

## Umbrella companies play key role in improving wider contracting sector, says Parasol

The [contractor umbrella companies](#) sector is doing well but still has a way to go to clean up its act, according to Rob Crossland, managing director of [Parasol](#), in this exclusive interview. However, he points out, this clean-up is not only happening quickly, but the sector as a whole is also playing an increasingly important role in improving the prospects of all contractors.

"Unfortunately, a small minority of umbrella companies have aggressively marketed their ability to minimise contractors' tax payments using HMRC [dispensations](#)," explains Crossland. "This bad practice has led to the Treasury targeting the sector with a [consultation over tax relief on contractors' travel expenses](#)."

Ironically the Treasury's actions have resulted in much of the umbrella company sector pulling together under the banners of the Association of Employment Management Companies ([AEMC](#)), the Service Providers Association (SPA) and the longer-established Professional Contractors Group ([PCG](#)), all of which submitted detailed responses to the consultation.

"We needed to fight our corner for good practice and educate the [Treasury](#) about a sector it clearly does not understand," continues Crossland. "We want the Treasury to recognise that there are some good guys out there who want to do the right thing."

### More than just a payment processor

Crossland believes that more people are opting to become contractors on short-term contracts across many sectors, which is likely to swell the number of umbrella company employees.

"The Treasury has made some sweeping assumptions about the umbrella sector and got them wrong," says Crossland. "We are more than just a payment processor; we provide a full formal employment structure for our contractors."

And, Crossland wants the Treasury to note, umbrellas are a hugely efficient outsourced revenue collector, with Parasol having made payments to [HMRC](#) in excess of £100m in income tax and National Insurance Contributions (NICs) over the last 12 months.

### Employee benefits, but no relief on travel expenses?

Parasol's employment service includes all the aspects one would find in any regular large employer, which includes all statutory payments, training and development, health and safety advice and even a structure for disciplinary proceedings.

But Crossland confidently predicts that much of this infrastructure would disappear if tax relief on travel expenses were removed: "Many contractors would not get the returns on contracts that require regular travelling and they would seek alternatives, most probably in [personal service companies](#) or in offshore structures."

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Rob Crossland, Managing Director, Parasol

"Also", says Crossland, "how can the Treasury unfairly discriminate against umbrella companies that operate a mainstream employment model? Surely the Treasury would have to extend such a removal of relief to all businesses that employ workers who travel to different sites?"

### Further regulation on the horizon

Whilst the [Agency Workers Directive](#) (AWD) is unlikely to affect umbrella companies directly, Crossland is sure that, if incorrectly implemented, it could impact adversely on contractors. He feels the implications of the directive are draconian and could dramatically reduce contractors' flexibility, with the resulting impact on the competitiveness of UK PLC.

"Agencies could also suffer greatly as a result of the AWD if its implementation is not carefully thought through. We provide contractors for over 2,000 recruitment agencies worldwide," explains Crossland, "and many of them would struggle to cope, resulting in less choice for contractors."

As for further legislation on the horizon, he is concerned: "Politicians do not do definitions well and the lack of clarity in a great many of the legislative hammers used to hit the contracting sector demonstrates that the legislation has been poorly thought through."

### Economic downturn

Crossland is cautiously optimistic about the next 12 months, which all signals suggest will see a serious downturn in the economy, with a resulting reduced demand for workers. His optimism is partially due to his strong belief that "the contracting sector has a stability that was not there five years ago."

"2009 is going to be a lot tougher, with reduced rates for contractors and the probability of shorter contracts," Crossland continues. "Some sectors will be hit hard but we have strong representation across all sectors, including those doing very well, such as oil and gas and engineering infrastructure."

He says it is important to maintain investment during the downturn, and he also believes there may be some consolidation of the umbrella sector as smaller companies, unable to find the economies of scale to keep costs down, start to struggle.

### Umbrellas providing stability

Crossland explains that Parasol has worked hard to stay in the middle ground of the sector, focusing on contractor markets that present a safer bet. He says: "Our measured approach will greatly contribute to providing stability in the challenging times ahead."

He describes Parasol as a 'pure' employment management company, providing only compliant PAYE payment solutions. It currently has over 14,000 contractors on its books in a range of sectors, including IT and engineering, making it one of the UK's top three umbrella companies and one of the larger employers in the UK.

Umbrella companies came into existence as a trading option for contractors caught within [IR35](#). They have gained in popularity in recent years as a result of the government's [Managed Services Company \(MSC\) legislation](#) and its systematic closure of many offshore schemes.

With the estimated 120 umbrella companies currently trading in the UK serving around 150,000 to 200,000 contractors, and two trade bodies, the AEMC and the SPA, clearly this segment of the contracting sector is an emerging force to be reckoned with.

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