

The Complete **Umbrella Company** Guide

Written for the 2021/22 tax year



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The Complete Umbrella Company Guide

Introduction

Thank you for reading 'The Complete Umbrella Company Guide', written by the team at www.umbrellacompanies.org.uk. We've made it our responsibility is to try and paint a fair reflection of the umbrella company marketplace so that our readers can make better-informed decisions about their payroll.

The umbrellacompanies.org.uk website has been around since 2010 and has received hundreds of thousands of visits. In 2020, the site underwent a significant overhaul, and the Umbrella Companies team updated a majority of the content. There is no denying that umbrella companies are growing in demand, and our crew is well aware that many temporary workers were, or are sceptical of umbrella companies. This is because of a shortage of accurate and easy-to-understand content out there.

Our website and this guide have not been created to tell you what to do regarding your payroll. However, we hope our resources will help educate you on important matters affecting the marketplace. We aim to help you move forward with confidence and ensure you carry out your due diligence when choosing an umbrella company – if you decide this is the route you want to take regarding your payroll.

Whether you choose to use an umbrella company or not – we wish you the very best with your upcoming temporary assignments.

The Umbrella Companies Team



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The Complete Umbrella Company Guide

What is an umbrella company?

An umbrella company is a payroll intermediary that employs temporary workers to assist them in getting paid. Umbrella companies process payroll using HMRC's tax system called 'Pay as you Earn' (PAYE). This means the umbrella will receive their employee's gross pay from the end-client or recruitment agency and then makes the appropriate deductions. The temporary worker will then receive their net pay from the umbrella company, with all deductions (apart from the umbrella company's margin) being sent to HMRC.

When a temporary worker joins an umbrella company, they become an umbrella company employee - making the umbrella company the employer. This means that the temporary worker has access to Employee Benefits, including Statutory Sick Pay and Maternity/Paternity Pay.

Umbrella companies have recently grown in demand because of changes to IR35 legislation. To put it simply, more and more temporary workers are finding themselves inside IR35 - meaning that contracting through a personal service company (PSC) is no longer financially beneficial. As a result, many are deciding to use umbrella companies for their payroll - because they're generally regarded as the easiest way to get paid when working on short-term assignments.

Throughout this guide, we will explain how umbrella companies work. We want to give you an accurate reflection of the industry and processes involved. Umbrella companies have often been scrutinised in the press, but providing you find a compliant provider with your best interests at heart - you should not have anything to worry about.

A recent study by the Low Incomes Tax Reform Group (LITRG) found that over 600,000 workers in the UK required an umbrella company's services. Interestingly, it also found there are over 500 umbrella companies to choose from. With this in mind – contractors and freelancers must choose a compliant umbrella company. Engaging with a non-compliant umbrella company (often referred to as a 'disguised remuneration scheme' or simply a 'tax avoidance scheme') could have devastating consequences.



How do umbrella companies work?

The first time a contractor hears about an umbrella company – they're almost certainly going to be confused. Initially, umbrellas sound extremely complex. However, they're more straightforward than you may think. Let's take a look at compliant umbrella companies and how they work.

Umbrella companies process the payroll of temporary workers. Frequently, recruitment agencies or end-hirers will choose to outsource their temporary staff's payroll to umbrella companies so that they do not have to worry about the administration and legal responsibilities of having employees on their business's payroll. This is common, and this is where umbrella companies come into play.

Once a temporary worker has registered with an umbrella company, they become an employee of that umbrella. As an employee, the temporary worker will have access to several benefits, including continuity of employment and Statutory Employee Benefits.

To get paid, a temporary worker must submit timesheets to their umbrella company and recruitment agency – reflecting the hours they have worked. Once this has been done, the temporary worker's funds will be passed down the supply chain (gross).

When the umbrella company received the temporary worker's gross funds, they'll make PAYE deductions – including tax and National Insurance Contributions. They will also deduct employment costs and student loan payments, and pension contributions – if they're applicable.



How do umbrella companies work?

The only income umbrella companies generate for themselves is the margin they deduct (gross) for carrying out their payroll service. Typically, the margin will vary between £15 and £35 per week, but because it's taken from the temporary worker's gross pay – it'll end up costing them less.

Once the umbrella has made the appropriate deductions, the temporary worker will be transferred their net salary with a supporting payslip. Payslips will show the deductions made to the temporary worker's gross pay.

The above is a brief overview of how compliant umbrella companies operate in the UK. Anyone who is considering using an umbrella company must understand that they should be operating PAYE – HMRC's tax system. Any umbrella company or payroll intermediary that is advertising inflated pay retention is almost certainly a tax avoidance scheme and should be avoided at all costs.

Umbrella company employees are free to join and leave an umbrella company as often as they like. Compliant umbrella companies will only deduct their margin when they process the payroll of their employees. Therefore, if a temporary worker doesn't work on an assignment – the margin won't apply as they won't be paid.



