

Contractors have a new kind of company to use

With the new legislation in force covering [managed service companies](#), many contractors are looking around for the right way to manage their affairs.

New Kind of Company

Most contractors still choose a [limited company](#) of their own, because it offers the most tax advantages. But a new kind of company has emerged for contractors since the legislation came in, and it's kind of surprising.

There is an increasing trend in which groups of contractors share a limited company, but are paid by it as self-employed workers. What this means in practice is that the company has no tax involvement with the contractors--it simply pays them gross plus [VAT](#) as it would for any goods or services it purchased.

Revenue So Far Agrees

The good news for this new structure is that the Revenue has been examining them, and has found that, thus far, they seem to be okay. It's not a stamp of approval, mind you! But what is clear is that the Revenue will not examine those companies as managed service companies.

Says one representative of the Revenue: "We have seen a growing number of these companies in the past month or two. Those that we have examined so far do not seem to be tainted by the managed service company qualifications.

At first glance, the logic of the Revenue in this matter may seem hard to understand. A managed service company is, by definition, a company that groups a number of contractors in an effort to manage the legal and administrative side of their affairs for them. Well, that sounds a lot like this new kind of company. Similarly, the managed service company is not controlled by the contractors themselves--this is the crucial issue--it is controlled by a provider whose business is to run companies for other people. Well, that also sounds like this kind of company.

Not Abusive

But the Revenue has repeatedly made it plain what it considers an abusive managed service company provider. Take the following example: a group of office cleaners go to a managed service company provider and all become shareholders. Now office cleaners would normally either be self-employed or would be employed by an agency or the company that they are cleaning for. Instead, they become shareholders in a managed service company and get dividends instead of salary, thus receiving a far lower tax rate than they would otherwise.

This doesn't happen with the new company we're describing. In this structure, the contractors are responsible for their own taxes which they would pay at a higher rate than they would as [dividend](#) receivers in a limited company.

So it's clearly not a managed service company. But what is the advantage?

There are at least two, and possibly more.

- o Agencies like to deal with limited companies.
- o Contractors don't have to do the administration for a company, just their own

Agencies in general prefer to work with other limited companies. This limits their liability and simplifies their paperwork. [Umbrella companies](#) are great for this of course, and if you prefer to use one it resolves all of these issues for you.

But if you prefer to do your own [taxes](#), and above all to handle your own [expenses](#)-- as a self-employed worker, you can deduct your own expenses from your taxes-- then this new form of company could be for you. Bear in mind that you will have to take good care about documenting your own taxes in this format, and so hiring an accountant may be a logical step. Or just go with an umbrella and have it all done for you.

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“ ...the accountant I used did the whole thing for me in a week or so. Very painless.”

Paul Hill

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“ Those companies of this type that we have examined so far do not seem to be tainted by the managed service company qualifications ”

HMRC

“ A managed service company is not run by the contractors but the contractors get the tax benefits as if they did ”

HMRC

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