

Changing your contractor umbrella company

Contractors who use [contractor umbrella companies](#) for their contracting can choose to change their trading company at any time. It may be that the contractor is not happy with the level of fees or service from their current supplier, or they may switch to take advantage of a new contract.

However, according to Rob Crossland, managing director of umbrella company [Parasol](#), contractors should be aware of what changing their umbrella company entails.

"Contractors will have in place a contract of employment with their umbrella company and this will usually contain a notice period," explains Crossland. "The first step is for the contractor to write to their umbrella company giving formal notice."

"Reputable umbrella companies will not have exit fees or a need to hold back money, and the contractor should expect to receive a P45 soon after they have left, unless there are outstanding invoices from their contract with the old umbrella company."

Paperwork lag

Contractors who hop from contract to contract and regularly change umbrella company will experience a time lag as their tax paperwork catches up. Crossland says this is normal and the contractor's tax situation will 'net out' over time.

"Sometimes it can take up to 12 weeks with a new umbrella company before the contractor's paperwork is in order," says Crossland. "During that time, they may be on an emergency tax code and pay more tax than they should, but eventually this will correct itself."

However, if the contractor has not saved a sufficient level of fees for a 'rainy day', cash flow issues could arise.

New umbrella company checks

"When a contractor starts with a new umbrella like Parasol, we are required to conduct a range of identity and due diligence checks," continues Crossland. "These include confirming the contractor's identity to conform with money laundering regulations, and we also need to check the tax and expenses history of the new contractor."

Contractors have been known to change umbrellas because they think they can reset their [contractor expenses](#) allowances. But, according to Crossland, this is not possible with a fully compliant umbrella company: "In addition to the P45, which provides us with a snapshot of the contractor's tax and National Insurances Contributions (NICs) status, we also require new contractors to supply us with their expenses history."

“ Sometimes it can take up to 12 weeks with a new umbrella company before the contractor's paperwork is in order ”

Rob Crossland, Managing Director, Parasol

Contractors who want to avoid the attention of HMRC are wise to stay within the rules and inform their new umbrella company of their contracting history. Plus, Crossland says that contractors should note that expenses incurred when working for previous umbrella companies are not allowable with their new umbrella, as they have technically been incurred with a former employer.

Changing contracts

When contractors change umbrella company, they must also renew their contract with the agency or end-user client. Most agencies will issue a fresh contract with the new umbrella company without complaint.

However, Crossland says that it can be an end client contract that proves difficult: "When the contractor wants to change trading vehicle, the end client often does not understand why and is not keen to issue a new contract. Contractors should ensure they manage their clients' expectations when they are changing umbrella and explain why."

The new contract with the agency or end-user client should be signed by a company officer of the umbrella company, as this is the legal entity entering into the deal. But, as Crossland points out, some agencies require all parties to sign: "In cases where, for example, Intellectual Property is an issue, the agency will want the contractor to sign as well as the umbrella company."

Contractor professionalism

Contractors who are sometimes in the middle of one contract are offered another contract by a different agency or end-user client, perhaps with higher rates of pay, and are tempted to make the switch, changing umbrella company at the same time.

But Crossland warns contractors to think carefully about doing this, as the consequences could be severe: "Firstly, there is the issue of contractor professionalism. It reflects badly on the entire contracting sector if a contractor leaves mid-contract and lets end-user

clients down.”

“It is also a breach of contract between the contractor and the Umbrella, or end user client,” says Crossland, “and the contractor may find the agency or client pursues the umbrella which in turn may seek to obtain redress.”

Contractor supply and demand

According to Crossland, the sector in which the contractor works will also dictate acceptance of frequent changes of trading status: “In sectors like oil and gas, where there is only a limited pool of highly skilled workers, some agencies and end-user clients may be more likely to accept contractors working through trading solutions that may border on the non-compliant.

“In IT contracting, which is more commodotised, the agency or end user client may refuse a contractor who wants to work through, for example, an offshore company and will look for a contractor with a compliant umbrella company.”

In conclusion, Crossland suggests that contractors can change the trading entity they use for contracting, but do need to think carefully about the implications to their chances of winning future work if they create issues as a result of their choice.

“Try and make umbrella company changes between contracts, or at the end of the month to ensure a clean break with the old company,” he advises. “And be sure to provide full records of all financial dealings to the new umbrella company to avoid costly delays in payment.”

“ Try and make umbrella company changes between contracts, or at the end of the month to ensure a clean break with the old company ”

Rob Crossland, Managing Director, Parasol

Published: Monday, July 28, 2008

[Tweet](#)

© 2011 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#). If you want to use any content you have seen on this site then please [request our media pack](#) and ask for details of our Content Licencing Service.

Readers Comments...

 Be the first to comment on this article

Also of interest...

Related Guides:

- [What are umbrella schemes for contractors](#)
- [Choosing an umbrella services company](#)
- [Moving from a limited company to an umbrella: reasons and practicalities.](#)
- [Joining a contractor umbrella scheme](#)
- [What is a PAYE umbrella company?](#)

Related Calculators:

- [Contractor Umbrella Calculator](#)
- [Contractor Calculator](#)
- [Contractor Financial Profile Calculator](#)

Related Internet Links:

- [Parasol](#)
- [Contract Eye](#)



ABCe verified website - last audit confirmed **130,682 monthly unique visitors**

© Copyright 2011 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)