

UK Umbrella Company Guide

Are you looking for an Umbrella Company that:

- Offers truly exceptional standards of service
- Is fully HMRC and Home Office compliant
- Gives you a dedicated and experienced Account Manager
- May be able to assist with a UK Work Permit or Tier 1 (HSMP) via OISC registered Immigration Partners
- Allows you to concentrate on Contracting rather than running your own Contractor Limited Company
- Includes Professional Indemnity, Employers Liability and Public Liability Insurance
- Has vast expertise in dealing with Expat Contractors from Australia, South Africa, India, New Zealand and the UK
- Offers Cash Referral rewards
- Processes contract paperwork fast
- Contract finding assistance and CV support
- Help with NI Numbers, Bank Accounts, Loan Letters etc
- No Contractor set up or leaver charges
- Setup at a convenient location within London



If so call an experienced Account Manager now on **0800 294 4388 or submit your details via **www.CommonwealthContractors.com****

This Umbrella Company Guide contains the following sections:

- What is an Umbrella Company?
 - Umbrella Company or Limited Company?
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What is an Umbrella Company?

An Umbrella Company provides contractors with a fantastic ready made structure to deal with contract income.

With an Umbrella Company there's no need to worry about starting a Contractor Limited Company, opening a business bank account, dealing with annual accounts and returns etc. An Umbrella Company will deal with all of this day to day administration and allow you to reduce tax deductions by claiming business expenses incurred further to contract work.

Contracting Options

In April 2007 the Government Introduced the Managed Service Company (MSC) Legislation which effectively removed Composite Companies as a realistic option for contractors. Post April 2007 the contracting options that now exist are:

- Agency Payroll
- PAYE Umbrella Company
- Contractor Limited Company (only for those outside IR35)

Although Agency Payroll is technically an option in practice it makes no sense to operate this way. Agencies are also generally unwilling to provide payroll services as it increases overall costs. The expenses claimable using an Umbrella Company and the resulting net pay difference normally far outweigh any fee or margin payable for the umbrella service.

The Ultimate Employer

If you use an Umbrella Company to deal with contract income the Umbrella Company will be your ultimate employer. Many first time contractors are confused as to who their employer actually is, this can lead to miscommunication when dealing with organisations such as the HM Revenue and Customs.

Nine times out of ten when you work as a contractor you will secure a contract via a recruitment agency. If you are using an Umbrella Company to deal with contract income you will instruct the agency to agree service contracts with the Umbrella Company. The service contract will detail the terms of the agreement (rate, duration, notice etc) that you as the contractor will be working further to. When you sign up with the Umbrella Company you will also sign an employment contract with the company.

On a day to day basis you will complete timesheets and send them to your employer (the umbrella company). The umbrella company will then invoice the agency and the agency will invoice the client for hours worked. The client pays the agency; the agency deducts their margin and pays the umbrella company. The Umbrella Company (your ultimate employer) then deducts tax, national insurance and an agreed margin and pays you, the worker.

By using an Umbrella Company you benefit from minimal administration, greater net take home pay (where expenses are reimbursed) and peace of mind (you will never face an IR35 Investigation). You also have a long term employer which can be good for your credit rating, making mortgage applications, etc

Umbrella Company or Limited Company?

As a contractor you have two real options when it comes to dealing with contract income. You can either use an Umbrella Company or go into business with your own Contractor Limited Company. When choosing a structure you need to take into consideration a number of issues, not just IR35. Below we have explained a number of the factors that normally effect a contractor's decisions.

If you would like to discuss Umbrella Companies or Limited Companies with an experienced Account Manager call Commonwealth Contractors now on **0800 294 4388**.

IR35

IR35 is the first thing to consider when weighing up whether or not to go into business with a Limited Company. Contractors operating Inside IR35 should use an Umbrella Company. Those Contractors working on a series of assignments Outside IR35 may consider a Limited Company.

