



OUR GUIDE TO UMBRELLA CONTRACTING



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**Want to find out if Umbrella contracting is
right for you?**

Here we explain what's involved.

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When starting out as a contractor, it's important to understand your working options and to choose the one that suits you best.

While you may be better off financially as a limited company contractor, there are circumstances which make Umbrella working a more suitable alternative.

You've probably never heard of an Umbrella company before; we know that this way of working can seem odd at first, and certainly a little confusing, so we've compiled this helpful guide to explain everything you need to know.

WHAT IS AN UMBRELLA COMPANY?

An Umbrella company acts as your employer whilst enabling you to retain the flexibility of being able to choose the assignments you wish to undertake.

You can work on one assignment at a time or fulfil multiple assignments simultaneously, the choice is yours. The difference as an Umbrella contractor is that you will pay income tax and make National Insurance contributions on all your income, just like any employee would expect to.

It is likely, therefore, that you'll have less take-home pay than if you were a limited company contractor although this will depend on a number of factors such as the length of your assignment and contract rate, for example. That said, there are a number of employee benefits you get as a result of joining an Umbrella company which you don't get if you set up your own limited company.

Given the fact that your take-home pay may be less when compared to limited company contracting, you may well be thinking 'why would I use an Umbrella company at all?' It's a good question. There are a number of reasons to consider an Umbrella company, but two of the main reasons are:

Less hassle. Firstly, if you don't like the idea of running your own limited company, with all the administrative responsibility that entails, then an Umbrella company may be a more appealing solution for you. As your employer, we will take care of payroll and all the administration, so it's a truly hassle-free way to work.

IR35. If your assignment is subject to IR35, it may be less appealing, or in some cases not possible, for you to be a limited company contractor. IR35 was designed to stop people who really work like employees from taking advantage of the lower tax rates that a limited company structure can sometimes offer. As you will see later on, when you work for an Umbrella company you are an employee and are therefore taxed as such.

UMBRELLA vs AGENCY PAYE

In some instances it may be possible for you to use your recruitment agency's PAYE system as an alternative to using an Umbrella company.

However, you need to be aware that working through an agency payroll does not always give you the same employment rights as an Umbrella company. If you become an employee of an Umbrella company you will have access to benefits such as sick pay, holiday pay, maternity/paternity leave and access to a company pension. You will need to clarify with your agency what your employment status will be and what benefits you will be entitled to before making your final decision.

Security of payment

Some contractors are concerned about what would happen if their 'end client' (the company they are carrying out work for) fails to pay. You are protected from non-payment when working through an Umbrella company, as the Umbrella provider is your employer and is therefore responsible for making sure you get paid.

Continuous employment

If you use agency PAYE you will have to switch to another agency's payroll if you take on another contract offered by another agency, so it's a little more hassle.

As an Umbrella employee with JSA, you will be able to switch seamlessly between contracts. Not only does this save paperwork when moving to new assignments, but it also enables you to build up a record of continuous employment which is helpful when applying for mortgages and other types of loan. It allows for one continuous tax code for the work you undertake.

BENEFITS OF UMBRELLA EMPLOYMENT

SIMPLE SET-UP

It's really easy to start working as an Umbrella employee. You can register with us and start working straight away. The whole process takes only a few minutes.

CORRECT TAX

We will work out your Income Tax and National Insurance so you don't need to worry you've made the correct payments. These will be deducted directly from your pay.

EMPLOYEE RIGHTS

As an Umbrella employee, you're entitled to full employment rights whilst retaining the flexibility to switch between contracts, giving you peace of mind.

HOLIDAY PAY

Umbrella employees are able to accrue holiday pay. You can also take paid maternity/paternity and adoption leave.

