

## Extension of the Service Company Legislation (IR35) to Domestic Workers

In this year's Budget the Chancellor announced the intention to close the loophole in the IR35 legislation which enabled domestic workers such as nannies, chauffeurs and butlers to be engaged through intermediaries, normally service companies, and achieve large savings in tax and National Insurance contributions (NICs) compared with direct employment.

The loophole was closed for tax with effect from 10 April 2003 by section 136 of the Finance Act 2003 and, following the laying of The Social Security Contributions and Benefits Act 1992 (Modification of Section 4A) Order 2003 on 18 July 2003, amending regulations were laid before Parliament on 11 August 2003 to enable the Social Security (Intermediaries) Regulations 2000 to mirror section 136 for NICs with effect from 1 September 2003.

The effect of these changes is to bring domestic workers operating through intermediaries within the scope of IR35 if, but for the intermediary, their engagement would be one of direct employment. For domestic workers who continue to operate through intermediaries after the changes take effect for tax and NICs, two deemed payment calculations will be needed for the tax year 2003/2004 - one for tax and one for NICs on the basis of attributable earnings from relevant engagements from 10 April and 1 September respectively.