

Misclassification of Employees for Irish Tax Purposes - Settlement Arrangements

What you Need to Know

- The Irish Supreme Court case Karshan / Domino's Pizza and subsequent Irish Revenue guidance has put significant focus on determining employment status for tax purposes in Ireland.
- Revenue is now providing employers with an opportunity to correct any payroll tax issues arising from bona fide classification errors for tax years 2024 and 2025, without penalty or interest.
- Employers who, acting in good faith, misclassified workers as self-employed during that period can now make a disclosure to Revenue.
- The proposed process allows for the regularisation of income tax, USC and PRSI liabilities without penalty or interest.
- The settlement arrangement is only available for errors made in good faith and not in cases where misclassification was deliberate or careless or there was an existing Revenue compliance intervention.
- Disclosures under this settlement process must be made by 30 January 2026.

Background and Influence of Karshan

The Supreme Court judgment in *The Revenue Commissioners v Karshan Midlands Limited t/a Domino's Pizza* ("Karshan") was delivered in October 2023. The judgement provides

guidelines for businesses to assess worker status for tax purposes. Revenue updated their guidance in May 2024 to reflect the new five-step framework established for determining if a worker is an employee or self-employed. Revenue emphasised that businesses must review existing worker arrangements and retain evidence of their analysis (see our previous Industry Update: [New Irish Revenue Tax Guidance on Determining Employment Status - Maples Group](#)).

Revenue recognises that employers may have faced difficulties in making the necessary adjustments to their payroll systems following the Supreme Court judgement. However, Revenue's view is that there should be no reason for employers to have any ongoing classification issues for 2024 or subsequent year, given the clear framework for worker classification provided in the October 2023 judgement.

New Revenue Guidance –Settlement arrangement

Revenue's Tax and Duty Manual sets out a remediation process for employers affected by the Supreme Court's decision in Karshan. Employers who discover that they have misclassified workers as self-employed for taxation purposes based on caselaw and guidance available prior to the Karshan judgement now have a limited opportunity to regularise the misclassification by making a relevant disclosure before 30 January 2026.

Employers can avail of the settlement arrangement to the extent that appropriate payroll arrangements were not in place for the relevant workers in 2024 or 2025. Revenue has provided detailed guidance and examples for

calculating the outstanding tax liability, which can be found here: [Karshan disclosure opportunity guidance - Revenue](#). Employers can only avail of the settlement arrangement where there has been bona fide classification errors for those years and they have acted in good faith.

The new guidance does not apply where the worker should already have been classified as an employee under the Code of Practice on Determining Employment Status in effect prior to October 2023. The settlement arrangements specifically exclude matters relating to any intervention which was open prior to 20 October 2023.

Where Revenue is of the opinion that the misclassification has arisen from either careless or deliberate behaviour, the full liability to Income Tax, USC and PRSI and interest and penalties will be pursued as provided for under the terms of the relevant legislation.

Upon successful engagement with the settlement arrangement process as described, Revenue will treat any adjustment of liability in respect of 2024 and 2025 as a “technical adjustment” under the Code of Practice for Compliance Interventions. As a result, no tax-gear penalty will arise and it will be accepted that the taxpayer has taken due care, and that the matter being corrected did not involve deliberate behavior.

Disclosures must be submitted together with payment via REVPAY of any liability by 30 January 2026. Employers also have the option of entering into a Phased Payment Arrangement (such request must be made at the time of disclosure and interest is applied over the repayment period).

What Should Employers Do and Why

Employers are responsible for ensuring that the correct taxes are deducted from their employees' pay, and that this is reported through the PAYE system.

Employers should review their employee arrangements to ensure compliance and take advantage of this opportunity before 30 January 2026.

Where an employer fails to disclose liabilities before the deadline, and the liabilities subsequently come to light, Revenue will form the view that the default has arisen from a complete failure to operate fiduciary taxes and will apply the relevant 're-grossing' legislation in relation to the failure to operate PAYE, PRSI and USC, as well as interest and penalties.

Further Information

For further information, please liaise with your usual Maples Group contact or any of the persons listed below.

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