

## **What is an umbrella Company?**

Most people will only come across an umbrella company if they are in a contract so do not worry if you are feeling a little confused. Whilst you are carrying out your research you may also come across various terms for an umbrella company such as:

- Contract Umbrella,
- Contract Umbrella Company
- Umbrella Company
- Umbrella Limited Companies

Whatever the terminology, in its simplest form, an umbrella company processes a PAYE payroll for contractors whilst offsetting business expenses against their tax, without having to worry about the IR35 legislation. All of our approved umbrella companies on our PSL have HMRC compliance

An umbrella company is a company that acts as an employer to contractors who are in a contracted assignment, usually through a recruitment agency. Recruitment agencies issue contracts to a limited company as the agency liability would be reduced.

Your umbrella company will liaise with the agency / client to ensure that all details have been gathered so that all the contracts, documents and schedules are on file. Your personal details will also need to be collected to clarify your identity and to ensure that you get paid.

Your chosen umbrella company will issue you with an employment contract once your contract has been secured, which will provide you with an employee status.

You may be asking "How do I get paid?" Upon receiving a timesheet from the contractor. the recruitment agency will pay the umbrella company, who will in turn pay the contractor through PAYE with the added benefit of offsetting some of the income through claiming business expenses such as travel, meals, accommodation and work equipment. As employees, contractors working through umbrella companies are also able to become more tax efficient by utilising salary sacrifice schemes such as childcare vouchers, pension scheme, charity donations and a Bike to Work Scheme. As temporary employees of the umbrella company, contractors are sometimes entitled to benefits such as professional insurances and discounted training courses.

If the agency and the client have agreed that business expenses they will be reimbursed via your umbrella company.

As your employer, the umbrella company will apply a relevant tax code once a P45 or P46 has been submitted. Once submitted, the umbrella company will be able to maximise your personal allowance and contractors will receive a payslip to support their payroll. As an employer, umbrella companies will also produce a P60 at the end of the financial year and a P45 once employment has ended.

As a temporary employee, the contractor is entitled to employment rights such as holiday & sickness pay, maternity & paternity leave, minimum wage, etc.

Umbrella companies have become more of a prevalent since the British government introduced IR35 legislation in 1999. Umbrella companies are a hassle free way of working whilst allowing contractors to increase their take home pay compared to being paid PAYE through the recruitment agency or client.