First Time Contractor

If you're new to contracting it's a good idea to use an Umbrella Company, at least at first. Contracting is not for everyone, so you may find that you undertake a single assignment and then return to permanent employment. If you've used an Umbrella Company it's simple to return as all you need is a P45. However, if you've used a Limited Company you need to file annual accounts, close the business bank account, notify the HM Revenue and Customs etc.

Long term intentions

If you only plan to undertake a single contract you should use an Umbrella Company. There are numerous costs associated with opening and closing a limited company. If you only undertake a single contract you could find that any tax savings are effectively nullified by the costs associated with opening and closing the business. *NB* If you plan to take out only a single contract, you may not be eligible to claim many expenses – see site based rules

Level of Responsibility

With a Limited Company you're the sole Director, therefore you bear sole responsibility for the way the company operates. It's your responsibility to comply with business legislation and statutory filing requirements. If you submit documents late, break the law or fail to comply with legislation you take responsibility. With an Umbrella Company everything is done for you.

Business Administration

Although quite a lot of day to day bookkeeping and admin tasks can be outsourced to a professional accountant you'll still find you have many duties and a lot more paperwork to complete and check. With an Umbrella Company almost all admin is done for you. All you have to do is send in timesheets and expenses.

Mortgage and Loan Applications

Mortgage and Loan providers like to see salaried income as it clearly outlines annual income. If you run a limited company you will no doubt set a low salary and take income in the form of dividends. This means you will need annual accounts (normally audited) to prove annual income. This could take a while as

annual accounts take time to prepare. The mortgage or loan provider may also wish to see at least 2 years accounts.

Visa Status

Certain Visas do not allow the holder to go into business (e.g. Student Visa). Make sure you are not breaking the rules of your visa before opening a limited company otherwise you could find it much more difficult to gain a future work visa or even return to the UK.

Future immigration application

Those planning on applying for, or extending, a Tier 1 (HSMP) visa are advised to use an Umbrella Company. One of the main scoring areas for Tier 1 (HSMP) is that of previous earnings. Income taken under PAYE with an umbrella company can easily be shown to quality; If you've taken income in the form of dividends you could find it more difficult to get 'credit' for your earnings (the Home Office treatment of non-PAYE earnings has varied over time; no one knows exactly what it will be in years to come, but we can be confident that UK earnings under PAYE will be the lease complex option for all concerned and easy to get credit for).

Overarching Contracts of Employment vs Separate Distinct Engagements

Those planning on using an Umbrella Company need to ensure that they are employed further to an overarching contract of employment otherwise each site worked at could be considered a distinct assignment and therefore expenses are not allowable. The defining issue is not necessarily the legal documentation, or what the company 'offers', but the underlying relationship between the parties. To avoid doubts it is advisable to have a documented and demonstrable ongoing multi-project relationship if the benefits of such a structure are sought.

Umbrella Company Benefits

There are many benefits to using an Umbrella Company over going into business with a Contractor Limited Company. If you would like to discuss your individual contracting circumstances call Commonwealth Contractors now on **0800 294 4388**.

Minimal Administration

By using an Umbrella Company you can vastly reduce day to day admin when compared with a Limited Company. With an Umbrella Company all you have to worry about is sending timesheets and expenses, everything else is done for you. There is no need to worry about completing annual returns, preparing and submitting annual accounts, paying VAT or PAYE etc

Claim Business Expenses

An Umbrella Company will normally allow you to claim business expenses incurred during the course of your contract. Expenses may include Hotel/B&B costs, travel, subsistence, business postage etc.

Concentrate on your career

As pretty much everything is taken care of by the Umbrella Company you can spend more time on your career. Instead of wasting time completing admin in order to squeeze more out of your contracting rate you could complete more hours on site or train in the latest cutting edge skill. By focusing on your career you could find that your contracting options and rate increase.

