

A Danbro Guide: Helping Recruitment Agencies to Help Contractors

Introduction

At Danbro, we have a great deal in common with recruitment agencies. Contractors and temporary workers are our key clients – so like you, we want to look after their interests and provide them with the best possible service.

It is important to us to work alongside recruitment agencies, so that together we can make sure that contracting is as simple and straightforward as possible for our clients.

Over the years, recruitment agencies have referred many contractor clients to us because of the specialist accounting services we offer to this sector, and we value the relationship we have developed with a number of agencies.

We want to help you advise your clients on their options for operating as contractors in the most effective and tax-efficient way.

This guide is designed to help you help the contractors you work with, and particularly to highlight the implications of recent changes to legislation affecting Managed Service Companies (MSCs) for your clients, and ours.

We hope you will find it useful.

Changing the rules

New legislation, effective from 6 April, 2007, introduced major changes to the way many of our clients work.

The intention is to clamp down on Managed Service Companies, which include both composite companies and managed personal service companies.

MSCs have allowed workers operating through such companies to draw most of their income in dividends, rather than paying employed levels of income tax and National Insurance.

The legislation now classifies all payments received by workers providing their services through an MSC as employment income.

This means that from 6 April, 2007, they must pay income tax through Pay As You Earn (PAYE) and also, from 6 August 2007, National Insurance contributions (NICs).

If the MSC cannot pay its PAYE or NIC liabilities, from 6 August, 2007 these will be transferred to its directors or the people who make the MSC available (the MSC provider). Other third parties may be liable for debts from 6 January, 2008.

How will this affect us?

The new legislation will affect any of your clients who provide their services through an MSC. They will now have to pay employed levels of tax and NICs.

In July 2007, HM Revenues and Customs (HMRC) issued guidance acknowledging that as the “core business function” of recruitment agencies is to place individuals with employers wishing to use their services, they would be excluded from any transfer of debt.

But it warned that agencies that became involved in activities outside the core business function would no longer be excluded, risking liability for unpaid tax debts.

Who is not affected?

The government has also made it very clear that the new legislation does **not** include contractors who:

- Work through a personal service company (PSC)
- Work through an umbrella company.

What is a PSC?

A PSC is a one-person private company, limited by shares or by guarantee, in which the contractor is the only shareholder and director.

They also have exclusive control over the company's finances and sign their own contracts between the PSC and the agency or the end client for whom they are working.

This option is suitable for people who want to take full responsibility for managing and developing their business.

Setting up a PSC is simple and straightforward. Here at Danbro, we can manage the whole process, including

- setting up the limited company, either from scratch or “off the shelf”
- operating PAYE
- applying for VAT registration and submitting quarterly VAT returns
- Preparing annual company accounts for submission to Companies House.

What are the advantages of a PSC?

Because the PSC is a limited company, it means that the business owns the assets and is responsible for its debts, rather than the owner. This means the owner's personal finances are not affected if the business is in debt.

There are also tax advantages to operating as a PSC, including being able to claim some expenses and claiming back VAT on certain expenditure related to the business.

Danbro PSC solutions allow us to take care of all the administration, tax returns and financial requirements, freeing the contractor to concentrate on developing their company.

What is an umbrella company?

An umbrella company is a limited company, operated by a provider such as Danbro. A number of contractors have direct contracts of employment with the same umbrella company.

The contractor tells you, as their agency, that they operate through our umbrella company. They submit their timesheets and expenses to us, and we invoice you, as the agency.

This option suits contractors who like the advantages of operating through a limited company, but do not wish to deal with the bookkeeping, administration and accounting.

An umbrella company, like the solution offered by Danbro:

- Is fully approved by the HMRC
- Provides protection from the IR35 tax regulation (which can designate people who work for an employer through some intermediaries as directly employed)
- calculate tax and National Insurance contributions
- Pay net earnings into the contractor's bank account.

What are the advantages of an umbrella company?

Umbrella companies are ideal for contractors who want to work on a freelance basis, but without the full responsibilities involved in running a limited company. This option is particularly suited to contractors working via a recruitment agency.

Danbro umbrella solutions take care of all the financial and administrative aspects of contracting, allowing the contractor to concentrate on providing their specialist skills to clients.

