

Business Tax

GIG ECONOMY TAX RULES: FAQS FOR WORKERS AND BUSINESSES



The gig economy has transformed the way people work, with more individuals earning income through short-term contracts, freelance work, and app-based platforms such as delivery services or ride-sharing.

Many gig workers have multiple sources of income at the same time. While flexible working has clear benefits, it also brings increased tax complexity.

The key issue for both workers and businesses is ensuring the correct employment status is applied, as this determines how income tax and National Insurance contributions (NIC) must be handled.

HMRC has increased its compliance activity in relation to gig economy arrangements, particularly where working practices do not align with contractual terms or where employment structures may not reflect the true relationship. Getting things wrong can have serious consequences.

HOW MUCH TAX DO GIG WORKERS PAY?

How much tax and National Insurance is due depends on your employment status. For tax purposes, gig workers may fall into one of three categories:

- Employee
- Worker
- Self-employed.

Some gig workers are taxed as employees through PAYE, while others are treated as self-employed and must declare their income through Self Assessment. The tax rules differ significantly depending on which category applies.

CAN I CHOOSE WHETHER I'M EMPLOYED OR SELF-EMPLOYED?

No. Employment status is not a matter of choice. Your employment status is based on the reality of the working arrangement, not simply what the contract says.

Even if a contract describes you as self-employed, HMRC may still consider you to be an employee or a "worker" depending on the working arrangements in practice.

HOW DO I WORK OUT WHETHER I'M EMPLOYED OR SELF-EMPLOYED?

HMRC and the courts assess the status of gig workers using established case law principles, including:

- Control (who decides how, when and where the work is done). Do you have autonomy over how, when and where you work? Do you decide your own schedule? If so, this supports the argument for self-employment.
- Substitution (whether you can send someone else to do the work). If you can (and do) hire someone else to perform the work, this suggests self-employment.
- Mutuality of obligation (whether work must be offered and accepted). If there is an expectation that the engager will offer work and that you will accept it, it suggests an employer/employee relationship.
- Provision of equipment (who provides the tools required?) If you provide your own equipment, such as cameras or editing software, this supports self-employment.

- Financial risk (whether you can make a loss or profit). If you bear the risk of making a loss or profit, this would again support the argument that you are self-employed.

Status is assessed on a case-by-case basis.

Recent tribunal decisions have shown that individuals described as self-employed may still be treated as “workers”, which can significantly affect tax and NIC obligations.

WHAT IS THE DIFFERENCE BETWEEN AN “EMPLOYEE” AND A “WORKER”?

A “worker” is a category that sits between employee and self-employed.

Workers often have fewer rights than employees but may still be entitled to certain protections (such as holiday pay). From a tax perspective, worker status can result in PAYE and Class 1 National Insurance applying, depending on the arrangement.

IF I’M PAID THROUGH PAYE, DOES THAT MEAN MY TAX CODE IS CORRECT?

Gig workers often have multiple jobs or income streams. Where this happens, PAYE tax codes may not be applied correctly, which can result in underpayments or overpayments of tax.

If you have multiple income streams, you should review your tax code and check your tax position at the end of the tax year.

DO GIG WORKERS NEED TO COMPLETE A SELF ASSESSMENT TAX RETURN?

You may need to register for Self Assessment if:

- you are classed as self-employed
- you earn untaxed income from freelance or platform work
- you have multiple income sources that are not fully taxed through PAYE.

If you are unsure, it is advisable to seek professional advice to confirm your obligations.

If you are classed as self-employed you are responsible for:

- registering with HMRC
- keeping business records
- submitting a tax return each year
- Making quarterly submissions under Making Tax Digital (MTD), where applicable
- paying income tax and National Insurance directly.

WHAT NATIONAL INSURANCE CONTRIBUTIONS (NICs) DO SELF-EMPLOYED GIG WORKERS PAY?

The type of NICs paid depends entirely on employment status.

If you are classed as self-employed, you will generally pay Class 4 National Insurance based on taxable profits.

If you’re an employee, you’ll typically pay Class 1 National Insurance, which is deducted through PAYE.

DO SELF-EMPLOYED GIG WORKERS STILL QUALIFY FOR STATE PENSION?

