



Managed Service Companies

STOP PRESS!

Eagle-eyed readers will have noticed that deep within the press releases for the Pre-Budget Report ("PBR") there was a section on "Managed Service Companies". This was a press release with draft legislation which started a consultation process to block a tax arrangement seen by the government as an abuse. In true style and with unparalleled timing this knocked on the head Topical Tip (number 89) issued by us only recently.

The government have concluded that the use of Managed Service Companies ("MSC") to avoid paying "employment level taxes" on employed income for large numbers of workers was incompatible with the government's drive to make all people pay the "right amount of tax". The government feels that existing legislation makes the fact that tax is due very clear, but the abuses identified are labour intensive to prove and often the MSC merely goes into liquidation to avoid any tax due.

The draft legislation will, after a swift consultation process, come into effect from April 2007. This will make MSCs liable to account for PAYE and NIC on all payments made to employed workers. Also, to avoid such MSCs ducking the payment of such tax by going into liquidation the law will allow the collection of such tax from connected parties, such as the managers of such schemes.

The government have also noted the distinction between persons running their own business and receiving dividends and those merely working as an employee, but receiving dividends via a MSC. The legislation is not designed to catch those persons working in and running their own business.

The government have stated that Personal Service Companies will not be targeted by this legislation, but in the process they have re-stated their view that the legislation known as IR35 will still be relevant to many such engagements.

For this reason we recommend that all clients consider any corporate engagements their companies have to ensure that they are not exposing themselves or their subcontractors to an unexpected tax bill. After all, a large bill in the New Year would be very unwelcome.

Please contact your Barnes Roffe Partner for advice.

Please also see our website for full details of the Pre-Budget Report.