Actual Income displayed

With a Limited Company you normally set a low salary (seen as artificial) of around £12k and take the remainder of contract income in the form of dividends. This may be great in terms of saving National Insurance but you may find it difficult to prove income when it comes to applying for a loan, mortgage or Tier 1 (HSMP). Many Loan/Mortgage providers require at least 2 years audited accounts before they will consider you.

With an Umbrella Company all contract income is received as salary with the exception of business expenses which are reimbursed tax free. This means that your payslips reflect your actual level of income.

Professional Insurance Included

Umbrella Companies are required to have Professional Indemnity, Employers Liability and Public Liability Insurance. If you go into business with a Limited Company you will need to take out suitable Professional Insurance Cover

No need to worry about IR35 or MSC legislation

As all contract income is paid in the form of salary (subject to Income Tax and Class 1 NI) there's no need to worry about IR35 or the MSC Legislation.

IR35 and MSC Compliance

One of the biggest considerations for any contractor is IR35 as it has such a large bearing on the contract solution used. Get it wrong and you could land a massive back dated tax bill in years to come, definitely an unwelcome prospect! Another consideration should be given to the Managed Service Company (MSC) Legislation. In theory there should be no Composite Company operators in the marketplace but in practice rogue operators may exist.

With a PAYE Umbrella Company you can guarantee MSC and IR35 compliance as all contract income is paid through the Pay as Your Earn (PAYE) scheme. There is no need to worry about the Managed Service Company Legislation as the provider is operating compliantly and you will never face a dreaded IR35 Investigation.

If you are looking for an MSC and IR35 compliant Umbrella Company solution call Commonwealth Contractors now on **0800 294 4388**. We may be able to help you with either Expat Advantage (our Expat Umbrella Company solution) or Payroll Umbrella. If you are looking for a contract why not speak to one of our experienced Account Managers about the best way to find a contract and write a contract CV etc.

IR35 and MSC Compliant Documentation

To prove that you have used an IR35 and MSC Compliant Umbrella Company solution you should request and keep hold of all documents supplied by the Umbrella Company.

A compliant operator will provide an employment contract detailing that income is to be paid in the form of salaried income subject to PAYE Income Tax and Class 1 National Insurance deductions and Payslips should confirm that salary payments have been made.

If you are unsure of how payments are being made to you request information from the provider. If you receive inadequate information or you find that profit payments are being made you should leave the provider immediately and request that the agency agrees contracts with another company.

Another important piece of documentation to back up the fact that you have received salary payments is an end of year P60. If you are employed by the Umbrella Company at the end of the tax year you must receive this document.

Arranging Contracts

Before you start a new contract you should agree contract terms and conditions with the Agency or Client (if direct). This should be a relatively straightforward task if you use an Umbrella Company as all contract income will be paid in the form of salary meaning no contract changes need to be made for IR35s sake.

However, you should confirm that you are happy with contract specific information before you start i.e. contract rate, project duration, notice period, payment terms etc.

If you are looking for an MSC and IR35 compliant Umbrella Company solution call Commonwealth Contractors now on **0800 294 4388**.

Starting an assignment without Terms and Conditions

Sometimes you may have to start a contract without signed Terms and Conditions being agreed. For example, where you secure a contract and the client needs you to start the very next day it may be physically impossible to sign a contract before starting the assignment. In such cases you may have to accept this in order to take the assignment otherwise the agency or client may find a replacement worker.

Occasionally you may find an agency willing to sign a faxed/emailed copy of terms and conditions as an interim solution until a hard copy is sent out in the post.

Existing Relationship

If an Umbrella Company has an existing relationship with an agency or client contacts may be agreed quicker.

For contracts to be sent out the Umbrella Company must send a copy of its Incorporation Certificate, VAT Registration, Bank Details and Professional Insurance Certificates. If the Umbrella Company has agreed a contract in the past the Agency/Client will have a copy of these documents on file and will have vetted them where required. This may speed the overall process of agreeing contracts.

