclassification can lead to significant financial and compliance risks. The complexity of determining whether an individual is an employee or is self-employed can be illustrated in the recent final decision of the First-Tier Tribunal regarding the employment status of football referees engaged by Professional Game Match Officials Ltd (PGMOL). The decision again highlights how complex and often misunderstood employment status can be.

Whilst the case eventually found in favour of PGMOL, it highlights some of the limitations of the current position.

3.8 In addition, we often receive feedback about the inadequacies of HMRC's CEST tool. Whilst HMRC states[4] that results given by the tool will not be challenged, as long as the information provided while using the tool is accurate, complete and in line with HMRC guidance, the lack of clarity in some questions means that many individuals and businesses may struggle to answer accurately, reducing confidence in CEST outcomes.

3.9 For these reasons, the ATT considers that whilst consultation on a statutory employment framework should be a priority, reform of CEST is also important once a framework is in place.

4 Contact details

4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our relevant Technical Officer, Chris Campbell on atttechnical@att.org.uk.

The Association of Taxation Technicians

08 September 2026

5 Note

5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.

[4] ESM11010