

Managed Service Companies (MSC) - urgent action

Following a number of calls to our tax advisory help lines, we have been alerted to an attack on accountancy clients by HMRC's specialist MSC unit based in Taunton: particularly where the accountancy practice has recently signed up new clients from an accountancy service provider which has recently ceased trading.

On 5 March HMRC wrote to a number of former clients of the accountancy service provider stating that they had reached the conclusion that their companies may be Managed Service Companies under the legislation which came into force in April 2007. The result of this complex and widely criticised new legislation is similar to IR35 – i.e. that all income to the MSC is subject to PAYE and Class 1 National Insurance contributions, wiping out the tax/ NIC benefits of any dividends paid by the companies. However, unlike IR35 there is no 5% allowance – and the debt becomes the personal debt of the individual if HMRC cannot collect it from the company itself.

The legislation is as yet untested and there has been much debate about the extent to which it applies to firms supplying accountancy services. Our sister company, Accountax Consulting, is reviewing the position and coordinating a defence against both the application of the MSC rules and the debt transfer to the individuals. Although HMRC has initially targeted only a specific number of companies, it is understood that there are potentially several hundred companies involved and these are no doubt on HMRC's radar for action in the near future. The sums involved in MSC disputes tend to run into tens or hundreds of thousands of pounds per company, so early advice is imperative.

If your client is targeted by HMRC in the manner described above, or may be exposed, advice is available by contacting Accountax's specialist team on 08450 660 035.



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