

## No treasury decision yet on managed service companies; lawspeed seminar planned

Officials at HM Revenue and Customs and at the Treasury are actively considering industry input over the intended crackdown on managed service and composite companies used by contractors.

Consultations with the industry are being given real attention.

### No Decisions Yet

"No decisions have yet been made, but the consultation process is active," says Adrian Marlowe, a director at the Hove-based legal consultancy [Lawspeed](#). Lawspeed plans a seminar, to be held on April 3, 2007, called: "AVOIDING LIABILITY FOR MSC CONTRACTOR TAX" at which representatives of the Treasury will be present to discuss the subject.

### What is Managed Service

Two government consultations "[Tackling Managed Service Companies](#)", and "Managed Service Companies Transfer of Pay as You Earn and National Insurance Contributions Debts" introduce legislation that is due to become law with effect from 6th April 2007. The subject will be managed service companies and third party liability legislation, meaning and effect, what is or could be a Managed Service Company, impact, how to deal with the issues that arise, contract arrangements, and how to avoid exposure to contractor tax liability.

The final form of this attack by the Treasury on managed service companies is not yet determined, but the Treasury is determined to achieve its objectives, industry sources say. It is most likely that composite companies will take the full heat, and probably disappear.

"There is a question mark over whether operating through a personal service company set up by a scheme provider will achieve avoidance of the new legislation," Marlowe says.

“ No decisions have yet been made and the consultation process is active ”

Adrian Marlowe-Lawspeed

### Attack Goes On

The plans, announced in the Chancellor's Pre-budget speech, and detailed in a document released by the Treasury last December, would oblige the owner of a managed service company be treated like a salaried employee.

### Where to Draw the Line

But in the course of the consultation currently underway, the Treasury is considering how managed service companies will be defined, and how those companies will be singled out for treatment. A managed service company does not differ in many respects from any small limited company. The issue is: how does the Treasury plan to draw the line?

The Treasury does intend to succeed in its projected increased tax receipts of £1 billion through this new attack on managed service companies.

Operators of umbrella and composite companies are obviously in uproar over the move. They point to the amount of paperwork that the move will generate. Then they wonder how the Treasury intends to police the 240,000 contractors who currently work under schemes of one type or another in the UK.

“ Expect news at the seminar to be held on April 3 called AVOIDING LIABILITY FOR MSC CONTRACTOR TAX ”

Adrian Marlowe-Lawspeed

One of the most controversial issues in the new legislation involves the creation of third-party liability for tax debts of managed service companies. According to the drafted legislation, agencies and recruiters who work with the company could be held liable for the company's tax owings. On first review the rules provide liability in the following order. First for the MSC to be liable, then any scheme provider, and then any agency or end user, or any "person who directly or indirectly has encouraged, facilitated or otherwise been involved in the provision by the MSC of the services of the individual."

Many in the industry are vigorously protesting this measure, and it will be rediscussed at the Lawspeed seminar.

You can keep up to date with all the latest developments in our dedicated section: [Managed Services Companies](#).

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