

INTRODUCTION TO A PSC

The use of a private limited company as a trading vehicle for consultants, known as a "Personal Service Company" (or PSC) has grown steadily in popularity over recent years. This collection of documents is written to give guidance to clients of Garbetts, Chartered Certified Accountants, who have their own company or are thinking of acquiring one. Non clients are welcome to make use of the guidance, but should take advice from their accountant about its applicability to their circumstances.

In March 1999 a budget press release entitled "IR35" heralded a major change in the attitude of the HMRC to personal service companies – previously the attitude had been benign, but from April 2000 new rules operate to restrict the flexibility and tax breaks of PSCs. These rules are still commonly known as IR35, after the press release. More recently, an attack, currently blocked by the courts but under appeal, on family shareholdings in small companies under S660a (also known as the Settlements Legislation and by the test case, Arctic Systems), has been experienced by PSCs.

In April 2007 legislation blocked the use by contractors of so called "Composite Companies" and "Managed Service Companies" – this legislation does not affect the services that Garbetts offer.

These notes are for guidance only, and personal advice should be sought on how they apply to your own situation. No responsibility is accepted for action taken or not taken based solely on the contents of this guide.

This guide is copyright Garbetts Limited, and may not be reproduced without our express permission.

In this guide we refer to "Contractors" as a convenient description for individuals operating through PSCs. However this guide is applicable to anyone operating a small service company, and they may be described as "Freelancers", "Temporary Workers", "Consultants" or similar. Likewise although use of PSCs is prevalent in the IT and engineering sectors, this guide applies to any service activity provided through a limited company.

This guide is intended to be a practical guide, and is also tailored to the "style" of professional operation by Garbetts. Because of this some legal and tax concepts have been simplified in their description so that their practical effect is clear – for example IR35 is referred to in this guide as creating a minimum salary level, which is its practical effect, however the strict position is that it creates a tax liability on a hypothetical minimum salary – more information on detailed technical matters is available on request.

There are a lot of resources for PSC on our www site, garbetts.com/psc – we suggest a visit there.

© Garbetts – updated 17 February 2011 – guidance for illustration only, please seek advice before taking any course of action if you are unsure.