Umbrella company example

We've briefly explained how umbrella companies work, but sometimes it's easier to understand things with a step-by-step guide. Here is an example of how an umbrella company works. It starts with a contractor landing a new role and ends with the contractor being paid their net salary from the umbrella company.

- 1 A contractor lands a new role via a recruitment agency.
- 2 The agency lets the contractor know that they need to use an umbrella company for their payroll, because the agency doesn't process payroll internally.
- 3 The contractor is given the agency's preferred supplier list (PSL) – a list of umbrella companies that the agency recommends.
- 4 If the contractor is happy to go ahead and use an umbrella company, they'll need to choose one to take care of their payroll.
- 5 The contractor will ring the umbrella of their choice, and will register either on the phone or by completing an online registration form. To be legally paid by an umbrella company, the contractor must provide a lot of personal information, including address, date of birth, National Insurance number, assignment details, bank account information, and more.
- 6 Once the registration process is complete, the umbrella company will send the contractor a Contract of Employment. At the same time, the contractor will need to send a P45 to the umbrella, or complete a 'New Worker Checklist' – a government form that's available online.
- 7 Assuming the contractor has read the 'Contract of Employment' and is happy, they will need to sign it and return to the umbrella company at their earliest convenience. It's really important that the contractor reads the document thoroughly, and isn't afraid to ask any questions – should they have any.



Umbrella company example

- ⑧ Now that the contractor has officially become an employee of the umbrella company, the umbrella company can legally process the contractor's pay.
- ⑨ In the background, the umbrella company will have signed an overarching contract with the contractor's recruitment agency and end-client – which will allow funds to be passed down the supply chain.
- ⑩ The contractor is required to submit timesheets and send them to the umbrella company, and possibly to their recruitment agency (depending on the umbrella company's processes).
- ⑪ The end-client will pass the contractor's gross pay to agency, and the agency will then pass this onto the umbrella company.
- ⑫ The umbrella company will deduct their agreed margin, and will then make the appropriate deductions to the contractor's pay. These will be tax and Employee's National Insurance (NI), the Apprenticeship Levy and Employer's NI. Pension contributions and student loan repayments will also be deducted, if they're applicable.
- ⑬ The umbrella company will send the contractor their salary via bank transfer (usually Same Day Faster Payments).
- ⑭ The contractor will receive their pay, along with a payslip.





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umbrella companies have made it in
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Registering with an umbrella company?

Joining an umbrella company is pretty easy, but you'll be required to provide them with a lot of information. They don't ask for this to be annoying – they need the information they request to process your payroll legally.

Contacting an umbrella

First things first – once you've found an umbrella company that you'd like to join, give them a call and express your desire to register with them. This is an excellent opportunity to ask any questions you may have about how they operate and the registration process.

Completing the initial sign-up process

Umbrella companies are legally required to ask for a lot of personal information. Most umbrellas will let you sign up over the phone, or they'll have an online registration form that you can complete in your leisure. You'll be required to provide the following information:

- Full name and date of birth
- Address, phone and email
- National Insurance Number
- Bank information, including name of your bank, account number and sort code
- Assignment information, including the end-client, rate of pay, role title, hours per week, etc.
- Recruitment agency information, including contact info for the agent



Registering with an umbrella company?

Proving your right to work in the UK

If you're not a UK national, you'll be required to provide proof of your right to work in the UK. Most umbrella companies will send you a list of acceptable documentation, along with instructions on how to send this information to them.

Contract of Employment

Once the initial registration process is complete, you'll be sent a Contract of Employment. Remember, when you join an umbrella company, you become their employee, and they'll be your employer. Unfortunately, umbrella company employment contracts can be seriously long, but you must read them thoroughly. Providing you're happy with the contract's content; you'll need to sign and return it to the umbrella company.

P45/Starter Checklist for PAYE

The umbrella you register with will ask you for a P45 document – to ensure they use the correct tax code. If you don't have a P45 – don't panic. You can complete the 'Starter Checklist for PAYE' form online instead.

It's available at: www.gov.uk/government/publications/payee-starter-checklist

Timesheets

Once you have completed the registration process, you'll be required to submit timesheets for the hours you have worked. You must submit them to the correct people and as quickly as possible – to avoid potential delays in your pay.

Leaving an umbrella

If you're unhappy with the service you've received from an umbrella, or your contract has come to an end, leaving them is easy. All you need to do is contact the umbrella with your request to leave and ask for a P45. They should be able to provide you with this within 48 hours. You're then free to join another umbrella instead – if you're looking to switch.



Umbrella company take-home pay calculations

Before you register with an umbrella company, you'll probably want to get an idea of your take-home pay with them. However, before we go into more detail about umbrella company take home pay calculations, we need to make you aware of something. The only thing that should change your pay retention between compliant umbrella companies is the margin they deduct for carrying out their service. Therefore, if you contact two completely different umbrella companies that are both compliant and have a £20 weekly margin – you should take home the same amount of net pay from each – to the penny.