PENSION SCHEME

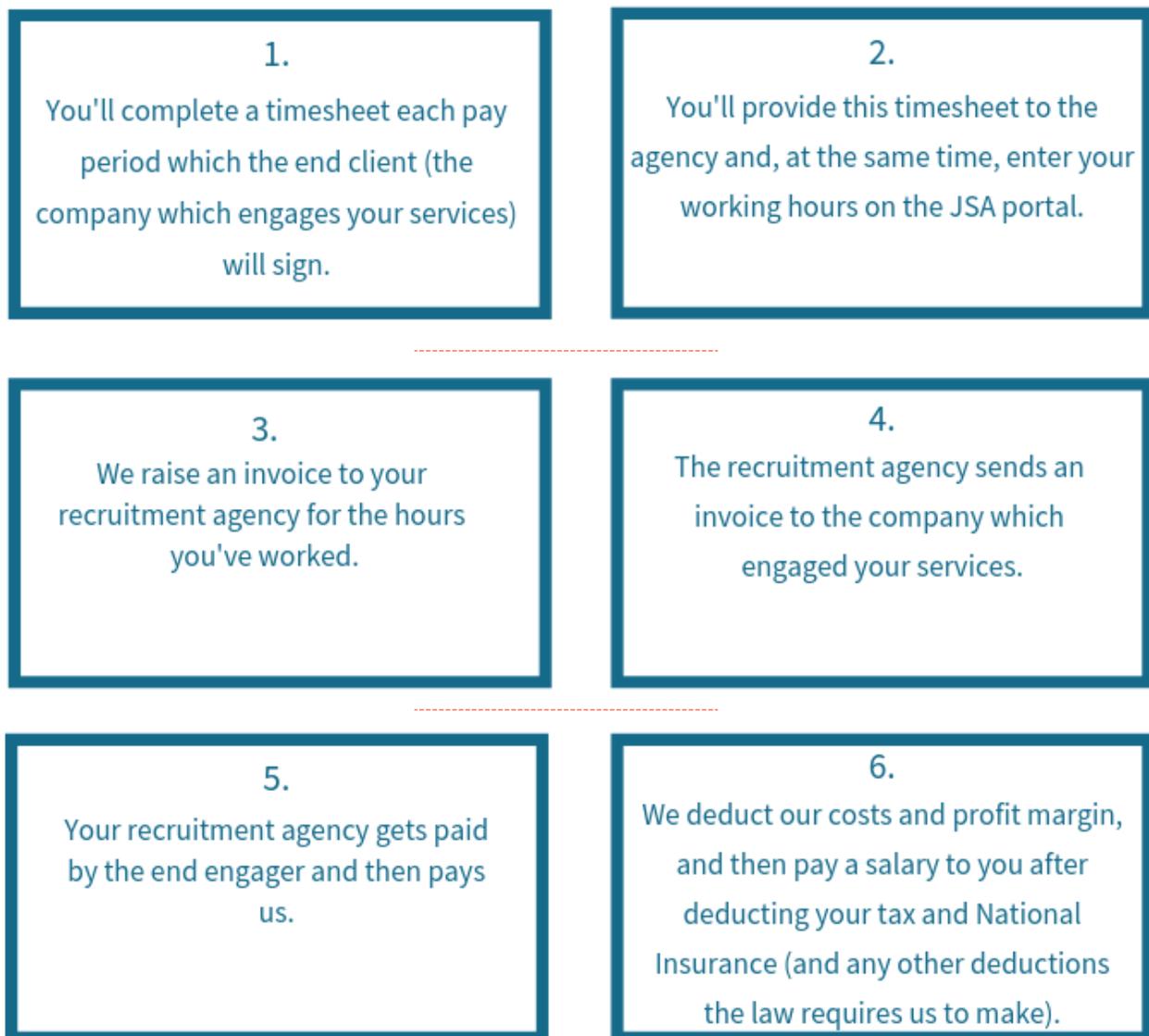
You can save for your future by joining our employee pension scheme. Plus, we can provide you with personal accident insurance.

LONG-TERM EMPLOYMENT

You can remain with our Umbrella company when switching between contracts. This makes life even simpler and means you build a record of continuous employment.

HOW AN UMBRELLA WORKS

This diagram shows you how your payment is processed through the supply chain.



HOW YOUR PAY IS CALCULATED

Before you join our Umbrella company, we will provide you with a detailed pay illustration which shows you exactly how your take-home pay is calculated, but we've also included some more general information below.

Assignment Fee	This is the rate you see in the advert for a role. It's the fee paid by the employment agency to the Umbrella company for supplying its employee (ie you).
Umbrella margin	The Umbrella will take a margin from the assignment rate it receives from the agency.
Employment costs	These are the costs your employer would need to account for, such as Employers' National Insurance, on the salary that it pays you. These are deducted from the Assignment fee the Umbrella receives from the agency.
Gross rate of pay	As an employee of the Umbrella, you will be paid a salary for the work you do, which will be set out in your employment contract. Your salary will typically be the value received by the Umbrella (the Assignment fee) less the Umbrella margin and Employment Costs.

Standard Deductions

Income tax	Your salary is subject to income tax. There are different tax bands – basic rate, higher rate and additional rate – applied according to how much you earn.
Employees' National Insurance	As you are an employee of the Umbrella company, you have to pay National Insurance.

UMBRELLA LEGAL COMPLIANCE

When looking for an Umbrella company, you may be surprised to find there are lots which offer 80%+ take-home pay. Like most things, if something sounds too good to be true then you will often find that it is, and the tax law is no different.

