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Your guide to

Umbrella Company Contracting

August 2021

An introduction to umbrella companies

Joining an umbrella company is one of the easiest ways to get paid when you are contracting. Instead of setting up your own limited company or being enrolled in an agency PAYE system, tens of thousands of contractors use umbrella companies to get paid for short-term contracts.

Working through an umbrella company may not be as tax efficient as setting up a limited company, but if you are new to contracting or if you don't want the responsibilities that come with the running of a limited company, an umbrella company might be right for you.

After choosing an umbrella company, you will become an employee of that company. The umbrella company will invoice your agency (or end client if you are working for them directly) on your behalf, collect the money and pay you net after any income tax and National Insurance contributions (NICs) and deductions which will be paid to HMRC on your behalf.

Contractors operating as umbrella employees choose all their own assignments so you remain in control.

There are very few downsides to umbrella contracting but it isn't suitable for everyone. It is popular with contractors who want to work efficiently, enjoy all the employment rights of a permanent employee and not worry about HMRC. Umbrella contracting may be the most compliant and tax efficient model available.

This guide tells you everything you need to know about contracting through an umbrella company. It covers all the important benefits and processes you need to know about. If you would like any more advice or want to know if umbrella contracting is suitable for you, please contact one of our friendly advisers.

"First time I've ever used any sort of umbrella company and I've had a great experience and if in the future I come back to contracting I will be sure to use Umbrella.co.uk again. Thanks."
Barry L

Benefits of Umbrella contracting

Working through an umbrella company is often not as tax-efficient as setting up a limited company but it is faster, more flexible and hassle free. These are the main benefits of contracting through an umbrella company:

Quick and easy set up

No set-up costs and no lengthy admin processes. If you think that you'll only be contracting for a short period of time then umbrella contracting is the fastest, most efficient way to get paid.

Minimal admin

Simply submit a timesheet and your umbrella company will collect your money and pay you, leaving you free to concentrate on more important things.

Don't worry about IR35

If you are caught by IR35, there may be nothing to gain by setting up a limited company. Working through an umbrella company is easier, fully compliant and you get extra benefits, like full statutory employment rights.

Quick and easy exit process

Once you have completed your assignment, leaving an umbrella company is quick and painless. You simply request a P45 to end your employment.

Expenses

HMRC rule changes in 2016 mean that it is harder for umbrella employees to claim expenses, but workers who aren't subject to 'supervision, direction or control' by clients, or workers who visit multiple sites in a day, can still claim money back for expenses like travel, food and accommodation.

These rules are complicated and online tools can be unreliable. It's a good idea to speak to an umbrella company to get information or advice about umbrella expenses.

Financial benefits

Operating through an umbrella company can be more financially beneficial than working through an agency PAYE.

No tax errors

If you run a limited company, making a mistake on your taxes can be very costly, especially if HMRC audits your previous tax returns. There's no need to worry about this when you work through an umbrella company.

How umbrella contracting works

Working through an umbrella company is the most popular alternative to setting up your own limited company. The umbrella company essentially sits between you and the client (which can be an agency or an end client).

You will become an employee of the umbrella company. They will raise invoices on your behalf and pass the proceeds onto you as a salary, after retaining a margin and deducting taxes in line with what you would pay in any other kind of traditional employment. All statutory deductions are passed to HMRC on your behalf.

All you need to do is submit a weekly or monthly timesheet and the umbrella company will handle everything else.

The umbrella process

- Choose your umbrella company and sign an employment contract with them
- The umbrella company signs a contract with your employment agency or client
- Submit your timesheets to your agency weekly or monthly
- The umbrella company raises invoices based on your timesheets (if required by your agency or client)
- Your salary will be paid directly into your personal bank account once taxes have been deducted and margin retained
- You will receive a text message to notify you that a payment has been processed through our payroll. Log onto the secure Umbrella online portal to see your payslip

Talk to us

Our friendly experienced advisors can help you decide which option is best for you

01625 546 610

How umbrella compares financially

It can be more financially beneficial to run your own limited company; however this is not always an option depending on your individual working circumstances. Umbrella contracting is the next most popular payment option.

Here's a helpful breakdown showing the take home pay operating under the different payment options:

Hourly Rate	Agency PAYE	Umbrella	Limited
£10.00	£273.05	£291.94	N/A
£15.00	£371.57	£403.53	£454.89
£20.00	£470.08	£515.10	£597.35
£25.00	£568.59	£626.68	£739.80
£30.00	£664.76	£728.32	£877.81
£35.00	£748.79	£823.51	£981.76

Assumptions: Above calculations are based on 37.5 hours per week, no expenses processed. Not VAT registered. Figures include Umbrella.co.uk standard retained margin. Agency PAYE includes rate reduction of 13.8% employers NI and 12.07% holiday pay.

"it has been a fantastic experience working with Umbrella.co.uk over the last few weeks and I'll definitely be in touch if I need to do contract work again."