Umbrella company calculations are an interesting discussion point. Unfortunately, it's no secret that several umbrella companies will deliberately inflate a contractor's project take-home pay – just as a way of trying to encourage them to use their umbrella company instead of a competitor. This is unethical, but we're here to help you understand what an accurate umbrella company calculation should look like.

Make sure the umbrella company you request a calculation from has taken the following into account:

Tax avoidance schemes

Unfortunately, while 99% of umbrella companies offer a compliant and reliable service, unscrupulous tax avoidance schemes are preying on vulnerable contractors and freelancers too. If you see a payroll company offering you ridiculously high take-home pay retention (sometimes upwards of 90%) – run away! They're almost certainly a tax avoidance scheme, and engaging with one could land you in serious trouble with HMRC down the line. Remember, umbrella companies in the UK should operate PAYE – meaning you should expect to retain roughly 60% - 70% of your pay.

We discuss tax avoidance schemes in more detail later on in this guide.



Umbrella company take-home pay calculations

Expenses

We've seen plenty of umbrella companies, including a fixed amount of "umbrella expenses" in take-home pay calculations. In reality – you'll almost certainly be unable to claim tax relief on travel and subsistence expenses because of supervision, direction and control. Any umbrella company that automatically include expenses in their calculations are deliberately trying to mislead you. Don't be fooled!

Tax code

When you request a calculation, ask the umbrella which tax code they're using. You'll probably want to ensure they use the standard 1250L tax code. However, some umbrellas have used unrealistic tax codes that increase a contractor's tax-free allowance.

The abatement

Did you know that for every £2 you earn over £100,000, you'll lose £1 of your personal allowance? Several umbrella companies exclude this abatement from the take-home pay calculations they hand out. Make sure when you contact an umbrella, they consider this (if you expect to earn over £100,000 in the tax year).



Umbrella company take-home pay calculations

Work undertaken

This may sound common sense – but make sure umbrella companies quote you for the actual amount of time you'll be working. For example, some umbrella companies may manipulate the number of hours you're working to inflate your pay retention (by reducing tax liability). We also heard a rumour that an umbrella was basing their calculations on the contractor working every working day of the year! This is ludicrous – as surely the contractor will take at least one day of holiday!?

Deductions

Before requesting an umbrella company calculation, you should make sure the umbrella has asked you about pension contributions, student loans and any additional deductions that may come out of your pay. These deductions could significantly impact your pay retention – so make sure they're accounted for, if necessary.



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Holiday pay with umbrella companies

Holiday pay is calculated at 12.07% of a contractor's gross taxable salary. When you work through an umbrella company, you will not be given 12.07% on top of your pay rate. Instead, you will see that 12.07% of your assignment rate (gross pay) is reallocated to show holiday pay on your payslip. This means that contractors are no better or worse off, and holiday pay is included in the amount you're paid for working on your assignment. It's essential that holiday pay is understood before accepting a position because it's an amount that needs to be considered in the assignment rate.

Umbrella company contractors can usually have holiday pay paid to them in two ways:

- 1 It can be included each time payroll is processed.
- 2 It can be accrued by the umbrella company and paid in a lump-sum at a later date.

Compliant umbrella companies will explain how holiday pay works before you register with them, but if you have any questions at all, don't be afraid to ask.

Sadly, there were reports in March 2021 that suggested a "compliant" umbrella company had kept some accrued holiday pay for themselves when it should have been paid to the contractor. We must make this clear – an umbrella company should never retain holiday pay. The umbrella company should pay accrued holiday pay to the contractor upon request.



Umbrella company expenses

If you use an umbrella company, you probably won't be allowed to claim expenses. We'll explain why.

Supervision, direction and control (2016)

In 2016, the government introduced legislation commonly referred to as supervision, direction and control (SDC). The government wasn't happy with the number of temporary workers claiming tax relief on travel and subsistence expenses because they worked in very similar circumstances to permanent employees. As permanent employees couldn't claim tax relief on travel and subsistence expense, the government set out to level the playing field, and SDC was introduced.

Supervision

Supervision occurs if a worker is overlooked when completing their tasks - to ensure they're done correctly. Supervision may involve a senior member of the team helping you develop, and training.

Direction

A worker is subjected to direction if they're specifically told how to do something, and instructions are given that must be followed. If a worker is coordinated while conducting tasks, they're probably being directed.

Control

A worker subjected to control can be told how and when to do specific tasks. They can also be told to stop and change what they're doing - on an ad-hoc basis. The worker may be asked to move from one job to something different - without warning.



