

## FACTSHEET 19

### Personal Service Companies

Since 6 April 2000 anti avoidance rules have applied to personal service companies . These rules prevent people who would otherwise be classed as employees of their clients avoiding income tax and national insurance contributions by providing their services through a limited company . These anti avoidance rules will not result in any additional tax charge where profits have already been withdrawn from the company as taxable remuneration . Rather the rules are targeted at people who withdraw profits by way of dividends in order to avoid national insurance contributions or who retain profits in their company in order to avoid higher rate tax .

#### When Do The Rules Apply ?

The rules apply where a person provides services under a contract between a customer and the personal service company , and where but for the presence of the personal service company the income arising would have been emoluments assessable under Schedule E .

- The tests used to identify employment status are the same as those used to decide if an individual is employed or self employed
- Each contract is reviewed separately
- An opinion can be sought from the Inland Revenue as to whether the particular contract is subject to the anti avoidance rules
- The rules also apply to partnerships .

#### What Happens If The Rules Apply To Your Personal Service Company ?

If this is the case then income paid under contracts subject to the anti avoidance rules will be reclassified as emoluments of the person supplying the service .

- These deemed emoluments are then compared to the actual emoluments withdrawn from the company during the tax year and any excess is subject to income tax under under Schedule E and Class1 Nic's

Although care has been taken in the production of this material it represents a brief summary of the topic only . Accordingly , Iain Allan & Co , shall not be liable for any actions , failures to act , or negligence on the part of those to whom the material is disseminated , which results in any liability , loss , claim or proceedings whatsoever and howsoever caused by , on behalf of , or against any person



- Any excess of deemed emoluments is treated as paid on 5 April at the end of the tax year . The related Paye and Nic will therefore be due by the 19 April
- The personal service company is responsible for operating the Paye and Nic
- There are certain deductions that can be made when calculating the amount of deemed emoluments . These reflect expenses that would normally be allowable under the Schedule E rules such as pension contributions , taxable benefits in kind and a flat rate 5 per cent of the gross income to cover miscellaneous expenses .

**For further advice and before taking any action please give me a call .**

Although care has been taken in the production of this material it represents a brief summary of the topic only . Accordingly , Iain Allan & Co , shall not be liable for any actions , failures to act , or negligence on the part of those to whom the material is disseminated , which results in any liability , loss , claim or proceedings whatsoever and howsoever caused by , on behalf of , or against any person