Olugbenga A

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Choosing an umbrella company

There are a number of important things you need to consider before choosing your umbrella company.

All umbrella companies use the same PAYE calculations to work out how much tax you will pay, but there will be differences in how much margin the company retains, the level of support they offer and any additional benefits that they give to contractors.

Make sure you investigate an umbrella company thoroughly before making a decision. There may be minor differences between offers that could appeal to you or put you off. Some umbrella companies agree to pay you weekly on a Friday, for example, while others only release money monthly.

There are so-called umbrella companies who operate experimental tax schemes involving paying loans instead of salary and paying offshore. If it looks too good to be true, it will be!

Finally, be wary of online 'take home pay calculators' on some umbrella company websites. These can be skewed by unrealistic assumptions which may not apply to your situation.

The best policy is always to speak to the umbrella company directly and get accurate information based on your personal circumstances.

"In the short time I was contracting, Umbrella helped with a lot of unknown things and I would highly recommend Umbrella.co.uk to all my friends who may be starting out in the contracting game."
Simon M

About Umbrella.co.uk

Umbrella.co.uk is one of the largest umbrella companies in the UK. We have earned a reputation for compliance, reliability and efficiency, helping over 50,000 contractors and freelancers in many different industries make the most of their income while staying compliant with legislation.

Professional experience and personal service

With decades of collective experience, our large team of accountants, account managers and customer service personnel are there to support you on every step of your contracting journey.

Our team of experts is constantly monitoring legislation changes, looking for anything that could be relevant for our employees. For example, legislation changes might make it more beneficial for some umbrella workers to set up limited companies. This is something that we can advise on and initiate through our limited company service. We blend professional expertise with a personal service to keep our customers happy.

We also offer a range of extra services including a business advice service, business and personal debt services, additional insurance cover and access to an employee rewards scheme.

Umbrella.co.uk is an Accredited Member of the FCSA and an APSCo Trusted Partner.

FCSA Umbrella Accredited Member

FCSA Limited Company Accredited Member

FCSA Self-Employed / CIS Accredited Member

"Umbrella.co.uk provide a very good service. I am leaving only due to setting up my own Limited company. Thanks for your help. "Nathan B

APSCo Trusted Partner

Thinking about setting up a limited company?

Umbrella Accountants are the obvious choice for contractors, freelancers and other small limited company owners who want to maximise their income with simple, low-cost, fixed fee accountancy solutions.

Supported by innovative cloud-based accounting technology and qualified accountants, our contractors get the best help at every stage of their limited company journey.

Whether you are just starting out in contracting, looking to incorporate after a period of self-employment, or you are unhappy with your current accountant and want to move to better firm – you can be sure that Umbrella Accountants offer the right service package to meet your needs.

Our qualified accountants and technology experts are contractor accountancy specialists. They know that limited company contractors want to get on with running their business. That's why we try to take on as much of the administrative burden as possible, and leave you to concentrate on what's important.

You'll be assigned a team of accounting professionals who will look after all of your financial affairs. They will regularly review your accounts, offer advice on where you can be more tax efficient and let you know about any issues or legislation changes. If you ever have an issue with your accounts or tax, there's no need to spend hours on hold to HMRC, your industry-leading client support team will be easy to get in touch with - We speak to the HMRC so you don't have to!

"Never having been involved in a Limited Company I had no knowledge of the tax system. I was guided through what I needed to do at every step by your team and was very satisfied by both the results and support I received."

Our services

Umbrella Accountants have developed competencies in areas that are particularly important to contractors, freelancers and other small limited company owners.

These areas of specialism include limited company incorporations, structuring of shareholdings to unlock tax efficiencies, tax compliance and any statutory returns that need filing.

How we work

Umbrella Accountants have staff trained in both customer service and accountancy so they can relay complex information in a simple, straightforward way.

We also work with our affiliate partners to offer a range of additional services including banking and insurance products.

Cloud-based accountancy technology

Cloud accountancy solutions like Xero and FreeAgent have made big business accountancy solutions accessible and affordable for everyone. These low-cost technologies are perfect for contractors and other micro businesses, giving you easy to understand data that allows you to monitor your finances with little effort.

As qualified accountants and technology experts, Umbrella Accountants has been recognised as a Platinum Partner with Xero and FreeAgent.

Talk to us

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Why choose Umbrella Accountants

- Contractor, freelancer and small business specialists with more than 4,000 clients
- Low-cost technology driven accounting solutions
- Xero and FreeAgent Platinum Partners
- Tailored packages made for you
- Free company incorporation
- Unlimited telephone and email support with your accountancy team
- Full support packages for new limited company owners; our formations team will help you every step of the way
- Cloud-based accounting solutions let you manage your accounts from anywhere
- Help finding and securing a business bank accounts and a relevant insurance policy
- One off accountancy jobs like self-assessment
- All-inclusive package with no hidden costs and no surprise bills
- £200 shopping vouchers when you refer a friend (subject to T&Cs)

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