Umbrella company expenses

Reimbursed expenses

Umbrella company employees can still claim reimbursed expenses – just like permanent employees. For example, if an umbrella employee needs to catch a train to attend an important meeting, they can expect to be reimbursed for the ticket. How reimbursed expenses are processed depends on the umbrella company's internal procedures, but most will process them each payroll frequency. If you'll be required to claim reimbursed expenses, speak to an umbrella company first before registering.

Don't be tricked into thinking claiming expenses is commonplace

A majority of umbrella companies will not allow contractors to claim tax relief on travel and subsistence expenses – regardless of their "SDC" status. This is because, in reality, almost every umbrella contractor who has historically taken an SDC questionnaire failed it. And, it's to stop people trying to claim tax relief dishonestly.

Don't let an umbrella company mislead you by implying you will be allowed to claim expenses. We've seen unethical payroll providers actively promote their generous expenses policy. If you were to claim expenses that you shouldn't, HMRC could hold you accountable, and you could be heavily fined. The umbrella will get in serious trouble too.



A photograph of a man and a woman with long red hair, both smiling and looking at a laptop screen. The man is on the left, and the woman is on the right. They appear to be in a professional or collaborative setting.

Salary Sacrifice

Are you interested in a tax-efficient umbrella payroll service that will help you boost your personal pension pot?

Churchill Knight Umbrella's salary sacrifice service allows you to pay money directly into your personal pension pot - before tax and National Insurance Contributions are made. This is a tax-efficient way to save for your future. Contact us to register in minutes.

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Umbrella company margin

Compliant umbrella companies will deduct a margin from their employee's gross pay, which will be the umbrella's only source of income. The margin is deducted to cover the umbrella company's administration and business-related costs. Every additional deduction is sent to HMRC on the employee's behalf. Understanding umbrella company margins is essential. There has been negative press aimed towards "greedy" umbrella companies.

A majority of UK-based umbrella companies are fully compliant with HMRC legislation and will operate ethically. These companies will only retain a margin for their involvement in paying their employees. Unfortunately, it came to light in early 2021 that a well-established umbrella company was retaining holiday pay. Doing this is immoral and has damaged the industry's reputation.

We'll say it once more - umbrella companies should only retain their margin and nothing else.



Umbrella company margin

Usually, an umbrella company margin will be deducted weekly or monthly. On average, a margin will vary between £15 and £35 per week (£60 and £140 per month).

If you're looking to retain as much of your hard-earned money as possible, it's in your interest to find an umbrella with a low margin. For example, an umbrella with a weekly margin of £15 will ensure you retain a few extra £ compared to an umbrella with a margin of £35 per week. However, don't be entirely led by an umbrella company's margin because their quality of service is also important. Also, it's worth noting that some umbrella companies will offer their employee's a selection of "extras" as part of their service. Therefore, by paying a few extra £ each week - you could save money elsewhere (for example, if the umbrella company has an employee discount scheme).

Deducted from the employee's gross pay

Umbrella companies will deduct their margin from their employee's gross pay, meaning it will be taken before the additional deductions – making it tax efficient. As a result, the margin will impact an employee's take-home pay less.



Employment costs

Employment costs are one of the most debated topics when it comes to using umbrella companies for payroll purposes. Let's look at employment costs in more detail.

What are employment costs?

Employer's National Insurance – Employer's National Insurance is paid to HMRC for each employee working for an employer (in this case, an umbrella company). It equates to 13.8% and is a type of Class 1 National Insurance.

The Apprenticeship Levy – Almost all umbrella companies are eligible for the Apprenticeship Levy because they process the payroll of hundreds (sometimes thousands) of workers each month. The Apprenticeship Levy is a government deduction that larger organisations need to contribute to – to fund apprenticeships, and it equates to 0.5% of the company's overall wage bill.

Why are they passed onto the worker?

Umbrella companies exist to process the payroll for temporary workers. As we've mentioned earlier in the report, the only income that umbrella companies generate for themselves is the margin they deduct each payment frequency. Therefore, umbrella companies cannot afford to cover the employment costs, especially when their employees are not completing any work for them (because they're working for their end-client).

As a result, employment costs are passed on to temporary workers, and if you use an umbrella company, you'll see them on your payslip. Temporary workers must understand employment costs before engaging with an umbrella company and agreeing to an assignment rate with their recruitment agency or end-client.



Employment costs

Key Information Documents (KID)

Before a temporary worker agrees to take on an assignment and join an umbrella company, they should be issued with a Key Information Document by their recruitment agency/end-client. This will present them with a tailored take-home pay projection that'll help them understand their earning potential (taking all deductions, including employment costs, into account). Key Information Documents should be issued for each assignment.

Employment costs should be taken into consideration when agreeing an assignment rate

Many recruitment agencies are offering different rates for candidates depending on their chosen method of payroll. For example, if a candidate decides to use an umbrella company, their assignment rate (agreed rate of pay) should include an uplift compared to using a different payroll method. This uplift has been included to cover employment costs.

