



## **Quick Guide to Umbrella Companies**

### **What is an Umbrella Company?**

An umbrella company acts as your employer, for tax purposes, when you undertake a contract with an employment agency or a client. It is an alternative to you setting up your own Limited Company and, if your contract is outside of IR35 it is usually the most cost effective way for you to operate.

### **How does it work?**

As your umbrella company we will raise invoices on your behalf and will then make payment to you once we have received funds from your agency or client. The amount we receive will be determined by the timesheet that you have signed by your line manager as this is a record of your hours/days worked.

At Payquest you will have an online account to which you can upload your hours/days worked directly.

When you are paid will depend on the arrangements that your Agency/Client has in place, usually it will be weekly or monthly. We process your pay the same day as funds are received. Your agency/client will be able to advise you of the date that they will transfer funds to us.

Once payment has been made you will receive a payslip which will detail the tax and national insurance contributions that you have paid as well as your expenses being claimed, our fees and your net earnings.

As an independent contractor working inside of IR35 you are liable for both employee's and employer's national insurance and these will be shown separately on your payslip.

You should be aware that, despite advertising claims, the only variance in your earnings between different umbrella companies will be their fees. The reason for this is that you are paid via PAYE and all deductions made are determined by the Inland Revenue.



## **Expenses**

You are permitted to claim expenses and these will be processed by us as your umbrella company. Expenses that are chargeable to your agency or client will be refunded to you in full; those which are not chargeable will be processed as a tax benefit. This means that your taxable income will be reduced by the value of the expenses. However, this does not mean that expenses can be used to reduce your tax bill – anything that you claimed must be allowable by the Inland Revenue and must be a cost to you personally that is entirely attributable to and has been wholly caused by the contract. (See our expenses guide attached)

## **Insurances**

We provide cover for all your insurances as standard at the following levels:

- £2 million Professional Indemnity
- £5 million Public Liability
- £10 million Employers Liability