Payment Terms

Many Agencies pay invoices on a monthly basis. However, if you have been searching for a contract for a long time without receiving any money as a gesture of goodwill the agency may agree to shorter payment terms initially. Contract terms should reflect these shorter payment terms and if not an email from the Agency confirming these details should be requested.

Allowable Business Expenses

One of the great benefits of using an Umbrella Company is that you can claim the cost of certain business expenses incurred further to temporary site based work on a tax free basis. This can mean you retain a lot more of your income than you otherwise would, especially if you are required to stay overnight at a client site a few days a week and pay for Hotel/B&B expenses out of your own pocket.

Of course it is better for you not to incur these expenses in the first place as you only save the tax otherwise payable; however this is not always possible when undertaking contract assignments. Where you have income in the higher rate tax band you save 41% on expenses, as otherwise you would pay Income Tax at 40% and Employees National Insurance at 1%.

To find out more about Umbrella Company solutions such as Expat Advantage and Payroll Umbrella call Commonwealth Contractors now on **0800 294 4388**. Our experienced Account Managers can help with whatever contracting queries you have, whether you are investigating Umbrella Companies or you need help with a contract CV.

Wholly, exclusively and necessarily incurred business expenses

The important thing to remember when claiming business expenses is that the expense must have been incurred wholly, exclusively and necessarily in the performance of your duties. It is not possible under any circumstances to claim a personal expense.

Receipts for business expenses must be kept in order to prove that the expense was actually incurred. Were the HM Revenue and Customs to undertake a PAYE Investigation and decided to question your business expenses you would need to provide receipts to prove the claim. If you were unable to provide receipts you could wind up paying backdated income tax and national insurance on the value of the expense.

Claimable Site Based Business Expenses

The level of expenses you can claim depends upon the Umbrella Companies expense policy and the level of actual expenses you incur. Expenses normally claimable when using an Umbrella Company solution include:

- Site Based Travel (Includes train, tram, tube, taxi, bus, flights, mileage etc)
- Site Based Subsistence
- Hotel & Bed and Breakfast (for an overnight stay only)
- Computer Supplies (including software costs)
- Business Telecoms
- Trade Journal Subscriptions
- Postage and Stationary

All receipts should be VAT receipts where appropriate. Expense claims should be properly completed using an Expense Claim form.

Umbrella Company Dispensations

Many Umbrella Companies use a 'Dispensation' as a key selling point when marketing an Umbrella Company. If you are considering using one of these companies you should be fully aware of what a Dispensation is and how it will affect you as what you are told by the umbrella company and the reality of the situation may be altogether different.

If you are looking for a compliant Umbrella Company solution such as Expat Advantage or Payroll Umbrella call now on **0800 294 4388**. Our experienced Account Managers can advise you of the best contract structure to use (Umbrella Company or Limited Company) and may even be able to discuss your options in person if you are based in Greater London!

What is an Umbrella Company Dispensation?

A dispensation is simply a way of reducing paperwork. Normally a company would have to complete a P11D or P9D for each employee at the end of the tax year (where the employee has claimed business expenses). Where a company has agreed a dispensation with the HM Revenue and Customs it does not have to do this for any agreed expenses. However, any expenses outside the scope of the dispensation still have to be detailed on a P11D or P9D. The dispensation also means that the employee does not have to record any business expenses on an end of year tax return.

A dispensation does not allow an individual to claim business expenses where no cost has actually been incurred. Nor does it mean that simply because the company has a dispensation that no receipts should be retained. A dispensation is simply a way to reduce end of year paperwork, not a way to claim expenses that never existed.

Should I keep hold of receipts for business expenses?

It is very important to keep hold of all receipts for business expenses. If you do not keep hold of receipts you have no way of proving what costs you have incurred, meaning you will probably receive a bill for unpaid Income Tax and National Insurance if Investigated. You should keep receipts in a safe place for at least 6 years and record somewhere what the business expense was for and why you were required to incur it.