A summary of employment costs

- Consist of Employer's National Insurance and the Apprenticeship Levy.
- Passed onto temporary workers.
- Should be accounted for in the assignment rate agreed between temporary worker and recruitment agency/end-client.
- They're not retained by the umbrella company, instead they're sent to HMRC (the umbrella company only retains their margin, and nothing else).
- Many agencies will advertise roles with an "umbrella rate" – an amount that includes an uplift to account for the employment costs.
- If a worker isn't happy with their rate of pay, they're entitled to negotiate, or decline the assignment.



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Umbrella company payslips

Just like permanent employees, umbrella company employees will receive a payslip from their umbrella company each time they're paid. On the payslip, the worker will see all of the deductions made to their gross pay.

Umbrella Illustration Income Statement for An Illustration						
Company Income received		Assignment Rate(s)				
Company Income and Costs	2,200.00	Units	Rate	Total	Agency/Description	Description
Apprenticeship Levy	9.62					
Employer's NI (A)	242.09	5.00	440.00	2,200.00		Invoice (B)
Company Margin	25.00					

PAYSLIP (C)					
Employee Name	Employee Number	NI Number	Tax Code	Pay Date	Periods
An Illustration	ILLUSTRATION	ILLUSTRATION	1250L X	06/04/2020	1

Payments				Deductions	
Description	Units	Rate(£)	Amount(£)	Description	Amount(£)
Basic Rate	37.50	8.72	327.00	PAYE(Income tax)	528.57
Holiday Pay	1.00	207.12	207.12	Employee's NIC	112.71
Additional Taxable Wage	1.00	1,389.17	1,389.17		
Total Payments			1,923.29	Total Deductions	641.28

Umbrella Illustration	This Period	Year to Date
PAYE Reference XXX/XXX	Total Taxable Pay 1,923.29	Total Taxable Pay 1,923.29
Tax Period 1	Earnings for NICs 1,923.29	Total NIable Pay 1,923.29
Period Ending 06/04/2020	Expenses 0.00	PAYE Income Tax 528.57
Pay Frequency Weekly	Net Payment 1,282.01	National Insurance 112.71
		Total Payment (£) 1,282.01

Address: Mr An Illustration	Message:
--------------------------------	----------



Umbrella company payslips

A) Company income received

This shows the amount of money the umbrella company receives from the recruitment agency/end-client. In this case, the amount is £2,200.00. Also included in this section is the employment costs (Apprenticeship Levy – £9.62, Employers National Insurance – £242.09 and the umbrella company's margin – £25.00 per week).

B) Assignment rate

The details of the assignment are covered in this part of the payslip. You can see that this worker completed 5 days (units) with the assignment rate of £440.00 per day – totalling £2,200.00 for the week.

C) Tax code

The worker's Tax Code is included here. In this instance, it's the standard 1250L tax code.

D) Payments

Umbrella companies will show a worker's pay with a combination of Basic Rate and Additional Taxable Wage (sometimes referred to as a bonus). They will also show an allocation of the workers payment as Holiday Pay (12.07%). The Total Payments amount is £1,923.29 – which is the same as the assignment rate (gross), minus employment costs and the umbrella company margin.

E) Deductions

These deductions are PAYE income tax and Employee's National Insurance Contributions. These rates are set by HMRC and are the same as employees in full-time employment.

This section is also where additional deductions will appear, such as student loan repayments, pension contributions (if you choose to remain auto-enrolled), court orders, etc.



Umbrella company payslips

F) Umbrella illustration

The Umbrella Illustration section will present you with information about your PAYE reference number, the tax period, and your payment frequency (in this example – weekly)

G) This period

The total taxable pay, earnings for NICs, expenses and your net pay are shown here. Please take note of the £0.00 expenses. Ever since supervision, direction and control (SDC) was introduced by the government in 2016, a majority of umbrella company employees are unable to claim tax relief on expenses.

H) Year to date

Here you will find your yearly summary of taxable pay, pay eligible for NICs, the amount of income tax you have contributed to HMRC. Your total payment for the period (net pay) is listed at the bottom. In this case, the workers net take home pay after all deductions is £1,282.01. This is a pay retention rate of 58.3%.

I) Additional information

Section I is where you'll see your personal information, such as address, and any notes that may have been added to your umbrella company payslip.

Notes

In this example, the contractor has decided not to accrue Holiday Pay. If they had decided to accrue Holiday Pay, the running total will be shown in this section. This payslip is for illustration purposes only.



Advantages of using an umbrella company

There are plenty of benefits available to contractors and freelancers who choose to get paid with an umbrella company. Here are some of the perks to using umbrella companies – some of which you may not have previously considered.

Registering takes 10 minutes

Most umbrella companies will be able to get you registered and set up to get paid within 10 to 15 minutes.

