

Contractors need to know what is a managed service company?

Are contractors with limited companies affected by HM Revenue's attack on [managed service companies](#)? Since March 21, when the Treasury came out with the legislation which penalises those who run companies for contractors--managed service companies--the entire industry has been seeking a clear answer to this question. Several companies that provide administrative services for contractors have issued notices all of which offer different definitions.

Setting the Record Straight

The London-based [Professional Contractors Group](#) (PCG) is trying to set the record straight. Says John Kell, policy director for the PCG: "ordinary limited companies are unaffected by the new tax rules on managed service companies.

As Kell points out, purveyors of 'composites,' companies which hosted a number of contractors, were creating numbered strings of limited companies--the so-called 'Personal Service Companies'--in an effort to get around the new legislation. According to Kell, the Treasury will not allow such loopholes. The recent announcement that one leading provider, Giant, is abandoning 'personal service companies' entirely and switching all its contractors to a [PAYE Umbrella](#) is evidence that this approach will not work.

PCG warns contractors to be wary of the term "Personal Service Company:" it has no basis in law and PCG does not use it. The best route for contractors who wish to operate in business is to [set up their own limited company](#). Genuine limited companies, whether they are referred to as "PSCs" or not, are unaffected by the new rules.

Legitimate Limited Companies Won't Suffer

"But the Treasury does not intend to attack contractors who run legitimate limited companies, that is, who do business like all other limited companies," Kell says. "They have made that perfectly clear. But the legislation makes all provider services unviable with the exception of PAYE Umbrellas."

PCG advises all contractors currently with a MSC whose scheme provider has assured them that their tax treatment will not be affected by the new rules to switch to a genuine limited company or a PAYE Umbrella.

“ Ordinary limited companies are unaffected by the new tax rules on MSCs ”
John Kell - PCG

An Area of Concern: Accountants

There has been concern about accountants who advise limited companies for contractors, because the legislation singles them out. Under the new law, accountants are free to advise contractor companies, but if they actually run them, they fall under the heading of managed service providers.

"We are expecting guidance from the Revenue on this subject in June," Kell says. "it continues to be unclear although a statement clarifying it from the Revenue does help a bit."

The Revenue statement says: "[HM Revenue and Customs](#) have confirmed their view that the legislation is not intended to, nor does it, encompass service companies used by those genuinely in business on their own account and the accountancy services provided to such companies. The legislation addresses the discrete issue of those seeking to avoid employed levels of tax and NICs by providing services though a company which is promoted and facilitated in a way that is quite distinct from professional accountancy services." This does clarify matters to an extent. But it will still prove difficult to determine what constitutes 'accountancy services' and how much advice your accountant can give you so that the accountant is not running your company. "It's clear that we will need some solid case law to really clear all this up," Kell points out.

“ PCG advises all contractors currently with a managed service company to switch to a genuine limited company or to a PAYE Umbrella ”
John Kell - PCG

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