Cranleys
CHARTERED ACCOUNTANTS



CRANLEYS' CUNNING PLANS · No. 06 · STARTING UP

First Hires, Contractors and IR35 Checklist

Tick it, print it, pin it up. Every box you cannot tick is a conversation worth having.

A first hire is a big step. Check the paperwork before you check the cake.



By Colin Davison FCA, Managing Partner, Cranleys Chartered Accountants. In practice since 1998. Reviewed 15 November 2026 against the 2026/27 rules.

THE QUICK ANSWER

Decide whether the person is an employee or a genuine contractor by the facts of the working relationship. For employees, check right to work, give a written contract, run payroll, enrol them in a pension and take out employer's liability insurance. Include employer National Insurance and pension in the true cost.

THE KEY FIGURES

The key facts	What to know
National Living Wage	£12.71 (21 and over)
Employer NIC	15% above £5,000
Employment Allowance	up to £10,500
Auto-enrolment	earnings trigger £10,000, minimum 3% employer
Employer's liability insurance	legally required, at least £5m cover

The checklist, box by box

	The check	What to do	Keep as evidence
☐	**Employee or contractor?**	Look at control, substitution, mutuality and financial risk. A contract label does not decide it.	Contract, working practice notes
☐	**Right to work check done?**	Check and keep evidence before they start.	Check record
☐	**Written contract and terms?**	Give a written statement of terms from day one.	Signed contract
☐	**Payroll and pension in place?**	Register for PAYE and run payroll. Enrol eligible staff and pay employer contributions.	Payroll, pension scheme
☐	**Employer's liability insurance?**	Required for most employers.	Certificate displayed
☐	**True cost calculated?**	Salary plus employer NIC, pension, holiday and equipment. Employment Allowance may offset NIC.	Cost sheet

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MY PRO TIP

employee or contractor is a question of facts, not a label.

A worked example

An employee on £30,000 costs 15% employer NIC on £25,000, which is £3,750, plus employer pension of 3% on qualifying earnings of £23,760, which is £713. Total is about £34,463 before holiday and equipment. If you can claim the £10,500 Employment Allowance, the NIC element is covered.

The trap to avoid

Calling someone a contractor to avoid payroll. If they work like an employee, HMRC can tax them like one, and you carry the bill.

The Rufus test

One question that tells you if you have the right adviser:

If HMRC looked at how this person really works, would they call them an employee or in business on their own account?

What has changed recently

- The National Living Wage is £12.71. See the payroll checklist.
- IR35 limits for small clients rose in April 2026. See the IR35 checklist.
- Plan hiring costs alongside cashflow. See the scaling cashflow checklist.

Questions I get asked

What do I need to do when I hire my first employee?

Check right to work, give a written contract, register for PAYE, enrol them in a pension and take out employer's liability insurance.

What is employer National Insurance?

15% on pay above £5,000 a year per employee, with up to £10,500 Employment Allowance for many employers.

Contractor or employee?

It depends on the facts: control, substitution, mutuality and who bears financial risk.

Do I need employer's liability insurance?

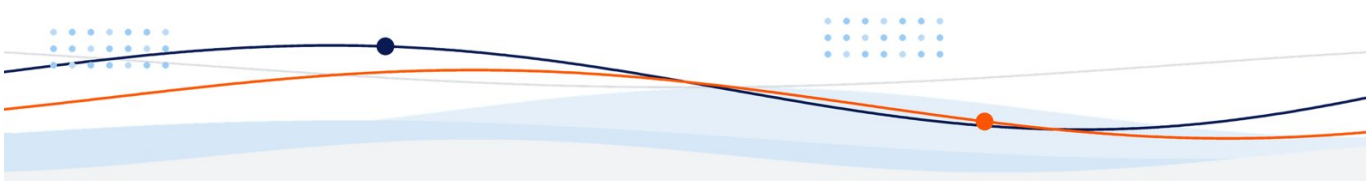
Most employers do, with at least £5m of cover.

The 9 CAD Keys link: Capability

Capability is the systems that let you hire well and pay properly, from day one.

Colin's 9 CAD Keys. CORE: Clarity, Capability, Consistency. ADVANCED: Analysis & Positioning, Alignment, Acceleration. DYNAMIC: Differentiation, Dexterity, Development. Score each key 1 to 5 in the free Business Value Assessment Scorecard, total out of 45. *Freedom is built. One CAD Key at a time.*

Tick these next



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Business checklist 05
Tax Registration Checklist: VAT, PAYE, CIS and Self Assessment

Business checklist 12
Hiring, Managing and Keeping Good People Checklist

Tax checklist 17
Employment, Payroll and Benefits Checklist 2026/27

Tax checklist 24
IR35 and Off-Payroll Working Checklist 2026/27

Go deeper: my books

For this topic, start with **Starting Up Secrets**, part of The Cranleys Business and Tax Secrets Series: Property Tax Secrets, Inheritance Tax Secrets, Business Tax Secrets, Starting Up Secrets, Business Growth Secrets and Business Exit Secrets. The books are launching soon. Join the launch list at cranleys.online/books and I will tell you the moment each one is released.

YOUR NEXT STEP

Ring me. Free draft plan, no hard sell.

I will build you a free draft tax plan or business plan on my 9 CAD Keys: a scorecard, a 12-month cashflow forecast, a 90-day action plan and a review with me. **1** Get in touch. **2** Short intro call. **3** Your free draft plan in plain English. You decide what happens next.

Welcome aboard, tick the boxes.

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Scan to read online, tick it on screen and take the Scorecard



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