Using an umbrella is the easiest way to get paid as a contractor/freelancer

Umbrella companies are known as being the most straightforward way to get paid. Once you've completed the registration process, all you need to do is submit timesheets to get paid on time.

Employee Benefits

As an umbrella company employee, you'll have access to Statutory Employee Benefits, including Sick Pay and Maternity/Paternity Pay.

Continuity of employment

By using an umbrella company, you'll have one continuous employer. This will grant you "continuity of employment" and help when sourcing finance (such as a bank loan or mortgage).





Advantages of using an umbrella company

Low cost

Shop around, and you could get excellent value for money. Umbrella companies are inexpensive - especially compared to contractor accountants (for contractors with a limited company).

Compliance

Choose a compliant umbrella company, and you'll be in very safe hands. They'll ensure you pay the correct tax and National Insurance Contributions - ensuring you'll never face an HMRC tax investigation in the future. Also, as you'll be paid like a permanent employee (PAYE) – you don't have to worry about IR35.

No long-term commitment

Umbrella companies should never have a tie in period, meaning you're free to join and leave as little and often as you please. This should grant you complete flexibility. If you don't like umbrella companies or one in particular - go and move on - with no strings attached.

Additional benefits

The umbrella company marketplace is competitive. Therefore, umbrellas are often advertising little "extras" as part of their service. These can include employee discount schemes - allowing you to save money when shopping or eating out. Have a look and see what's on offer.

Easy switching between limited and umbrella

Recent changes to IR35 legislation (off-payroll in the private sector) have seen a rise in demand for umbrella companies. If you work through a limited company, you can easily use an umbrella when inside IR35 and return to your limited company as soon as possible. This method of operating could also be very cost-effective.



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Disadvantages of using an umbrella company

We've listed the advantages of using an umbrella company, so here are the most commonly agreed disadvantages.

Claiming expenses is unlikely

Since the introduction of SDC in 2016, almost every umbrella employee cannot claim tax relief on travel and subsistence expenses.

Lack of freedom

A lot of self-employed workers become their own boss to benefit from freedom and financial control. However, working through an umbrella is likely to remove this - as you'll be required to submit timesheets. Effectively, you may feel like you lose your "self-employed" identity.

Lower take-home pay (compared to limited company/outside IR35)

When you use an umbrella company, you'll be paid similarly to a permanent employee. Therefore, your pay retention will be significantly lower when compared to operating outside IR35 through a limited company. Usually, umbrella employees should expect to retain between 60 and 70% of their pay.



Disadvantages of using an umbrella company

Unethical umbrella companies are targeting honest contractors and freelancers

It's imperative that you choose a compliant umbrella company for your payroll. Unfortunately, there are unethical providers out there targeting honest contractors and freelancers. If you engage with one of these - you could face severe penalties from HMRC in the future.

Service issues

If you accidentally choose an umbrella company with poor customer services, you could experience delays in getting paid, and getting in contact with them could prove difficult. Always conduct your research into the umbrella you're considering using – before you register.

Employment costs can be confusing

The Employer's NI and the Apprenticeship Levy will be deducted from your assignment rate. Earlier in this report, we've explained why this is the case. Although umbrella company employees should receive an uplifted rate to cover the employment costs, they're still not ideal - and we appreciate this.

Added extras you don't need (but maybe paying for)

A lot of umbrella companies will include "extras" as part of their service. You may love these, but you may also prefer to go without them. If you don't see value in the extras on offer - you risk paying a higher margin for stuff you don't need.



IR35

Introduced by the government in 2000, IR35 has recently been a hot topic. Changes to off-payroll in the public sector (IR35) were rolled out in 2017, and similar changes came into effect in the private sector in April 2021.

What is IR35?

IR35 is a piece of legislation designed to stop "disguised employees" from taking advantage of tax breaks that were not intended for them. The UK government found that many contractors working through a limited company were operating in the same way as permanent employees. However, the limited company contractor could pay themselves with a combination of salary and dividends – thus retaining more of their money.

IR35 was introduced to try and level the playing field and ensure only genuine self-employed workers could benefit from careful tax planning and higher pay retention.

Inside IR35

If you're inside IR35, you're working in the same way as a permanent employee. The fee-payer in the supply chain will be required to make deductions to your pay, and you'll receive your net salary. In this scenario, there are no financial benefits to contracting through a limited company.

Outside IR35

If you're outside IR35, you're genuinely self-employed in the eyes of the government and can receive your gross pay from your end-client or recruitment agency. You can then pay yourself with a combination of salary and dividends – a tax-efficient way to operate. For obvious reasons, being outside IR35 is favoured.



IR35

Off-payroll in the public sector (2017)

From April 2017, limited company contractors working in the public sector were no longer allowed to make their own IR35 determination. Instead, this became the responsibility of the end-hirer. As a result, many public sector contractors found themselves inside IR35. Any organisation found to have made inaccurate assessments could be faced with the unpaid tax liability of its temporary workers. Consequently, many organisations made "inside IR35" assessments – regardless of their temporary workers' actual operating circumstances.