Do Dispensations allow contractors to claim expenses which have not been incurred?

No, a dispensation will not under any circumstances allow you to claim a business expense that you have not actually incurred. If the Umbrella Company markets a headline £30 per day in claimable subsistence this does not mean that you can claim £30 in subsistence for each day that you work on site, unless you have actually incurred at least £30 of subsistence in a legitimate claim.

If you operate in this way you will undoubtedly face a backdated tax bill in the future as you hold liability for any unpaid tax. If an Umbrella Company offers very generous expenses without requiring receipts you should be very careful.

Umbrella Companies and Site Based Rules

As a contractor the basis on which you claim site based expenses such as travel to and from the work site, an overnight stay etc is that the site is your temporary place of work. The moment the site becomes your permanent place of work you can no longer claim business expenses associated with the workplace.

One of the biggest benefits of taking contracting assignments is that you can claim business expenses on a Tax and National Insurance free basis. If you are not able to claim business expenses you could find that your net income drops by 10 – 20%. Therefore it is important to ensure that you can claim business expenses at all times. To do this you must comply with Site Based Rules.

To find out more about Site Based Rules and Umbrella Company solutions such as Expat Advantage and Payroll Umbrella call Commonwealth Contractors now on **0800 294 4388**. Our experienced Account Managers can help to advise you on the best contract structure (Umbrella Company or Limited Company) and even provide assistance with a contract CV if you are still looking for an assignment.

What are Site Based Rules?

Site Based Rules outline the basis on which a site is considered to be temporary. To comply with Site Based Rules a contractor must:

- Intend to undertake multiple contracts while freelancing in the UK
- Not, and must not intend to spend any more than 24 months on a single client site

So long as site based rules are complied with business expenses are allowable.

Undertaking multiple contracting assignments

It must be your intention to undertake multiple contracts while freelancing in the UK. If you only intend to undertake a single assignment the HM Revenue and Customs will consider it to be your permanent place of work and will not allow you to claim business expenses associated with the contract.

The 24 month rule

To comply with the 24 month rule you must not and must not intend to spend anymore than 24 months on a single client site. It is particularly important to ensure you comply with site based rules when agreeing contract extensions. The moment you agree a contract extension that takes you beyond 24 months at a single client site business expenses are no longer allowable. For example, where a contractor initially agrees an 18 month contract and then agrees a 12 month extension, the contractor is only allowed to claim business expenses for the first 18 months. Eligibility for expenses is lost the moment the contractor commits to go beyond 24 months in total rather than after 24 months.

Where a contract requires you to work at a number of client sites in parallel, the HM Revenue and Customs may consider the sites to be a single place of work.

PAYE Income Tax

Umbrella Companies deduct Pay as You Earn (PAYE) Income tax and Class 1 National Insurance at source from salaried income before paying the net sum directly into a contractor's bank account. This means there is no need to worry about making a provision for an end of year tax return.

It is possible to reduce the level of Income Tax and Class 1 National Insurance payable by claiming legitimate business expenses incurred during a contract assignment. The value of these business expenses reduces the overall gross level of salary thereby also reducing the level of Income Tax and National Insurance paid.

To find out more about Umbrella Company solutions such as Expat Advantage and Payroll Umbrella call Commonwealth Contractors now on **0800 294 4388**. Our experienced Account Managers can provide help and assistance with any contracting questions you may have and can also assist if you are looking for a contract with CV assistance and general support.

What is Income Tax?

Income Tax is quite simply a tax on Income. The level of Income tax you pay depends upon the gross income you receive. Not all Income is taxable (everyone gets a personal allowance) and you are only taxed on income above the personal allowance. Income Tax is calculated using a number of tax rates and a series of tax bands. The Income Tax Bands for the 2007 – 2008 tax year are detailed below.

