

Contractor recruitment sector could face a shakeup says Charterhouse

The Treasury has now drafted legislation on third-party debt, and published it on February 8, 2007.

As was announced in the [December publication by the Treasury](#) on attacking [managed service](#) and [composite companies](#), (a form of managed service company where a number of contractors share one company, run by an accountant or similar, and where the contractors receive dividends, salary and expenses), the proposal is to hold third parties liable for tax debt incurred by managed service companies should they not make payment. Further the proposal is to treat those within managed service companies as if they are employees, and they are to be obliged to pay tax on salary and National Insurance contributions.

This legislation, should it be passed in its current form—and many in the industry are protesting vigorously—spells major changes to the contractor-recruiter relationship.

Charterhouse Predicts the End of Composites

Explains Mark Bale, group taxation manager at the Ramsey-based [Charterhouse Group International](#), a provider of remuneration solutions to the global staffing industry, and of a range of services with financial advantages for temporary workers: "the legislation is expected to be enacted in April broadly as published in draft. This will spell the end of composites as currently configured and lead to a redrawing of the market place. It is expected that the new landscape will be composed of offerings of personal service companies (PSC's), [Umbrella's](#) and Agency payroll offerings, although there is still a considerable degree of uncertainty abounding."

Bale stressed the need for transparency as a result of the proposed changes to legislation. "If enacted as drafted the whole recruitment sector needs to be aware of the (proposed) ability for HMRC to transfer a "PAYE Debt" [NIC's debt legislation still to be published to third parties]. This suggests it will be even more important than ever to know your business partners and to be careful you follow the compliant option. If recruitment agencies chase that extra percentage point on their margin by dealing with the non-compliant operators in the market the short term gain may lead to long term pain."

A Shake Up Expected

Bale continues: "The pair of documents released by the Treasury for consultation on tackling managed service companies will inevitably lead to a substantial shake up in the temporary recruitment sector. In the meantime it is a case of watch this space, the Budget date for 2007 has just been announced for 21 March and in the meantime the sector is looking for reassurance as a result of the lack of certainty over current proposals."

“ It will be even more important than ever to know your business partners ”

Charterhouse Group-Mark Bale

Treasury Seeks to Recover Billions

These proposals stem from two issues which the Government had stressed in its December attack on managed service companies. The Government's first concern of all was that [IR35](#) was not being applied in the sector, and claimed a loss of billions of pounds. Then, the Treasury believes that expense rules were being abused by managed service companies who were allowing contractors to make [expense claims](#) which were not justified under Tax legalisation. Where the Revenue attempted to recover back tax under current rules, the managed service companies would simply go into insolvency.

Charterhouse has announced that the company welcomes the document in terms of aiming for a level playing field within the industry, something that Charterhouse have been calling for directly with the Revenue.

“ The move will inevitably lead to a shake up ”

Charterhouse Group-Mark Bale

"We are committed to continuing to work within the Revenue guidelines to provide products and services to the recruitment industry." Bale went on to reassure that, as with previous changes in legislation and procedures, Charterhouse will continue to work closely with their business partners and keep them updated.

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