

Contractors should vet providers carefully, says HMRC

At a meeting organised by the [Professional Contractors Group](#), HM Revenue & Customs policy director Robin Wythes told contractors to carefully vet their service providers to ensure that they do not fall under the new managed service company legislation.

"At the Revenue, we are looking carefully at former managed service company providers who are, or should be, converting to different kinds of services. We are also looking carefully at providers' Web sites to see if [managed service companies](#) are still being offered, perhaps in a different format," Wythes says.

Wythes was careful to point out that providers who are now compliant have nothing to fear from this approach. "It is an issue that should be discussed with the provider, the accountant, or whatever professional advisor the contractor chooses."

Providers of managed service companies must, under the recent legislation, use tax treatment for contractors who use managed service companies as though they were employees in a PAYE scheme. Providers who do not do this will make the contractors liable for back taxes.

Citing the responses made in parliament on this subject by the Treasury's financial secretary John Healey, Wythes stated that the difference between a managed service provider and an accountant or other professional advisor should now be clear. "An accountant giving advice, or setting up a [limited company](#) for contractors who are actually going to manage them themselves is clearly not a managed service provider. What we are looking at are providers who claim to offer tax breaks to contractors on the basis of running a limited company for them. The ones who say: 'Sign up with us and save 200 pound on your taxes' are the ones we will be looking at."

Wythes also discussed the fraught question of third-party liability for contractor tax debt. Wythes again cited the remarks of John Healey in parliament stating that the provision was intended for exceptional use.

"One of our concerns in this area is the movement of contractor activities offshore," Wythes explained. "If we find contractors with companies that are being run offshore, and we are unable to collect taxes that are due under the managed service company provisions, we will hold third parties responsible for them. But first, we will seek to collect from company directors. Only after that will we approach other parties 'involved' with the company."

John Kell, policy spokesman at PCG, added: "Contractors should now have a fairly solid understanding of the managed service company issue. "We now have a reasonable and clear definition of what a managed service provider is, what the provider does, and what a compliant provider should do. Contractors who run their own companies and work with professional advisors have nothing to fear."

Despite the improved understanding of the legislation, some observers have constated concern on the part of agencies which are now hesitant to recommend professional service partners lest they be considered 'involved with the contractor's company.' Says Barry Roback, CEO of the accounting firm [JSA](#) which specialises in contractor services: "We are noting some concern on the part of agencies-- some are afraid to make recommendations. This is unfortunate as it leads to contractors having to seek out professional service firms themselves. They risk making bad choices. Agencies should now realise that they run no risk in working with compliant professional service companies as the Revenue has made this perfectly clear."

“ We are looking at providers ”

Robin Wythes - HMRC

“ We are now in a somewhat better position than we have ever been in regard to IR 35 ”

John Kell - PCG

Published: Thursday, June 21, 2007

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