Yes. Although Class 2 National Insurance was abolished from April 2024, if you earn above the minimum profit threshold you are treated as having paid Class 2 NICs for benefit entitlement purposes.

If your earnings are below the threshold, you may be able to pay voluntary contributions to protect your state pension entitlement.



CAN GIG WORKERS CLAIM EXPENSES?

Yes, but again, the rules around what you can claim depend on your employment status.

Employees can only claim expenses that are wholly, exclusively, and necessarily incurred in performing their duties. This is a strict test and expenses must meet all three criteria.

Common examples include:

- Travel expenses incurred wholly and exclusively for work purposes, such as travel between workplaces. Commuting between home and a permanent workplace is not allowed.
- Professional fees and subscriptions such as the fees paid to approved professional bodies or societies relevant to the employment.
- If you're self-employed, the rules are more flexible, allowing deductions for expenses that are wholly and exclusively incurred for the purposes of the trade.

WHAT EXPENSES CAN GIG WORKERS TYPICALLY CLAIM IF THEY ARE SELF-EMPLOYED?

Common allowable expenses may include:

- Office costs: Rent, utilities, and office supplies are deductible if used for business purposes.
- Travel expenses: Costs of travel for business purposes, including mileage for business journeys, are allowable. However, travel between home and a regular place of work is not deductible.
- Marketing and advertising: Costs incurred to promote the business, such as website hosting or advertising, are deductible.
- Professional fees: Accountancy, legal, and other professional fees related to the business are allowable, except for fines or penalties.
- Use of home as office: A proportion of home expenses (e.g. rent, utilities) can be claimed if part of the home is used for business purposes.

The rules depend on individual circumstances, and accurate record keeping is essential.

ARE GIG ECONOMY PLATFORMS AND BUSINESSES BEING SCRUTINISED BY HMRC?

Yes. HMRC has increased its compliance activity in relation to gig economy arrangements, particularly where working practices do not align with contractual terms or where employment structures may not reflect the true relationship.

Tribunal decisions have also increased focus on whether individuals treated as self-employed should in fact be taxed as workers or employees.

WHAT HAPPENS IF HMRC CHALLENGES MY EMPLOYMENT STATUS?

If HMRC reviews an arrangement and decides the status is incorrect, additional tax and National Insurance may become payable.

In many cases, liability may fall on the engager if the individual should have been treated as an employee. This can result in unexpected PAYE liabilities, interest, and potential penalties.

If a gig worker is classed as employed, the engager (i.e. the business using the gig worker) is responsible for operating PAYE, including:

- deducting income tax
- deducting employee National Insurance
- paying employer National Insurance.

WHAT SHOULD PLATFORMS AND ENGAGERS DO TO REDUCE RISK?

Businesses using gig workers should ensure that:

- working arrangements reflect the correct status
- contracts match real working practices
- PAYE is operated where required
- records are kept to support status decisions
- they monitor developments in case law and HMRC guidance.



WHAT SHOULD GIG WORKERS DO TO STAY COMPLIANT? HOW MOORE CAN HELP

Gig workers should:

- confirm their employment status is correct
- check PAYE deductions and tax codes if employed
- register for Self Assessment if self-employed
- register for Making Tax Digital if self-employed and turnover meets the threshold test
- keep accurate records of income and expenses
- file and report tax and National insurance due, where self-employed, to HMRC
- budget for tax and National Insurance liabilities
- seek advice early if HMRC raises concerns.

DO THE OFF-PAYROLL WORKING RULES (IR35) APPLY IN THE GIG ECONOMY?

They can. The off-payroll working rules (IR35) apply where individuals provide services through an intermediary such as a personal service company (PSC).

Medium and large private sector clients are generally responsible for assessing status under these rules. Small companies may be exempt, meaning responsibility remains with the intermediary.

Need advice on gig economy tax rules?

Whether you are a gig worker with multiple income streams or a business engaging contractors through digital platforms, it is important to ensure employment status is correctly assessed and the right tax treatment is applied.

Our team can help you review working arrangements, confirm compliance obligations, and reduce the risk of unexpected tax liabilities.

Get in touch to speak to a member of our tax team today.

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