Description	Rate of Tax	Taxable Band
Starting Rate	10%	0 – 2,230
Basic Rate	22%	2,231 – 34,600
Higher Rate	40%	Over 34,600

It is important to bear in mind that the tax bands detailed above apply to income after tax allowances. The Personal Allowance for the 2007-2008 tax year is £5,225. Therefore in order to have taxable income in starting rate band of 10% you must first earn £5,225 in the tax year.

Tax Codes

A tax code is used by an umbrella company to calculate the correct amount of tax to deduct from your salaried income. If the wrong code is used you could wind up paying too much or too little in tax. A tax code is normally made up of 3 numbers and a letter although some tax codes are simply made up of two letters. There are many letters with many different meanings but only a few apply to workers who may use an Umbrella Company. These are detailed below:

- Code L: Used for those individuals eligible for the basic personal allowance
- Code K: Used where total allowances are less than total deductions
- Code BR: Taxes all income at the basic rate of tax of 22%
- Code D0: Taxes all income at the higher rate of tax of 40%
- Code NT: Used where no tax is to be deducted

Codes BR and D0 are normally used where the job being undertaken is a second job. No personal allowance applies to this income as it is already being used by the primary job.

Class 1 National Insurance

Class 1 National Insurance is deducted at source from salaried income.

There are two types of Class 1 National Insurance, Employees Class 1 National Insurance and Employers Class 1 National Insurance. Employees National Insurance is paid by the employee on all salaried income received. Employers National Insurance is paid by the employer on all salaried income paid to the employee.

As a contractor it is possible to reduce the level of Class 1 National Insurance paid by claiming legitimate business expenses incurred in the course of a temporary site based contract. The value of such expenses reduces the gross level of salary and consequently reduces the amount of Class 1 National Insurance payable.

To find out more about Class 1 National Insurance and Umbrella Company solutions such as Expat Advantage and Payroll Umbrella call Commonwealth Contractors now on **0800 294 4388**. Our experienced Account Managers can provide guidance if you are looking for an Umbrella Company solution and help and general support if you are in the process of searching for a contract.

What is Class 1 Employees National Insurance?

Class 1 Employees National Insurance is payable by an employee on salaried income. It is levied at a rate of 11% between the primary threshold, £5,200 (annual) and the upper earnings limit, £34,840. Any Income above the upper earnings limit is taxed at a rate of 1%. Therefore a 'cap' is in place to reduce the level of national insurance paid by high earners.

Employees Class 1 National Insurance is applied as detailed below:

1. 0% below the Primary threshold of £100 per week
2. 11% between the Primary threshold (£100 pw) and the Upper Earnings Limit (£670 pw)
3. 1% on earnings above the Upper Earnings Limit of £670 per week (£34,840 per annum)

What is Class 1 Employers National Insurance?

Employers National Insurance is payable by the employer on an employees salary and benefits. Employers National Insurance is levied at a flat rate of 12.8% above the secondary threshold of £5,200 (annual); there is no upper limit or 'capping'.

Employer Class 1 National Insurance is applied as detailed below:

1. 0% below the Secondary threshold of £100 per week (£5,200 per annum)
2. 12.8% above the Secondary threshold of £100 per week (£5,200 per annum)

Why do Contractors pay Employers National Insurance?

An Umbrella Company provides a ready made structure to deal with contract income. Invoices are raised, expenses are processed, and net payments are made etc all in return for a certain margin of gross billings. The margin an Umbrella Company receives either includes or excludes Employers National Insurance. Do not be fooled by Umbrella Companies who offer a low margin but exclude Employers National Insurance from it, you still have to pay Employers NI. See 'Umbrella Companies and Employers NI' for further details.

Day to Day Umbrella Company Processes

Umbrella Companies help to reduce the day to day administration associated with being a freelance contractor, especially when compared with going into business with a Contractor Limited Company. This reduction in admin means that you can spend more time concentrating on your career rather than thinking about VAT Returns or Annual Accounts.

