



Competex

Working for independent
professionals since 1998

WORKING THROUGH AN UMBRELLA COMPANY

For public sector workers under IR35 and all other independent professionals looking to offer their services via an umbrella company





What is an umbrella company, and who is it for?

An umbrella company is a company that employs freelance workers who may work on numerous different assignments, at various locations, either through agencies or directly for end-clients. The umbrella company enters into an employment contract with the worker and a service contract with the agency or end-client.

Umbrella company working is suitable for freelance consultants, contractors, interim managers and other independent professionals, particularly those working under IR35. It is possible to use the services of an umbrella company while still working through a limited company (or personal service company - PSC) for other assignments.

In this short guide, we outline how umbrella companies work, and the benefits of using Competex Umbrella Ltd.

What are the main differences between a PSC and an umbrella company?

When you own a PSC, you and your PSC are separate legal entities. You are both director and employee of your company. The fees that you earn while on assignment belong to your company, and out of these fees your company pays all its running costs. The most significant of these running costs is the salary that it pays you, and which you receive after deduction of the appropriate tax and NI (of course, you also own your PSC so you may also pay yourself dividends out of the profits).

When you work for an umbrella company, you enter into a contract of employment and so become an employee of the umbrella company. The fees you earn while on assignment belong to the umbrella company, which in turn pays you a salary, plus any allowable expenses. You do not own shares in the umbrella company and are one of many such workers employed by the company.

Public sector contracting: The rules have changed



As from 6 April 2017, all public sector departments have been responsible for assessing the IR35 status of the freelance workers they employ. If it is decided that a freelance assignment falls within IR35, it will no longer be practical to work through a personal service company.

The best and most favourable solution is now to work through an umbrella company.

Benefits of working through an umbrella company

EMPLOYEE RIGHTS

As you have an employment contract with the umbrella company, you are entitled to holiday pay, pension arrangements, and maternity/paternity rights. Competex Umbrella will also insure you for Professional Indemnity and Public Liability as standard.

JOINED-UP PAY

Freelance workers often perform multiple assignments over a period of time, making for a fragmented pay structure. The umbrella company consolidates its workers' earnings and ensures that appropriate taxes are paid in full.

HR SUPPORT

In the event that an individual needs HR advice, we are able to give appropriate support. We will also provide you with an employment history and/or references, for access to mortgages or finance, or to support property rental agreements.

PEACE OF MIND

We will attend to all your compliance issues, ensuring travel and subsistence claims are correctly processed, payroll is processed and reported to HMRC under RTI, and tax and NI are paid in full to HMRC, often without the added burden of submitting a self-assessment return.

UMBRELLA COMPANY WORKING: THE MECHANICS

Negotiating your terms and getting paid

When you take on freelance work through a payroll umbrella company, you will negotiate the terms of your assignment with the agency or end client on behalf of the umbrella company before you start work. The arrangements you make for payment of fees and expenses will then be incorporated into our contract with the agency or end client, and into your salary payment structure.

Once you have started work, you complete time sheets which the client must approve before we can invoice the agency or end client for the work you have done. (Some agencies have semi-automated billing and payment systems which speed up the process).

You may negotiate with the client to pay expenses at any level, but you may be paid free of tax on only those expenses permitted by HMRC. As well as claiming expenses from your client you may also claim certain expenses from Competex Umbrella. These expenses and the costs of employment including employer's NI are taken out of the total fund received from your client.

What expenses can I claim?

Examples of expenses you can claim are: travel costs, subsistence, professional subscriptions, eyesight tests and itemised telephone calls. In addition Competex Umbrella can pay employer pension contributions or provide childcare vouchers, as a salary sacrifice, which again, will come out of the total fund received from the client.

The effect of this is very similar to when you work through your own company and pay yourself all your fee income as salary.





Although you may negotiate for the client to pay for commuting to your usual place of work, you will not be permitted to receive these expenses free of tax if your work comes under IR35. However, these expenses will augment the funds available to you, and you may claim the other allowable expenses of employment, even if the client has not paid separately for these.

Regulations affecting umbrella company workers

The Agency Worker Regulations

These regulations affect the relationship that you, the umbrella company, the recruitment agency if applicable, and the end-client all have with one another. Please see our online Knowledge Base for more details.

What does it cost?

Umbrella companies do not charge fees in the conventional way, but instead they take a 'margin' from the fees received from the end-client. There is no VAT on this margin.

Monthly fee

We deduct a margin of £120* per month, irrespective of how many times you are paid within the month.

If in any of these months you concurrently have an active personal service company administered by Competex Ltd, or if you are working through an agency with automated billing and payment systems, we will reduce this monthly charge by 20%.

This charge includes the cost of professional indemnity insurance (PI), employer's liability insurance (EL) and public liability insurance (PL).

(* This is equivalent to £54 paid out of income taxed at 40%).

Set-up charge

We do not normally charge a set-up fee. However, if a contract supplied by the agent or end-client does not match up to the terms of our own industry standard contract and needs to be reviewed by our lawyers, we will charge a set-up fee of £120*, to be taken as an additional 'margin'.



Competex Umbrella Ltd

Competex Umbrella Ltd is associated with Competex Ltd, which is a corporate accountancy practice supervised by the Institute of Chartered Accountants in England and Wales (ICAEW).

We set up Competex Umbrella Ltd to respond to the changing needs of freelance workers, and to enable clients to continue working independently in the public sector and remain compliant with HMRC requirements. An intricate knowledge of the needs of independent professionals and their compliance issues, as well as a company-wide standard of efficiency and transparency, enables us to help clients make the transition from regular employment to freelance contracting with speed and ease, and in full compliance.

We run and co-facilitate professional training programmes on behalf of the Interim Management Association (part of the REC), and our principal director is a committee member of the ICAEW Interim Management Special Interest Group (IMSIG).

Compliance and transparency is fundamental to the way we do business. Therefore we do not operate any offshore schemes, loan schemes, trusts, managed service company schemes, or any similar arrangements.

For up-to-date and comprehensive information on all aspects of working through an umbrella company, please visit our Knowledge Base at www.competex.co.uk/umbrella/knowledge

To get in touch, please contact us via one of the below.

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