

## Choosing an umbrella services company

### Introduction

The decision to use either a limited company or an umbrella services company is discussed in our article '[Limited Company or Umbrella : Deciding on a payment structure](#)'. The topic of [choosing an accountant](#) has also been covered.

This article discusses the issues to consider when choosing one of the many umbrella arrangements available to you.

### Why Use a PAYE Umbrella Company?

The main advantages for using an umbrella are:

- o Avoids hassle of running a limited company.
- o No need to be involved with running a spreadsheet, VAT returns, payroll matters, company accounts, taxation, etc.
- o For short term contractors, a main advantage is not having the costly process of forming a company and then arranging for it to be dissolved.

The following issues should be considered when choosing an Umbrella Service.

### Type of Service

There are different types of service available to you:

#### Salary Only Scheme or "PAYE Umbrella"

- o The most common umbrella arrangement.
- o Does not make any attempt to work outside the scope of [IR35](#).
- o All income paid by salary only.
- o Allows for reasonable allowable [expenses](#).

#### Other Types of Arrangement

In addition to the above two tried and tested methods, the market also offers alternative solutions involving foreign currency loans, offshore arrangements, etc.

These schemes are promoted on the basis that their payment methods give them an advantage over the standard/UK based umbrella company schemes.

It is important to ensure that you are fully comfortable with the system being offered and to check very carefully the legality of any arrangement being offered and whether it is appropriate to your own circumstances.

Bear in mind also that legislation was introduced in the 2004 Budget making it a legal requirement for 'tax avoidance' schemes to be registered with HMRC. Also in December 2010 HMRC announced measures to tackle "[disguised remuneration](#)" involving offshore employee benefit trusts.

Suffice to say, some of these schemes present more of a risk.

### Speed of Processing Transactions and Payments

The most common complaint given by contractors against their umbrella companies is that the speed of processing and quality of service is less than they had expected.

It is advisable to clarify the following in advance with your provider:

1. How quickly they will send an invoice to the agent following receipt of your timesheet.
2. How quickly they will pay you when they receive the agency's money for your work.

Some companies now offer service guarantees or your money back.

### Monies Held Back

Umbrella companies actually employ their contractors, and will therefore hold back a proportion of the contractors money to cover holiday pay, etc., with a view to paying out at a later date.

It is important to clarify in advance, exactly when you will be paid and whether any monies will be retained for whatever reason.

### Agency Recommended Umbrellas

Most agencies will recommend an umbrella company. These are usually judged on the quality of service the umbrella company offers both the agency and the contractor. The agency is looking for hassle free options.

Some agencies have fixed policies (preferred supplier lists) for recommendations whilst some agents have "commercial arrangements" with umbrellas, not necessarily based on the quality of service provided to the contractor.

There is no harm in asking the agency why they recommend a particular umbrella company.

### Expenses Allowed

Some umbrella companies market their HMRC arrangement for paying expenses without receipts.

A situation is developing in the marketplace of a "Dutch Auction" approach by certain umbrella companies to pay out the highest "tax free expenses", so as to reduce taxable income.

HMRC may take a close interest in such schemes, particularly where expenses are paid without any justification or supporting vouchers – beware!

### Fees Charged

The marketing of fees by different umbrella companies varies considerably.

You should expect to pay between £25 and £30 per week for a high quality service.

Some umbrella companies charge on a percentage bases but will usually be prepared to negotiate if you are on a particularly high rate.


### Experience and Qualifications

Anybody can set themselves up as an umbrella company, without any experience or qualifications, so it is important to know exactly who you are trusting to handle your hard earned money.

Most of the quality umbrella schemes are run by qualified accountants, who will be able to offer personal and professional guarantees.

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- [What are umbrella schemes for contractors](#)
- [Moving from a Limited Company to an Umbrella: Reasons and Practicalities.](#)
- [Joining a Contractor Umbrella Scheme](#)

#### Related Calculators:

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