

Contractors can check their PAYE umbrella company is financially sound – here's how

Whether it's as a result of changing market conditions, bad management, changes in legislation or a combination of all three, [Contractor umbrella companies](#) can go bust, just like any other business. And when they do, their contractor employees are often the last creditors to find out.

So what can umbrella company contractors do to safeguard themselves? According to Rob Crossland, Chief Executive of umbrella company [Parasol](#), there are signs contractors can spot that might suggest their umbrella is not being run properly. If you know what to look for, these signs can give contractors the opportunity either to reassure themselves that their supplier is sound, or to choose another service provider before they lose any cash.

"When trading conditions get tough, some service providers are tempted to cut corners," he warns. "Others simply may not be running the operation compliantly. Whatever the reason, contractors should not have to pay the price in cash – and, after all, it's their own cash – for their service providers' shortcomings."

Credit checks, using credit-referencing agencies, are a cost-effective method of checking the state of an umbrella company's financial standing, but may not be effective if the umbrella's demise is fast and unforeseen.

Umbrella company contractors should ensure they're true employees

As Crossland explains, there are other signs that can indicate how well an umbrella company is being run: "If you are contracted to an umbrella company, you are an employee of that organisation. That means you must have an employment contract, not just a set of terms and conditions outlining what the umbrella should be doing for you.

"If the contractor does not have a formal contract of employment, that should set alarm bells ringing, because their provider is already breaking the rules," continues Crossland. "And if they are breaking employment laws, that should send out some pretty negative signals about how they might be running the financial side of the business."

At the very least, an umbrella contractor's contract of employment should guarantee a set amount of working hours for 12 months, the minimum being 336 hours. Crossland confirms that, if a contractor does not have this guarantee, they are not truly employed and the ability to claim expenses and receive statutory benefits is at risk. Also, if HMRC investigates non-compliance of the umbrella company, it is possible that the umbrella's directors may take drastic action, or even flee.

No minimum wage is illegal

"Contractors should also be paid the minimum wage by their umbrella company if they are not in a contract," continues Crossland. "And they should be aware that it's illegal for an umbrella company to top-up their salary to reach the minimum wage using expenses. If the umbrella company is flouting these laws, what other offences might they be committing?"

Crossland urges contractors to ask their umbrella company if, for example, they get sick pay, if earnings are topped up to the minimum wage using expenses, and whether the umbrella will take responsibility for paying the contractor if the agency or end-user client goes bust. "Contractors should also ask to see evidence that this happens, and not just take the umbrella's word for it," he says.

"In the same way that the contractor is an employee, so the umbrella company is, in the eyes of the law, an employer. That means that legally they are not just a payroll processing business," says Crossland. "A legitimate umbrella company will therefore behave exactly as a legitimate employer should behave. Just because umbrellas employ contractors does not relieve them of their employer's responsibilities."

Incentives and promotions

In addition to the day-to-day aspects of an umbrella's operations, Crossland warns contractors to be cautious about particularly attractive incentives and promotions. "The old adage still applies – if it sounds too good to be true, then it probably is. So, if an umbrella company is heavily promoting a service that, for example, guarantees a contractor unusually high percentages of take-home pay or is offering a 'free' service, there may well be an uncompliant or questionable tax scheme behind it.

"For some contractors, this could be an attractive option, because it satisfies their own personal risk profiles," he continues, "However, contractors really must be clear on the sort of risks they are prepared to take, and be prepared to suffer the consequences if things go wrong."

Some umbrella companies and agencies have relationships where the umbrella company offers incentives and payment advantages to its agencies. This is normal commercial practice in many industries, but one that Crossland says could end badly: "If an umbrella company offers extended terms to preferred agencies, and then one of those agencies is unable to pay, could the umbrella absorb that loss without any impact, or could the agency take down the umbrella with it?"

Check for trade body membership and independent audits

As a founder member of the Service Providers Association ([SPA](#)), Crossland is keen to extol the virtues of the role trade bodies can play in policing compliance among umbrella companies.

"Trade bodies, such as [PCG](#), [Professional Passport](#) and SPA have an important role to play," he explains. "The Service Providers Association has a strict code of conduct that requires members to maintain high levels of financial stability. These are designed to ensure contractors can buy the services they need from organisations they trust.

"Ultimately umbrella company contractors want to focus on their contract and let the umbrella take away all the headaches associated with invoicing, expenses and the like," says Crossland. "But a small amount of homework, and keeping a 'weather-eye' on their umbrella's performance, could lead to them jumping ship with up-to-date pay rather than being the last in a long line of creditors to a failed business."

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