

## Umbrella companies and IR35

### Payment structures and IR35

As a contractor, your [IR35](#) status is not dependant on your payment structure.

Your IR35 status is solely dependant on the contract between your limited company (or umbrella company) and the end client. In addition your working arrangements also need to be considered. The factors you need to consider are based on [IR35 case law](#).

See also: [How to Determine if Your Contract Passes IR35](#)

### Umbrella options

Since the April 2007 Budget and the introduction of the [Managed Service Company Legislation](#), there is only one umbrella option available, namely the PAYE umbrella.

If you use a PAYE umbrella scheme, all your revenue is taxed as though you are an employee, the same as if you were inside IR35. You could in theory use a PAYE umbrella if you were outside IR35, but for higher earners this would be losing out on significant tax advantages. For those contractors outside IR35 a [limited company](#) is now the most tax efficient route.

“ ...your IR35 status is not dependant on your payment structure. ”

[Note: The composite company option is no longer available to contractors, since the MSC legislation effectively ruled this out.]

With an umbrella option expenses can be claimed before taxes are applied which thus helps to mitigate the tax burden. The take home pay via the Ltd company route (outside IR35) is much higher than via the PAYE umbrella route (inside IR35).

See also: [Limited Company or Umbrella - Deciding on a payment structure](#)

### Can umbrellas avoid the IR35 tax?

No, and since the MSC Legislation the opposite is true - by using an umbrella you are being taxed as though you are caught by IR35. The only way to avoid the [financial impact of IR35](#) is to ensure your contract and working practices put you outside IR35 and to form a limited company.

“ The only way to avoid the financial impact of IR35 is to ensure your contract and working practices put you outside IR35. ”

Contractors should [start considering IR35](#) before signing any new contract and [take professional legal advice](#) to get their [contract reviewed](#).

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