

## **HMRC Intermediaries Legislation Payments to Personal Service Companies (PSCs) after 6 April 2017**

A process needs to be followed by departments/schools when identifying the need for a supplier to provide any service (this process does not apply to the supply of goods or works).

A [workflow diagram](#) for the process should be followed by all buyers and requisitioners before the University enters into a service contract with a supplier, through a contractual arrangement and/or a purchase order.

### **Background**

From April 2017, all Public sector bodies (which include Universities in the definition) will be responsible for identifying and reviewing the employment status of all workers engaged through personal service companies (PSCs) or other intermediaries including those provided via an agency.

Where in the absence of the PSC the worker would have been regarded as an employee of the University (under the IR35 rules), the University will be required to treat payments made to the PSC as if they were earnings paid to the worker from an employment with the University ('deemed employment payments').

The University will be required to account for PAYE and National Insurance (both employee and employer) to HMRC on the deemed employment payments made to the PSC.

The new rules move the decision to ascertain the status of the worker from the PSC to the University, so if the worker is assessed as an off-payroll worker then the University is responsible for deducting and paying the associated employment taxes and National Insurance Contributions.

### **Identifying the relevant suppliers**

Going forward the University will be responsible for identifying suppliers to whom the new requirements apply. This will be achieved by asking the relevant questions to make this determination through the tender, quote and new supplier set-up processes which will be amended accordingly. Once identified, suppliers will be flagged as being a PSC on their purchase to pay system records so that the appropriate income tax and NI contribution regime can be implemented.

In order to achieve this it will be important that:

- When seeking tenders, quotes or directly appointing suppliers for the provision of services (the new requirements do not apply to the provision of works or goods) it is important that suppliers are made aware that if they are a PSC the University will be responsible for paying the income tax and NI contributions in respect of their appointment, and that this needs to be taken into account when providing their quotes.
- A consistent disciplined approach is adopted in engaging the services of all suppliers. Past examples exist where suppliers have been engaged, the work completed, and the invoice has been issued before the purchase order has been raised. Going forward this will cause issues, and possible extra financial burden on the University, as we will be liable to pay the applicable income tax and NI contributions regardless of the terms and conditions agreed with the supplier should the supplier transpire to be a PSC.

In order to ensure compliance with the new reporting and payment obligations, effective on all payments made after 6 April 2017, development of the above mentioned workflow process has been put in place.

### **Note to budget holders, budget managers and staff engaging PSC contractors**

When engaging PSC contractors it should be taken into consideration when agreeing payment rates that the University will be paying the following on behalf of the PSC contractor:

- Employees income tax (20%)
- Employees NI contributions (up to 12%)

Budget holder will also need to factor in that they will be paying employers NI contributions (13.8%) from their budgets.

These deductions will be taken and paid to HMRC by the Payroll Team and charged to the budget cost centre.

At the end of their contract, or annually if sooner, the PSC will be provided with a P45 which they will need to submit to HMRC as proof of payment.

### **Advice and further information**

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