

What is a composite company umbrella?



Please note: As of April 2007, Composite Companies are no longer a legitimate option for UK contractors due to the *NEW* managed service companies legislation.

Visit our [dedicated guide to Managed Service Companies](#) to find out more.

Introduction

When [deciding which payment structure to use](#), Contractors have two main options:

1. Limited Company
2. Umbrella

Within the second option there are two main variants:

1. Salary only (sometimes called PAYE)
2. Salary + dividends (sometimes called composite company).

This article describes the composite company umbrella.

What is a composite company umbrella?

There is no legal or tax law definition of the word "composite company" or even "umbrella company". However, these words are commonly used in the context of service providing companies to the contracting industry.

The word "composite" means "made up of various parts" and in the context of contractors, is represented as a service providing company, through which many contractors place their contracts.

Using the umbrella, contractors then receive either salary only (PAYE) or salary and dividends, depending on their [IR35](#) status.

The definitions are confusing

An "umbrella company" serves many contractors.

Some umbrella companies can offer both a salary only (PAYE) scheme and a salary + dividend scheme.

Some companies offer only the salary (PAYE) option and are often referred to as a "PAYE umbrella" or less commonly a "Salary only umbrella".

"Composite company umbrellas" are often referred to as only those umbrellas which have a specific type of share structure and offer the salary + dividend option. But, the same term is sometimes used to refer to a salary only umbrella.

Companies offering one or both schemes might call themselves simply an "Umbrella company" and others a "Management Service Company".

All this ambiguity over the definitions confuses the most important issue, which is whether or not a contract falls inside or outside IR35.

The IR35 issue

The salary + dividend route is highly tax advantageous, since both employees and employers national insurance is saved. However, this option can only legally be utilised if your contract falls outside IR35.

If your contract falls within the scope of IR35, then no umbrella company can legally change that status whatever structure they use, which may involve multiple share arrangements, foreign currencies, EBT's, loans, claiming non genuine expenses, etc.

Whether the company calls itself "composite", "umbrella" or any other name, they can only pay dividends if your contract genuinely falls outside IR35.

Choices for contractors

There are essentially two kinds of umbrella, being the PAYE only company and those which offer a dividend option.


PAYE only companies should only be used if your contract falls within the scope of IR35.

If you are working outside the scope of IR35 or if there is a possibility that your status may change, then you should opt for a company which offers both a salary and a salary/dividend scheme, so that you can change between the two types of scheme as your circumstances change.

If you are working outside the scope of IR35 and wish to use an umbrella company, then it would not make sense to use a PAYE only scheme, since you would be fully entitled to take all or part of your income by way of dividends, which reduces your national insurance costs and significantly increases your take home pay. The other option if you are outside of IR35 is to [set up a limited company](#).

Published: Monday, January 31, 2005


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