Off-payroll in the private sector (2021)

Similar changes came into the private sector in April 2021 – although they were originally scheduled for April 2020 but were delayed due to coronavirus.

Status Determination Statements (SDS)

If you're a private-sector contractor, your end-client should issue with you a Status Determination Statement (SDS) for every assignment you undertake. This document will explain your IR35 status and will show how the organisation came to this decision. You're free to appeal it – if you think it's been conducted inaccurately.



IR35

Rise in demand for umbrella companies

If a temporary worker is determined inside IR35, there are no financial benefits to operating through a limited company. Therefore, using an umbrella company is a popular alternative. Changes to off-payroll in both the public and private sector have seen an unprecedented rise in demand for umbrella companies as more and more contractors are finding themselves inside IR35.

Contracting through a limited company is not a thing of the past!

Contractors can still benefit from limited company contracting by working on outside IR35 assignments. And it's worth noting that switching between limited and umbrella is easy - should a limited company contractor decide to take an inside IR35 role in the future. As organisations come to terms with their IR35 obligations, we hope more and more positions will be advertised outside IR35 - so genuine contractors can continue to flourish.



Tax avoidance and disguised remuneration

If you use a compliant umbrella company for your payroll – one that operates PAYE – you will be in safe hands. While most umbrellas are compliant with UK tax law and will have your best interests at heart – some are not trustworthy. Tax avoidance schemes (often referred to as disguised remuneration schemes) are targeting contractors and freelancers with offers of inflated take-home pay. It would be best if you avoided these at all costs because the consequences could be severe.

Tax avoidance schemes – what to look out for

Tax avoidance involves taking advantage of “loopholes” to reduce your tax liability deliberately. While tax avoidance is technically legal, HMRC is retrospectively penalising workers who have engaged with them (read about the Loan Charge).

Any scheme that claims it can reduce your tax liability is almost certainly a tax avoidance scheme. It would be best to avoid these at all costs because should HMRC investigate in the future, you could be faced with a life-changing tax bill.

Tax avoidance schemes have some pretty distinctive characteristics. If you come across an “umbrella” or “PAYE payroll provider” offering any of the following, you should tread carefully. Later in the report, we explain why you should only ever consider using an FCSA or Professional Passport accredited umbrella company, and we recommend you conduct your own due diligence.

Pay less tax with our umbrella | Over 90% pay retention | IR35 compliant!

www.tax-avoidance-scheme.co.uk

4.5 ★★★★★ rating for tax-avoidance-scheme.co.uk

Find yourself inside IR35? Use our HMRC friendly umbrella company and retain more of your hard-earned money.

Pay less tax · HMRC compliant · Working with major corps

"I paid less tax thanks to this company!" – Unreliable Review Platform

We have created this Google advert ourselves, but you may be surprised to know similar ones appear to be popping up left, right and centre! Be careful and never engage with a tax avoidance scheme.

www.umbrellacompanies.org.uk

The Complete Umbrella Company Guide



Tax avoidance and disguised remuneration

Inflated take-home pay – Any company offering to reduce your tax liability is almost certainly a tax avoidance scheme. If you work in the UK, you're expected to pay UK tax and National Insurance.

Strange quotes – We've seen many unethical companies using odd wording, such as "HMRC friendly" and "IR35 compliant". These phrases are unusual and suggest the company is trying to trick contractors into using them.

Logos of major corporations – Many online schemes boast about their list of amazing clients. However, it's easy to copy and paste logos from elsewhere and to fake this information.

Located abroad – Any payroll company serving UK workers that is located offshore should be avoided at all costs. It's a tell-tale sign of a tax avoidance scheme. Many tax avoidance schemes are located in known tax havens, such as the Isle of Man and the Cayman Islands.

Lack of telephone number – Various tax avoidance schemes only have a couple of employees and will be challenging to contact.

The use of the word "legal" – Tax avoidance is technically legal, but it's unethical, and you could be faced with retrospective punishment. If a scheme is boasting about the fact their service is "legal" - it's very unethical of them. Please don't be misled or tricked into using their service.

New models – Traditional and compliant umbrella companies operate PAYE - HMRC's tax system. Therefore, it's unusual, but they may refer themselves to a "PAYE umbrella model". However, if you ever see companies using the word "model" with other descriptive titles, be sceptical. For example, "New Compliant Umbrella Model", "Compliant Tax Efficient Model", "HMRC Tax Model", etc.