However, there are certain basic tasks that you still need to take care of each month. Therefore it's a good idea to know what tasks you need to take care of and what tasks your Umbrella Company will take care of.

To find out more about Umbrella Company solutions such as Expat Advantage or Payroll Umbrella call Commonwealth Contractors now on **0800 294 4388**. If you are a first time contractor our experienced Account Managers can guide you through the process and explain your contracting options. If you have not yet secured a contract an Account Manager may be able to give you advice and provide you with support services such as making sure you have an appropriate contract CV.

Contractor Tasks

Each week or month you will have two important tasks that you need to undertake:

1. **Complete Contractor Timesheets:** In order for an Invoice to be raised you must send in a completed timesheet, even if you use a self billing system. Once the Umbrella Company has received your timesheet an Invoice is raised to the client/agent. Ensure the timesheet is fully completed before sending and keep a record of the sent item i.e. If you are sending the timesheet by fax get a delivery report, if sending by email save the email in sent items
2. **Submit an Expense Claim:** In order to claim business expenses need to complete an expense claim form and submit receipts to prove the expense was incurred. It is important to ensure that the expenses claimed are within the Umbrella Companies expense policy, if not they will be disallowed which could lead to a hold up in payment. If you are required to keep hold of receipts yourself make sure you keep them safely for at least 6 years. If the HM Revenue and Customs undertakes a PAYE Investigation of the Umbrella Company and it is not possible to produce the receipts you could have additional Tax/NI to pay

Umbrella Company Tasks

Your Umbrella Company will take care of a whole host of tasks that you will probably never even be aware of e.g. VAT returns, PAYE Payments, PAYE Returns, Annual Returns and Accounts etc. On top of these tasks the Umbrella Company also undertakes many day to day tasks, including:

- **Dealing with Agency/Client Contracts:** The Umbrella Company will arrange all contracts, send company documents to the client/agency, check that contracts do not break site based rules, deal with contract extensions, arrange for changes to terms and conditions were required etc
- **Raising Invoices:** As soon as a contractor timesheet has been received the Umbrella Company will raise an Invoice to the Agency/Client, check contract rates are correct, speak to the Agency/Client to confirm the Invoice has been received on a new contract
- **Credit Control:** The Umbrella Company will deal with any credit control issues if the Client/Agent has not paid an invoice. Ultimately this is the contractors liability but all actions are normally undertaken to receive unpaid funds
- **Receives and Checks Payment:** Once a payment has been received the invoice values need to be confirmed and the money assigned to a contractor. If there are issues with the payment the umbrella company will resolve them

- **Processes Expense Claims:** For an expense claim to be paid it needs to be checked and processed. If there are any disallowed items the contractor is normally informed and any issues resolved.
- **Deducts Tax and NI:** Income Tax and Class 1 National Insurance is deducted from salaried income using the appropriate tax codes and banding. PAYE payments are made by the Umbrella Company to the HM Revenue and Customs
- **Pays into your Bank Account:** Once Tax and National Insurance have been deducted a net payment is made into the bank account of the contractor normally using the 3 day clearing BACS payment system. If urgent funds are required it may be possible to arrange a same day CHAPS payment.
- **Sends Payslips:** Payment Notification is sent to the contractor to confirm the total payment made and any tax and national insurance deducted. Payslips should always be kept to prove how income was received.

Leaving an Umbrella Company

One of the great things about using an Umbrella Company is that you can leave at pretty much any time without having any ongoing responsibilities. This means that if you decided to return to permanent employment you could do so easily. Contrast this to going into business with your own Contractor Limited Company where you need to file end of year accounts and returns, close the company bank account, notify Companies House and the HM Revenue and Customs that the business is closing etc

If you are looking for a new Umbrella Company solution or you want to find out about going into business with your own Contractor Limited Company call Commonwealth Contractors now on **0800 294 4388**. Our experienced Account Managers can assess your options and inform you of the best contracting solution to use.