The umbrella option is a great way to get started in contracting because it provides the reassurance and support of an expert support team.

It is also a useful and cost-effective way for people who want to work as a contractor short-term, or when they are filling in between permanent jobs.

MSC provider's v accountants

You and your clients need to be aware that in response to the new legislation, a number of MSC providers have been telling clients they are actually accountants or are providing "accountancy services".

However, HMRC take the view that many of these organisations are MSC providers, as defined in the legislation.

Your clients need to be careful in choosing their accountant so that if they move from one MSC provider they do not simply switch to another MSC provider.

If your client operates through a PSC, they must make sure that their accountant is providing accountancy services in "a professional capacity", i.e. accountants providing normal accountancy services.

The new legislation sets out five tests to establish whether an MSC provider exists. Only one has to apply for this to be the case.

- Does the provider enjoy an ongoing financial benefit from providing the worker's services? This could include receiving a fee when the worker supplies their services.
- Does the provider have direct control or influence over providing the worker's services? This could include arranging contracts for services or negotiating rates.
- Does the provider have direct control or influence over the way the worker is paid? For example, does the provider control the MSC's bank account or calculate salaries from the MSC's income?
- Does the provider directly control or influence the company's finances or any of its activities? For example, does it calculate how much a worker has earned from an invoice?
- Does the provider promise to pay any tax losses? For example, does the provider introduce workers to an insurance scheme to protect against a loss due to underpayment of tax, such as PAYE, that results in the worker being challenged successfully by HM Revenues and Customs?

Danbro solutions

Danbro offers a range of solutions for contractors. We are confident that we can provide the right solution for your clients.

Listed below, are the key services Danbro have to offer. We would be happy to discuss any of these in more detail.

(1) Umbrella Company

- Flat rate fee of £22 per week or £68.67 per month and no joining fee
- No fee if the contractor is not working
- Daily payroll runs, ensuring prompt payment
- Professional indemnity cover of £1 million
- Group pension scheme

(2) Limited company

Our standard monthly fee of £80 is based on a yearly fee of £960, payable in 12 equal installments.

We will provide the following for our standard fee:

- Provision of a comprehensive spreadsheet to help with the recording of trading activities and management controls of the company
- Preparation of weekly/monthly pay slips for one fee earning director and one additional non fee earning employee
- Preparation of Quarterly VAT returns
- Advice on the Flat Rate Scheme for VAT
- Dividend administration
- Support for all secretarial matters
- Dealing with all correspondence from HMRC and Companies House
- Preparation of annual PAYE returns
- Preparation and submission of Annual Accounts
- Preparation and submission of corporation tax computations and corporation tax return

(3) Initial Setup

The above assumes that your clients have already set up a Limited Company. If that is not the case, we are able to assist them with the initial setup for a fee of £85 plus VAT, which will include the following -

- 1 The registering and setting up of your own Limited Company
- 2 Registering the Company for PAYE scheme
- 3 Registering the Company for VAT – if required
- 4 Assistance with the opening of a company bank account

Tailoring our Services

Here at Danbro we recognise that your clients can vary in terms of the service they want. That's why we provide tailored solutions to give your clients a choice.

(4a) Our Standard service + Danbro Bookkeeping Service & Quarterly Management Accounts Service

If they do not have the time to complete the spreadsheet or to record their trading transactions using a standard accounting package, they may want to send all their paperwork, bank statements, and details of cheques etc to us.
The management accounts would provide a snap shot for them of the trading activities of the company via a profit and loss account and balance sheet.

OR

(4b) Our Standard Service + Sales Invoice Administration & Weekly Management Accounts

On their request, we are able to offer the facility to generate sales invoices on behalf of their company which would then be sent to you for payment to be made into their company bank account.

(5) Professional Fee Insurance

As part of the 'Best Practice' advice that we have received from our institute, we offer professional fee insurance, which will cover any accountancy fees, in case of investigation.

(6) IR35 Contract Status Review

(7) Registered Office

On their request Danbro will be the registered office of their company.

And finally...

We hope you have found this guide useful. If you would like to find out more about any of our services, or ways that we could work together, please contact us:

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Email: enquiries@danbro.co.uk

Web: www.danbro.co.uk