

Contractor Doctor: Do I have to pay tax and NI on my minimum wage earnings?

Dear Contractor Doctor,

I work through a contractor umbrella company and normally submit weekly timesheets to my umbrella company for weekly payment.

However, my umbrella company will not always allow all of my expenses through in a given week if this means my taxable pay drops below the minimum wage. Is this correct?

Do I also have to pay income tax and National Insurance on my minimum wage earnings?

Thanks

Sarah

Contractor Doctor says:

According to Derek Kelly, Group Technical Director of contractor umbrella company [Parasol Group](#), this is a perfectly normal situation for a contractor to find themselves in. And there are, he says, simple steps contractors can take to sort out the situation.

"Let's say a contractor is earning £500 per week, and they are also incurring [expenses on travel](#), maybe staying in a hotel," explains Kelly. "The contractor may be submitting weekly timesheets for weekly payment and only submitting their expenses monthly, which is why they may have to spread their expenses over more than one weekly payment."

Umbrellas are legitimate employers

"The key point here is that umbrella companies are legitimate employers, which means they have to pay their contractor employees the legal minimum wage," continues Kelly. "This is currently £5.73 an hour for contractors aged over 22, or for a typical 35 hour working week is a minimum of £200.55 per week."

Even if a contractor's agency misses a payment and then goes bust, then the umbrella company still has to pay the contractor the legal minimum wage, as they are technically an employee.

Plus, says Kelly, contractors do have to pay a small amount of income tax and National Insurance Contributions (NICs) on their minimum wage earnings: "Each contractor has a personal allowance that enables them to earn £6,035 per year without paying income tax and NICs. This means that £116 per week can be earned with no income tax or NIC liability."

A contractor who is only being paid the £200.55 per week minimum wage by their umbrella company therefore has to pay income tax and NICs on £200.55 minus £116, which equals £84.55 of their earnings.

“ Umbrella companies are legitimate employers, which means they have to pay their contractor employees the legal minimum wage ”

Derek Kelly, Parasol Group

Process expenses regularly

"Because a contractor employed by a reputable umbrella company has to earn a minimum of £200.55 a week," explains Kelly, "they must be paid £200.55 as taxable earnings, even if they are entitled to expenses being claimed tax free."

For example, an umbrella contractor earns £500 per week. They submit their expenses at the end of the month, totalling say £350. So they can be paid the minimum wage of £200.55 by their umbrella company employer, they can claim only £299.45 of the total expenses claim, and £50.55 must be claimed the following week. This means they will continue to be paid taxable earnings meeting the requirements of the national minimum wage.

The trick, according to Kelly, is to process expenses frequently: "The optimum frequency to claim expenses will vary from contractor to contractor, but it is advisable to process expenses regularly, otherwise contractors will not receive a smooth income."

Good luck with your contracting!

Contractor Doctor

Published: Monday, March 02, 2009

[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:

- [Contractor travel expenses, tax relief and the 24-month rule explained](#)
- [Can you clarify the 24 month expense rules?](#)
- [Valid expenses as a contractor - what you can claim](#)
- [How can contractors identify deductible contracting expenses?](#)
- [Claiming contractor limited company start-up expenses](#)
- [How contractors should process contracting expenses](#)
- [Contractors can claim expenses for using a bicycle or motorcycle for travel](#)

Related Calculators:

- [Contractor Financial Profile Calculator](#)

Related Internet Links:

- [Parasol](#)



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

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