



Sapphire
CONTRACTING

Managed Service Company (MSC) Legislation



What is the MSC Legislation?

The Managed Service Company (MSC) legislation was designed to combat the perceived tax abuse by contractors who provided their services via a limited company of which they were one of a number of unconnected shareholders, commonly referred to as composite companies. Contractors in these 'composites' would then be paid tax efficiently as shareholders without having any control of their company or playing any role in the running of it.

The effect of the legislation is similar to that of IR35 and where a contractor is deemed to be an MSC, HMRC will look to reclassify all payments received for the services provided by an individual as employment income, subject to PAYE and NICs. A contractor must meet certain criteria to be classed as an MSC, the most important of which is the existence of an MSCP (Managed Service Company Provider).

When does the MSC legislation apply?

In order for the MSC legislation to apply, it requires three things:

- A (Personal Service) Company
- A Provider
- Involvement (by the Provider in the affairs of the Company)

All three of these key elements must be present for the legislation to apply. If the legislation does apply, the effect is that the company must operate the 'deemed payment' calculation; that is, applying Tax and NICs to all payments.

How can contractors safeguard themselves?

The cardinal rule is that knowledge is power. Contractors are the ones who are in the firing line for unpaid tax and NICs, so it is paramount you understand how the legislation can apply.

The legislation is not designed to catch out contractors who utilise the services of an accountant or legal advice (indeed the legislation, while not providing an outright exemption, does clarify that accountants and legal adviser do not fall within the definition of an MSCP simply by providing professional services).

There is, however, a line between engaging a provider for professional services, and engaging a provider to effectively run your company for you. While nobody would expect every contractor to have in-depth understanding of all tax legislation, company laws, and accounting rules; every contractor should understand what trading through a limited company means, what their director's responsibilities are, and where the company monies are being spent.

From HMRC's latest activity, they view that a service-offering targeted at individuals to supply their services through companies, coupled with the use of automated online portals, is sufficient to cause the MSC legislation to bite. On the basis that there is active promotion, active facilitation and then influence over the company. Part of that argument being that the portal is being used not simply as a mechanism for the company to provide information to its adviser, or even manage its own affairs; rather the portal is being utilised by the provider to allocate all funds as the provider sees fit (typically in the most tax-efficient way), leaving the contractor's only 'action' as passive acceptance.



How Sapphire can help

Confused about legislation? Sapphire can help! We provide contractors with a helping hand when it comes to navigating legislation, and how it affects them, and we can do the same for you. We'll also provide you with unique and personal advice to make sure you are complying with legislation.

If you would like to find out about any of the services, [get in touch](#) and our experienced advisors will be available to talk through your options.

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