

Huge Increase in Company Formations

Managed Service Companies (MSC) Legislation Impacts Companies House

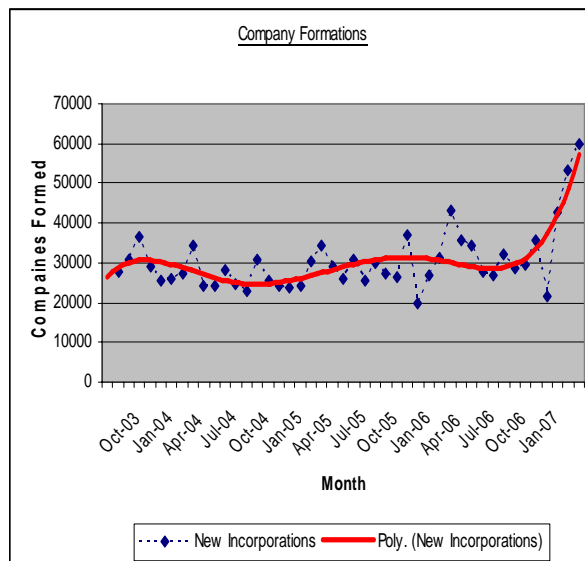
Figures recently released by Companies House¹ indicate a 70% increase in company formations, which appear to be as a result of the recent MSC legislation.

The Background

In his 2006 Pre-Budget Report the Chancellor Gordon Brown announced the Government's intention to tackle the issue of Managed Service Companies. It was estimated by the Treasury that approximately 240,000 workers operated through MSCs, many of which HM Revenue & Customs (HMRC) perceived as non-compliant. Following a short consultation period it was announced that temporary workers should no longer benefit from the unfair tax advantages available through MSCs. As a result temporary workers previously working through MSCs have chosen to find an alternative company structure.

What is the Importance of this Increase?

Whilst it is not unusual for the number of incorporated companies to increase during the year and indeed from year to year, a dramatic rise suggests a particular influence rather than a general trend. With the legislation aimed at countering MSCs coming into effect on 6th April 2007 it appears that many workers have opted for the approach of opening their own limited company.



An increase in the number of company formations places a greater strain on the ability of HMRC to ensure across-the-board compliance with the existing Intermediaries Legislation, commonly referred to as IR35. The increase might also raise doubts about whether the Government can ever produce a level playing field² for temporary workers.

Summary

- The figures for March 2007 show a 70% increase in the number of companies being incorporated compared against those for March 2006.
- The Government have effectively outlawed the use of MSCs forcing temporary workers to find an alternative method of providing their services to End-Clients.
- More companies will inevitably place a greater strain on HMRC's compliance units.
- End-Clients and Agencies may find themselves incurring greater administration costs due to an increase in the number of separate suppliers.

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Notes

¹ Companies House, Business Register Statistics, October 2006 to March 2007

² Tackling Managed Service Companies, December 2006