

Contractors risk falling into dodgy schemes under new law

The Revenue started this year by making life tougher for new contractors, The result is that an increasing number are being lured into dodgy schemes, according to a new survey. But a new scheme floated by HMRC could change all this.

Most contractors start out by finding work on a job board, talking to the agency that placed the ad, and taking their first contract. It then becomes clear that they need some way to administer their affairs, especially since most agencies will only deal with a contractor via another company of some sort.

What To Do?

So they ask the agency what to do. It used to be that agencies had lists of preferred suppliers, and simply directed the contractor to a few of these. But not since last April when the [managed service company legislation](#) came into force. Now agencies risk getting 'involved' with contractors when they make such recommendations, and HMRC could hold them liable for tax debt.

A survey of employment businesses by the Watford-based chartered accounting firm [JSA](#), which specialises in contractor affairs, shows that nearly two-thirds of these are indeed afraid to make such recommendations, and they no longer keep preferred supplier lists.

Perhaps more worryingly, nearly 50% of respondents expressed concern that some of their contractors were falling into potentially illegal tax schemes as a result of the new legislation.

Barry Roback, chief executive of JSA said: "The results of this questionnaire demonstrate only too clearly the unintended consequences of the recent managed service legislation. The vital link between agencies, contractors and accountancy service providers has been temporarily severed and it is going to need a lot of persuasion and firm guidelines from HMRC before agencies are once again prepared to return to preferred supplier lists."

“ Clearly there is danger to new contractors under this new law ”

Barry Roback - JSA

Be Careful On The Web

"Clearly there is danger for new contractors under this new law," Roback points out. As in any industry, the contracting industry includes a number of service providers who are either ignoring the new legislation or who are trying to get around it. These scheme providers often advertise on the Web, and that is the first place new contractors go for help since the agencies can't help them. "What they should realise is that HMRC also surfs the Web," Roback points out.

The new legislation has not been favourable to agencies as well as to contractors. Of the agencies surveyed, half of the respondents also said that the legislation has had a negative financial impact on their business. This is not surprising as the lack of clarity in the drafting of the legislation set the entire industry into a panic: contractors, agencies, and service providers alike all stopped working in their usual way, and began spending money and time to determine how to become compliant.

New Scheme Will Help

Fortunately, [HMRC is planning an scheme](#) which will bring relief to all parties. The plan is to provide guidelines so that service providers like accountants and lawyers can be audited. The big consultants like Price Waterhouse and KPMG will be drafted to do the audits, and providers who pass the audit are most unlikely to attract the attention of HMRC, as representatives of the Revenue have clearly stated.

This will work. All the agencies that responded to the survey said that they would support HMRC's suggested audit provisions, and hopefully this will let us all get back to doing business as usual.

“ The vital link between agencies and contractors and service providers has been severed ”

Barry Roback - JSA

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