

Agency guidance:

Tax and Accounting Support for your Contractors



London 1st










Is this guide written for me?

This guide is essential reading for anyone who might be asked about accountancy related matters for contractors (freelancers, temps, consultants, interims etc). It is relevant to agency directors, managers, sales consultants and resourcers as well as people responsible for finance, payroll and compliance.

What questions might they ask me?

Existing contractors, people considering contracting for the first time and end-clients might all ask you about a range of subjects relating to :

-  **Umbrella Company**
-  **Limited Company**
-  **Pros and cons of contracting**
-  **IR35**
-  **MSC legislation**
-  **Offshore structures**
-  **What constitutes a safe and compliant contractor accountant?**

Why do I need to know?

Satisfy your candidates and increase your sales efficiencies by assisting contractors with making decisions on operating efficiently and compliantly within UK tax law.

Protect your company and directors against the risk of debt transfer under the new MSC legislation.

Reassure your clients that your contractors comply with UK legislation and are not exposing them to any adverse employment tribunals or HMRC investigations.

What is the purpose of this guide?

This guide is intended to raise awareness of issues that have far reaching consequences for agencies, contractors and end clients alike. This information will help protect your agency and clients from risk, whilst assisting your contractors to operate efficiently and within the law.

The aim of this guide:

- ✓ To be informative, without swamping you with detail.
- ✓ To offer practical solutions so you can focus on your core business and clients.
- ✓ To simplify complicated issues so that the implications are clear and relevant to everyone in your agency.
- ✓ To enable you to give constructive and timely advice to your contractors, whilst protecting your agency from risk.
- ✓ To speed up your contract sales process and ensure that contracts run smoothly once the contractor has started.



Free Agency Helpline

If you want more details on related subjects, simply click on a link, or call our **FREE Agency Helpline on 020 7471 9330**. This is a completely free information service for recruitment agencies and we will be happy to clarify things without any obligation on your part.

IR35 – a summary for agencies




IR35 is a complex and contentious piece of legislation, concerned with showing whether or not a contractor is a “disguised employee” for the purpose of avoiding tax. Here is a simple summary of IR35 and how it relates to your business.

What is IR35?

-  **IR35 explained**
-  **Employment rights for contractors inside IR35**

IR35 – Achieving win/win for your company, contractors and clients.

To make sure a contractor is outside IR35, the hypothetical relationship of the contractor to the client must be that of self-employment. By ensuring contractors are outside IR35 you achieve the following:


-  Contractors earn more money through a limited company and are happy.
-  Reassure clients that employee benefit claims are highly unlikely since contractors outside IR35 do not have an employment relationship with them.
-  You benefit from happy candidates and clients.

Get it wrong and all parties could lose with [contractors potentially claiming employee benefits](#).

MSC legislation – what should agencies do?

If you refer a contractor to a provider that is not compliant with the Managed Service Company (MSC) legislation, and the contractor subsequently does not pay the tax that is properly due, HMRC may ask your company to pay the bill.

Want to know all the details?

-  [MSC legislation in detail](#)
-  [MSC legislation in summary](#)
-  [How do you tell if a service provider is MSC compliant?](#)
-  [Disguised Umbrella companies and agency exposure](#)

Is referring to Umbrella Companies safe?

Many recruitment agencies have reacted to the MSC legislation by only referring contractors to umbrella company providers. However, some of them may be unsafe.

For example, some Umbrella companies can disguise [offshore structures](#) or elaborate [self-employment structures](#), which expose agencies to increased (not less) risk of debt transfer.

Can you rely on questionnaires to unknown service providers?

This may absolve your company of liability but it is only as reliable as the person filling them in. They obviously have a vested interest in telling you what you want to hear.

Only through an independent audit of the processes of the service provider can you really be sure a provider is credible.

Solving the MSC headache

All Accountancy Service Providers CLAIM to be compliant with UK laws. Few can actually PROVE it. Now there is a way you can tell if they are compliant and it costs you nothing.

Guaranteed compliance

There is an audit standard where service providers that offer both umbrella and limited company solutions to contractors can be independently assessed for compliance with the MSC legislation.

The audit standard developed by Professional Passport in conjunction with HMRC cuts through the clutter and provides an independent and reliable method for recruitment agencies to gauge the compliance of a service provider with the MSC legislation.

Advantages to the agencies are:

- ✓ It costs you nothing.
- ✓ PSL can be decided with confidence
- ✓ Cuts the time and expenditure spent on due diligence
- ✓ Reduces the risk of Debt transfer



Create win/win with preferred suppliers

Professional Passport's audit certificate is only issued to providers that employ best practice. If you only have compliant providers that operate to high standards on your PSL, then you will be guaranteed to gain significant competitive advantage.

Advantages for everyone

Ensure your PSL confers the following advantages:

- ✓ **Contractors** use the correct tax structure for their unique circumstances and are not exposed to risk.
- ✓ **Clients** reduce their risk of employee benefit claims from contractor's whose IR35 situation has been professionally assessed

How you can tell if a service provider is doing their job:

1. How do they assess the best structure (Ltd or Umbrella) for the contractor? Consideration should be taken of the unique circumstances of the contractor in this decision as shown in this [important guidance](#).
2. How do they advise contractors on IR35?

Some service providers offer free contract reviews that do not professionally assess a contractor's real exposure to IR35. Service providers should provide knowledgeable advice on IR35 but ensure that a contractor's IR35 situation is [independently](#) assessed by [employment law experts](#). [Read more](#) about why this is important and on a [recent survey](#) on this matter.

If you would like to know more about anything in this guide, please call us on 020 7471 9330 or email dave.kerr@london-1st.co.uk Alternatively visit our agency information centre at www.london-1st.co.uk