



PERSONAL SERVICE COMPANIES (ISLE OF MAN)

The Isle of Man Income Tax (Amendment) Act 2014 introduced this legislation which is effective from 6 April 2014.

A Personal Service Company (PSC) is defined as one through which services are rendered to its clients by a shareholder of the PSC or by a relative of such a person. The PSC will typically have few employees.

The use of a PSC may have resulted in income tax deferral and a saving of National Insurance Contributions, because the shareholder could choose how and when to extract the income from the company. It is for this reason that the legislation has been introduced.

The Act introduces “Deemed Employment” provisions to tackle the use of PSCs.

How does it work?

The Deemed Employment provisions will apply where an individual (*the worker*) provides services to another (*the client*), under an arrangement involving a third party. Typically *the worker* will set up his own IOM PSC (*the third party*) which will enter into a contract for services with the client. Invoices will be raised by *the third party* payable by the client, which will form the taxable income of *the third party*.

From 6 April 2014, *the client* will need to look carefully at all such payments. *The client* will have to ask himself - if the services had been provided under a contract directly between *the worker* and the client, would the worker have been *an employee* of the client, or would he have been self-employed? If the answer is that he would have been *an employee*, then that is when this legislation applies, and “deemed employment” will exist.

In such circumstances *the client* will have to treat *the worker* as if he is an employee, and operate ITIP in the normal way, resulting in the net pay (after deductions for tax and National Insurance Contributions) being paid over to *the third party*.

The legislation applies only when the duties of the deemed employment are performed in whole or in part in the Isle of Man, and where *the client* is resident in the Isle of Man or has a place of business in the Isle of Man.



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Full details are available on the Income Tax Division's website, by downloading Guidance Note – GN 50. Where *the client* is still unsure of the position – and remember, the onus is on ***the client*** to get this right! – he can apply for a clearance or guidance from the Income Tax Division.

For advice on the application of this new legislation please contact John Cowan, Pam Harvey, Karen Irving or Elaine Rudge at this office.

If you would like to know more then please contact

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