Tax avoidance and disguised remuneration

Disguised remuneration schemes

You may have come across the phrase "disguised remuneration scheme". These are arrangements where a worker is paid using tax-free arrangements, such as loans. To put it simply, a disguised remuneration scheme will collect the temporary worker's income and pay it to them in an unusual way - to avoid tax. Examples are loan schemes - where the worker's pay sent to them via a loan. Loans are not subjected to tax, assuming they're going to be paid back, but in this type of disguised remuneration scheme, they're not - making them tax avoidance.

Disguised remuneration schemes are relatively easy to spot because they'll offer an unusual or extra complicated way to process payroll. And, they'll almost certainly boast inflated pay retention. HMRC is fully aware that disguised remuneration schemes exist and have admitted dozens are in operation in the UK.

The Loan Charge (2019)

Initially, the Loan Charge allowed HMRC to go as far back as 20 years to find those who had underpaid tax and issue them with a penalty notice. In many cases, workers were faced with a bill of tens of thousands of pounds - and most had no way of being able to pay this back.

In 2019 and as a response to the Morse review, HMRC announced it would change the length of retrospective repayments. The Loan Charge now only applies to arrangements undertaken after 9th December 2010. The government will also allow taxpayers to pay outstanding tax liabilities in three instalments - to reduce the impact of paying significant tax liabilities.

The Loan Charge has come under a lot of scrutiny by contractors, agencies, professional bodies and payroll providers. Some contractors indeed knew what they were doing and deliberately set out to avoid paying tax. However, there are numerous cases where honest workers were misled or forced into using unethical payroll providers. In some cases, temporary workers (including nurses and supply teachers) had no idea they were using an unethical tax avoidance scheme.

If you believe you may have engaged with a tax avoidance scheme, we recommend you contact HMRC to discuss your circumstances.





www.umbrellacompanies.org.uk

The [umbrellacompanies.org.uk](http://www.umbrellacompanies.org.uk) website is full of useful resources for contractors, freelancers, agency workers and recruiters in the UK.

- ✓ Exclusive guides
- ✓ Top 10 umbrella list
- ✓ Compliance information
- ✓ Regular blogs
- ✓ Guest content
- ✓ Calculation advice
- ✓ Breaking news
- ✓ Useful directories



@umbrellacomps

Compliance within the sector

A report by The Low Incomes Tax Reform Group (LITRG) found two self-regulating professional bodies in the temporary worker industry. Both of these bodies work to ensure that the temporary workers' supply chain is compliant with HMRC and operates ethically.

If you decide you want to use an umbrella company, we recommend choosing a provider accredited by the Freelancer & Contractor Services Association (FCSA) or Professional Passport.

The FCSA

The FCSA is perhaps the UK's most recognised professional body. They work closely with HMRC and stakeholders within the industry to resolve issues that arise and ensure temporary workers are protected. Their Codes of Compliance are published online for all to see, and every assessment undertaken on a payroll provider is available for HMRC to see - if they're interested. This makes the FCSA transparent.

Every year, the FCSA will re-assess its members and run a series of assessments. It's fair to say that FCSA members cannot get complacent - or they run the risk of being stripped of their accreditation.

“FCSA accreditation is recognised as the industry’s compliance gold standard.

Accreditation is awarded to umbrella employers, contractor accountants (PSC) and CIS payroll providers who can demonstrate the highest industry standards.”

The quotation above has been taken from the FCSA website.



Compliance within the sector

Professional Passport

Professional Passport was founded in 2007 and is an independently owned professional body. To earn Professional Passport membership, payroll providers (including contractor accountants and umbrella companies) must prove they adhere to the highest quality standards. Professional Passport has its own strict codes of compliance, and they're continually being updated to ensure they're in line with the marketplace.

"Our compliance standards go further and are designed to not only ensure that providers we recommend operate compliantly within HMRC tax rules but also across the many other areas of legislation that apply. We require the highest level of transparency in their operations to ensure workers are clear on any arrangements entered in to."

The quotation above has been taken from the Professional Passport website.





Disclaimer

This guide has been written by the team at Umbrella Companies in good faith, and is designed to provide useful information to contractors, freelancers and agency workers in the UK. It is for general information purposes only.

Whilst we endeavour to keep the information up to date and as accurate as possible, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability with respect to the guide (including advertisements from third-parties), or to any content on the www.umbrellacompanies.org.uk website.

Any reliance you place on such information is therefore strictly at your own risk. In no event will we be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from loss of data or profits arising out of, or in connection with, the use of this guide or our website.

For the avoidance of any doubt, we strongly encourage you to undertake your own research and due diligence into any given provider before signing up with them.

We urge all temporary workers to use compliant payroll services only. As such, we will do everything to our ability to ensure only compliant and trustworthy providers appear throughout the www.umbrellacompanies.org.uk website. If you see a company on our website that you believe may be promoting tax avoidance, or are using unethical procedures, we ask you to email us immediately with more information about the company.

Please send your message to info@umbrellacompanies.org.uk.

For more information on getting paid as a self-employed professional, please visit the government's website.





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