

Contractor doctor: how do umbrellas calculate contractors' national insurance

Dear Contractor Doctor,

I've been working inside IR35 and would like to know if there is any difference in the way employer's National Insurance (NI) contributions are calculated between working for an agency or through an umbrella company?

Is this based on a flat rate of 12.8%?

I would also like to know if income tax and employee NI is payable on the employer's NI deduction?

Thanks

Katherine Harding

Contractor Doctor says:

There is no difference in how NI and income tax is calculated. If you are working through an agency and are on its payroll, they will quote you a rate after employer's NI has been deducted. The agency will also deduct employee's NI and income tax, under the Pay as You Earn (PAYE) scheme.

If you are working through an umbrella company, the client will be invoiced for the full amount, let's say for example £5,200 per month. The umbrella company will first deduct its fee and then deduct your expenses to get the gross earnings, which might leave for example £5,000.

The sums are then as follows:

Gross earnings = gross salary + employer's NI.

You then need to work out the amount of employer's NI from the £5,000 of gross earnings, and:

Employer's NI = gross salary x 12.8%.

Note that you have to factor in employer's NI into your gross billing, so your £5,000 will include employer's NI.

To calculate the proportion of the £5,000 that is taken for employer's NI, divide the gross amount, £5,000, by 112.8, which gives you £44.32. Then multiply this by 12.8, the prevailing rate for employer's NI, which then gives you £567.37 of NI. This then leaves a salary of £4432.

With the example of £5200, it would look something like this:

Gross earnings for the month:	£5200
Umbrella company fee:	£80
Expenses (travel, subsistence and so on):	£120
Gross Earnings	£5000
Employers NI (from the sum above):	£567.37
Salary (£5,000 minus the NI of £567.37):	£4432

[Note that the salary multiplied by 12.8% equals the employers NI amount, and the salary plus the employers NI is equal to the gross earnings figure.]

For details calculations of PAYE and employee's NI on a salary of £4432 please use our [PAYE/NI Salary Calculator](#).

Good luck with your contracting!

Contractor Doctor

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