A compliant Umbrella company will employ its workforce, which means that it has a statutory obligation to deduct set amounts of tax. That's the law. So, if you are quoted a much higher take-home pay by one Umbrella than the other companies you talk to, you should ask how and assess what future risk this places at your door.

Contractors and Freelancers, and other temporary staff are being offered 'too good to be true' schemes all the time, usually providing amazing take home pay rates. You may well ask questions such as:

What's wrong with using a clever way of reducing tax?

These kinds of schemes or arrangements don't work. If someone tells you they have a way of reducing the tax you have to pay, that other people can't match, they're usually not telling the truth. If full tax and national insurance is not being taken from your pay, something is wrong! You can't just decide whether or not to pay these taxes.

Why is that my problem - I'm not running the scheme?

Because by law, everyone has to pay HMRC what they owe. If you have allowed yourself to be paid in a way that tried to 'get around' paying the right amount, HMRC will come knocking. They may go after the people running the scheme too, but often they've disappeared, and anyway, that won't stop them going after you.

My agency wouldn't let me use something bad - and I can go back to them if there's a problem.

Sometimes, agencies don't realise that some of the providers they are using are involved in aggressive schemes. Sometimes, they've been lied to as well. This stuff is complicated – they may just not realise that there's a problem. And how do you know they'll be around to help years later?

UMBRELLA LEGAL COMPLIANCE

Everyone's doing it though, aren't they?

No, they aren't. HMRC are challenging the worst schemes more and more, and having more and more success. A recent case was won more than 10 years after it was used. It doesn't make sense to use a scheme that will keep you awake at night for years afterwards. Use a proper provider – for example, an FCSA accredited one.

Tax Avoidance

Since there have been taxes, there has been tax avoidance, or tax evasion. In current UK law these are two separate things:

Tax avoidance

Structuring your affairs or transactions in such a way as to minimise tax. Some of these are perfectly acceptable (and accepted by HMRC), such as using an ISA investment product, or claiming rent-a-room allowance. Some are more aggressive such as some of the 'schemes' that have been reported on recently – some film partnerships and other complex arrangements, that to be honest most of us don't understand anyway.

At the aggressive or complicated end of the spectrum, HMRC can and do challenge these arrangements. So, tax avoidance is on a spectrum, with a comfortable 'safe' end, and a more risky, complicated end. At this end of the spectrum, you're much more likely to get a knock on the door from HMRC.

Tax evasion

This is just not declaring all your income, or other proceeds, profits or gains. So this is not attempting to reclassify or protect income to minimise tax, it's hiding some or all of these profits or income or other gains, so no tax is paid.

UMBRELLA LEGAL COMPLIANCE

Avoidance in the contracting world

So, we know that some kinds of avoidance are aggressive. How do these things work in the freelancer and contractor world? A hallmark of an aggressive scheme is that a basic transaction, such as getting paid a weekly wage, becomes more complicated than it should be. For example, money doesn't just go from the engager to the agency and to the worker. If it doesn't, ask yourself why?

If there's no real reason (commercial basis) other than 'something to do with tax', then use extreme caution. HMRC will rightly challenge arrangements where the structure is designed to reduce tax and for no other purpose.

Payrolled workers

For a payrolled worker, such as an Umbrella employee, what you often see is a payslip where some of the pay is not taxed in full. Perhaps it's described as a bonus, or a marketing contribution, or a loan, or something else.

Normally some of your pay will be taxed – this unfortunately reassures us that things are being done properly. But you should have the amount of tax checked – if it's not all of your pay, why not?

At some point in the future, HMRC will want the tax that wasn't collected. If that money was passed to someone else, who then lent it to you, tough.

HMRC will find that the money was really pay, and you'll have to find the tax. The scheme provider will have left the country or disappeared. The tax wasn't paid – HMRC will come to you.

OUR SERVICES

We support thousands of contractors to work compliantly through our FCSA-accredited Umbrella company.

Why choose JSA?

- Text message to let you know when you've been paid.
- Peace of mind knowing your tax, NI and other deductions are properly taken care of.
- Ability to join our pension scheme, accrue holiday pay, claim statutory benefits such as sick pay and maternity/paternity leave.
- Build a record of continuous employment while enjoying flexible working. This will help you when applying for mortgages and other loans.
- Compliance is guaranteed.
- We are open from 8am to 8pm Monday to Friday and 9am to 12pm on Saturdays for advice and support.
- Secure online portal for timesheet submission, payslips, communication etc.
- JSA is solely based in the UK.
- A wide range of insurances provided as standard.
- Additional employee benefits available to all, including our market-leading 24/7 personal accident insurance.



Our **team of specialists** will provide the advice and support you need to get the most out of being an Umbrella contractor

Find out more

www.jsagroup.co.uk

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