

What your Umbrella Company can do for you



Making the most of an Umbrella Company

Your umbrella company plays an important part in your contracting career. It acts as your employer giving you employment rights and benefits as well as invoicing, collecting and paying you for your contracting. To make the most from the relationship you need to know how it works and why it is used by thousands of contractors in the UK to make the most of what it can do for you.

How an umbrella company works with your agency

The agency and the umbrella company fulfil administrative functions at either 'end' of the contract. While the recruitment agency is responsible for engaging the contractor and negotiating the terms of the contract, the umbrella company is primarily responsible for the contractor's payroll and any issues arising over **invoicing, non-payment and tax compliance**. Although they appear to fulfil separate requirements, it is mutually beneficial for the umbrella company and the recruitment agency to work together to ensure a smooth on-boarding process and efficient payment vehicle for the contractor.

Supply & demand

Recruitment agencies need to supply their clients with reliable candidates of a high standard, while experienced contractors with skills that are in demand can often pick and choose the contracts they want. By working together, the agency and the umbrella company provide the client with an effective staffing solution and the contractor with consistent, competitively paid work.

IR35 liability

Since April 2017, changes to the off payroll rules place the responsibility for determining whether **IR35** applies to a contract with the government organisation that is paying the contractor. This means that although the decision will now sit with the client, the responsibility to deduct NIC and PAYE will be left with agencies, as will the probable liability. An umbrella removes the burden of IR35 determination as a contractor working under an umbrella company is an employee and will not fall within the scope of IR35.

Preferred supplier list (PSL)

Invariably agencies will have a list of umbrella companies on a Preferred Supplier List that they will recommend to the contractor. These are likely to be umbrella companies that the agency trusts to act in a way that is fully compliant with the contract and the contractor's affairs. The contractor should carefully consider any companies suggested by the agency on their PSL, as this could work in their favour. If an umbrella contractor is a good fit for a particular assignment, there may be opportunities for them to stay with a client for longer than originally planned.

Overarching employment contract

Under their employment contract with the umbrella company, the contractor has the freedom to work with multiple recruitment agencies while keeping the same employer (the umbrella company) as they move from one assignment to another. This provides them with stability and convenience of being paid through the same payroll and frees up time for them to secure contracts for work that interests them.

Dedicated contractor manager

Some umbrella companies provide the contractor with access to a dedicated individual who is able to guide and support them whilst working and when they are inbetween contracts. The manager will liaise with the agency, making sure that the **business-to-business contract** is in place and everything is ready for the contractor to start their assignment. The manager effectively bridges the 'gap' between the agency, the umbrella company and the contractor.



Efficient payroll solution

As a contractor, the business of getting paid can be complicated and time consuming, involving large amounts of paperwork and the uncertainty of tax liability. The umbrella company provides the contractor with an efficient and comprehensive payroll solution that may include the following benefits:

- A quick registration process, that enables the contractor to on board swiftly and start billing virtually straight away
- Taxation administration undertaken at source. The umbrella company processes the contractor's wage deducting PAYE tax and NI at source. This means that the contractor doesn't have to worry about their tax affairs relating to their contracting
- IR35 compliant. The contractor is an employee of the umbrella company and therefore not affected by IR35 regulations
- Same day faster payments ensure that the contractor's funds are cleared quickly and directly into the contractor's bank account
- The umbrella company will take care of invoicing the agency and processing any chargeable expenses. They will also chase overdue payments and deal with any payment issues on behalf of the contractor
- Statutory employment benefits (sickness and holiday pay, maternity pay, minimum wage payments) protects the contractor's financial stability
- A web-based portal giving the contractor 24/7 access for timesheet submission and allowable expenses

Getting paid - step by step

- The client signs the **agency timesheet**, which confirms the hours/days that the contractor has worked
- The contractor sends the signed time sheet to the agency and notifies hours to the umbrella company, along with any chargeable expense claims
- The umbrella company raises an invoice to the agency for the completed work plus any chargeable expenses that the client has agreed to reimburse
- The agency invoices the client for the work completed to date plus any chargeable expenses
- The client pays the agency
- The agency pays the umbrella company on a date determined by the agency's payment schedule
- The umbrella company deducts the necessary tax, NI contributions and their margin
- The umbrella company pays the contractor



How does an umbrella company calculate your take home pay?

In order to calculate your take home pay, an umbrella company will take your hourly or daily contract rate, deduct Employer's National Insurance and finally, the umbrella company's margin. The remaining amount is your taxable salary, which is then subject to Employee's National Insurance and PAYE tax.

Back office administration

The umbrella company provides a fully integrated back office service, handling invoices and chasing late payments on behalf of the contractor, while processing their earnings according to PAYE and dealing with HMRC. For both new and experienced contractors, an umbrella company offers peace of mind, freeing them from the administrative burden of limited company or sole trader contracting, and allowing them to focus on their contracting career. They also gain the benefits of a proper employment infrastructure, including HR support and access to professionals who can assist with all employment related queries.

Additional perks & benefits

- Reward schemes (discounts and vouchers on leading brands, savings on everyday goods and services, seasonal offers)
- Contractor **Mortgage advice**
- Business insurance

Umbrella Exchange can offer solutions to suit your personal circumstances. We have access to an excellent range of contractor service providers. Get in touch with us and we'll talk you through your options.

