

Contractors still happy with umbrella companies

Umbrellas have been much in the news lately as there has been controversy about whether contractors understand them. But a little research shows that most umbrellas communicate well.

Managing Risk

"We get different types of contractors," says Rob Crossland, chief executive of the Warrington-based providers of professional employment services [Parasol](#). "Some are very risk-averse, and are glad we can help them to learn the rules. Others like to take risks, and these have to learn that there are rules that can't be broken. We ensure that all types become compliant and stay that way. There is a training element in running an [umbrella company](#) that is of considerable importance."

Umbrella companies continue to be a very popular solution for contractors in the UK, precisely because they assure the contractor of tax and administrative compliance. Though they lack the freedom that owning a [limited company](#) provides, they also preserve the contractor from the burden of [running a limited company](#)--a burden that is growing as the rules governing them become ever-more complex.

Staying Compliant With Communication

One of the functions of umbrella companies is to make sure that the contractors they operate for remain compliant by not making outrageous attempts to claim tax deductions. The most reliable umbrellas actually check the deductions claimed by contractors and make sure that the majority of their clients are protected from any abuses by those who like to push the envelope.

"There has been a lot of misinformation about the handling of [contractor expenses](#) spread around the industry, some of it bad practice left over from the period before the laws were changed," says Crossland. "So many contractors have the wrong expectations about how expenses are to be handled. It's a just a matter of making them understand how it all really works."

“ Many contractors have the wrong expectations about how expenses are to be handled and it is just a matter of making them understand how it all really works ”

Rob Crossland - Parasol

No Unreasonable Assumptions

Many umbrella companies obtain a [dispensation](#) for expense documentation--we've written about it before. It's just an agreement between the Revenue and the umbrella that proof for certain expense payments need not be provided by the umbrella. It's just an agreement not to chase paper, though, and the contractors must of course both actually pay the expense, and be able to prove that they have. The dispensation does not affect the contractor at all.

Nonetheless, many contractors don't know this and harbour unreasonable assumptions about what to expect when they work with an umbrella company. Working with the umbrella, most of these contractors learn the rules, but there are always some who don't.

"To make certain that all our contractors are compliant, we run spot checks," says Crossland. "If we are taking deductions for expenses, we check with a few to see that they have proof. If we are accepting deductions for mileage expenses, we calculate the mileage on the routes that the contractors give us, and if it doesn't tally with the deduction, we find out why. Often it's just because a route change was made, but if there is a discrepancy, we correct it and explain how it should be done properly."

Have Your Say...

“ I think umbrellas are great but only for those of us always caught by IR35 ”

Steve - London

[Send us your comments](#)

The London-based [Professional Contractors Group](#) offers a great deal of information about umbrellas and how they should work, so contractors can go there if they are in doubt of how to proceed or what they should expect from an umbrella company. Umbrellas are not for everybody, but they certainly have a proven track record of both handling contractor affairs, and keeping contractors out of trouble with the taxman.

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