Seeing out a Contract

If you are going to leave an umbrella company it is a good idea to do so at the end of a contract rather than half way through an assignment. This way you do not have to deal with two umbrella companies at the same time over contracts, payments, invoices etc not to mention the Agency or Client who will be required to prepare a new contract and validate new Umbrella Company documents. If you leave an umbrella company at the end of a contract there is a clean break.

Get a P45

As soon as you leave a PAYE Umbrella Company and a final payment has been made you should receive a P45. A P45 details the amount of income tax that has been deducted in that employment and throughout the tax year to date (if on a cumulative tax code). You will need to hand the P45 to the new employer in order to be put on the correct tax code.

Store all Receipts for Business Expenses

If you have used an umbrella company that requires you to keep hold of receipts for business expenses make sure you store them in a safe place for at least 6 years. If you fail to do this and the receipts are requested when the Umbrella Company receives a PAYE Investigation you could find that you are required to pay backdated Income Tax and Class 1 National Insurance payments on the expense.

Get an Employment Reference

It's always a good idea to get an employment reference from the Umbrella Company upon leaving. This reference will not detail skills or experience but should confirm the dates between which you were employed, your leaving date, that you received salaried income and maybe even the gross amount of pay received. This documentation helps to provide further validation of the fact that all income was taxed as if Inside IR35, therefore IR35 does not apply.

It's also a good idea to get a reference from the client you worked on site at explaining the skills you used and role you played in a contract.

Umbrella Companies and Immigration Applications

If you're an Expat working in the UK on a temporary work visa such as the Working Holidaymaker Visa you should consider how your choice of contract solution (Umbrella Company or Limited Company) will affect any future Immigration applications, and in particular the HSMP.

The Highly Skilled Migrant Programme (HSMP) is the highest level (Tier 1) of the governments points based immigration system. Hopeful applicants must score at least 75 points from 5 scoring area to qualify and must provide suitable original documentation to prove eligibility. Once approved an HSMP holder may stay and work in the UK for up to 5 years (with an extension after 2 years).

One of the most important HSMP scoring areas is that of 'Previous Earnings' where applicants score more points for higher previous earnings. Contractors who go into business with a Contractor Limited Company may find it more difficult to prove previous earnings therefore making it more difficult to secure an HSMP visa. Umbrella Company contractors on the other hand should find the process of proving previous earnings relatively straightforward.

To find out more about contracting on an HSMP and Umbrella Company solutions such as Expat Advantage or Payroll Umbrella call Commonwealth Contractors now on **0800 294 4388**. Our experienced Account Managers can discuss contracting solutions and can advise you on the best contract solution to meet your long term objectives.

HSMP Applications and Limited Company Contractors

A Contractor Limited Company is a great option for those contractors outside IR35 as it may be possible to save large amounts of Class 1 National Insurance and in particular Class 1 Employers National Insurance. This tax saving is made by structuring contract income in order to minimise PAYE deductions on salaried income. This happens by setting an artificially low salary (normally £12k) and taking the remainder of contract income in the form of Dividends. As Dividends are not subject to National Insurance relatively large tax savings can be made.

The problem with structuring income in this way however is that it makes it more difficult to prove income received as payslips show a gross payment of around £12k. To prove total income you need to produce company accounts, which can take time to prepare.

When considering HSMP applications the Border and Immigration Agency need to see proof of income, normally in the form of payslips. However, if you run a limited company only a small proportion of your overall income will be salaried income as the majority will be in the form of dividends. Therefore in order to prove income you may have to supply some of the following documents:

- Personal Tax Return
- Personal Bank Statements
- Audited Company Accounts
- Business Bank Statements
- Copies of contracts detailing the contract rate
- Copies of Invoices confirming the contract rate
- Accountants Letter

Gaining these documents and proving income could add months to the overall HSMP application and possibly restrict you from taking contract extensions, as the client/agent would wish to see a long term work status.