

Contractor umbrella company checklist updated to include new questions, including AWR

Contractors can download for free ContractorCalculator's updated checklist: [Contractor Umbrella Pricing – Costs and Benefits to Consider](#). It includes new questions on the [Agency Workers Regulations \(AWR\)](#), benefits and margins.

The checklist has been brought up to date with the help of Derek Kelly, managing director of professional employment solutions provider [Parasol](#). "Fundamentally, the contracting service provider sector has not changed since the checklist was first published in early 2010," he explains, "but there have been some important changes that may influence contractors' choices of [umbrella company](#)."

Margins, not fees

One of these changes has been a trend for umbrella companies to move away from discussing their 'fees' and start talking about 'margins'. According to Kelly, this has been for far more than just cosmetic or semantic reasons.

He explains: "If a business is raising a fee, then it is charging for something as a service and that means it will be vat-able. A margin is not vat-able. The use of the word margin also reflects the fact that contractors are employed by their umbrella solutions provider.

"If a service provider and employer is using the word 'fee', it sounds like the contractor is not employed. Your employer does not charge you for your employment. Hence the adoption of 'margin' to describe the cost to a contractor of using an umbrella."

Transparency: illustrating take-home pay

Kelly also highlights that transparency has become increasingly important, particularly as service providers seek to differentiate themselves: "The government sets tax and National Insurance Contributions (NICs) rates, so when the margin is taken out of the calculation, each contractor's take-home pay will be the same.

"If an umbrella company is claiming to offer contractors a higher level of take home pay but with a similar margin when compared to its competitors, it is a strong indication it could be doing some wrong, or may be non-compliant, or could simply be misrepresenting the facts."

The updated checklist includes questions about margins and take-home pay calculations, and suggests contractors check specifically whether additional benefits have been bundled into pay calculations, which would artificially inflate net pay.

Agency Workers Regulations

"Umbrella company contractors are within the scope of AWR, so the first question they should ask the service provider is whether it is compliant with the legislation," says Kelly.

"There are still service providers out there that have not updated their processes to accommodate AWR's requirements, despite the legislation having been in force since October 2011."

Next, having established that the service provider believes itself to be compliant, the contractor should check which AWR solutions the umbrella offers. The solutions will typically be 'pay between assignments', which is also known as the [Swedish Derogation](#), and 'matched permanent pay'.

Employment benefits

"Umbrella contractors are employed by the service provider so should, in theory, enjoy the full range of benefits that come with employment," says Kelly. "So, contractors should be asking about pension auto-enrolment and other statutory benefits."

However, he notes that not all flexible employment benefits work with umbrella contractors, and many umbrellas are not providing them compliantly: "If the service provider claims to offer childcare vouchers on a salary sacrifice basis, the contractor should ask if the vouchers are still offered when they are not working, because if they are not being provided then the umbrella is not compliant.

"If the umbrella claims to provide them between paid assignment then the worker should insist they are provided."

All employed contractors should be receiving the minimum wage, but Kelly points to a tactic adopted by some umbrellas, which is to meet minimum wage requirements by subsidising net salary with expenses.

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Derek Kelly, Parasol

"These practices are not compliant; but when HMRC catches up with the contractor, they will be the ones to suffer and not their service provider," he adds.

Kelly concludes: "When evaluating umbrella companies, contractors should be basing their decision on the margin taken by a provider and its service. All the other factors, such as tax, expenses allowances and employment benefits, are beyond the control of a compliant umbrella solutions provider."

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