

How umbrella company contractors can calculate their holiday entitlements and pay

Contractors who operate through [umbrella companies](#) can work out their holiday pay using a standard calculation, although some won't need to, depending on the holiday pay model that their umbrella company employs.

This is according to Chris Fatcher, CEO of [The Pulse Umbrella Group](#), who highlights that while holiday pay entitlement should be clearly stated within a contractor's employment contract, not all umbrella companies are transparent in how they operate.

"Contractors find that some umbrella company payslips can be off-putting and confusing, particularly when reporting on holiday pay. However, there is a straightforward calculation contractors can use to work out how much holiday pay they have earned."

How umbrella companies calculate holiday pay

The way that umbrella companies figure out holiday pay entitlement for contractors is a simple and standard calculation, as Fatcher explains: "The contractor begins by deducting the annual statutory entitlement to leave from the 52-week calendar year. Statutory entitlement consists of 28 days (20 days of holiday and eight bank holidays) which is roughly 5.6 working weeks. This leaves you with a total working year of 46.4 weeks.

"You then divide the statutory entitlement figure by the figure you have for the total working year (5.6 / 46.4) which leaves you with 0.1207, which converts into 12.07%. So, for every hour a contractor works, they are entitled to an additional 12.07% of their earnings in the form of holiday pay."

Fatcher continues: "For example, if you were to pay a contractor the national minimum wage (NMW), which is £6.70 (correct at the time of writing), you have to pay them this amount plus 12.07% holiday pay, which works out at about 84 pence per hour.

"This is a really standard calculation that is used by many organisations, not just umbrella companies, to calculate the amount of holiday pay owed to temporary workers."

Holiday pay models that umbrella companies will use

As easy as it is for umbrella company contractors to calculate their entitled holiday pay, Fatcher notes that the majority of contractors shouldn't actually need to do the calculation due to the holiday pay models that most umbrella companies employ.

"There are two ways of collecting holiday pay. The first is the accrued holiday pay model. Here, the umbrella company may choose to accrue holiday pay money and keep it, and then pay it to the contractor upon request."

Fatcher warns that a major criticism of this model is that the contractor is required to claim any outstanding holiday pay from the umbrella company before the end of the holiday year, or they will lose that pay altogether. However, this is not a concern where the advanced holiday pay model is concerned.

"Most umbrella companies will pay advanced holiday pay. In this instance, as the contractor accrues holiday pay, they will also be paid these amounts alongside their basic rate.

"The vast majority of UK umbrella companies have adopted this model. This means contractors won't need to calculate their holiday pay as it should be clearly stated in their payslip, separate from their basic earnings."

Do Agency Workers Regulations have a bearing on umbrella holiday pay?

Many umbrella companies operate the match permanent pay (MPP) model, which according to the [agency workers regulations](#) (AWR) means that they're entitled to the same basic pay, holiday pay and bonuses that a permanent employee would be entitled to, after a qualifying period of 12 weeks.

However, Fatcher explains that most agencies haven't responded to requests that the umbrella companies have sent for the information necessary to activate MPP: "For example, we've sent about 4,000 requests for information and we've had about 10 responses.

"Unfortunately, if we don't receive the data regarding working conditions for permanent employees we can't apply the conditions to match contractors' conditions to theirs. So, with regards to whether or not AWR has any bearing on holiday pay, the short answer is; it could, but given the lack of response from most agencies it doesn't."

Holiday pay disputes are unnecessary

When issues arising from disputes over holiday pay do occur between contractors and umbrella companies, it is often due to an oversight on the contractors' behalf. As Fatcher explains, many umbrella companies operate in a manner which aims to avoid such issues:

"The accrued model of holiday pay is slightly disingenuous, and most umbrella companies don't apply that model because there is a likelihood that the contractor won't ask for what is rightfully theirs. Or even that they won't know that they are entitled to it.

"Therefore, in some cases, the umbrella company profits through keeping hold of the holiday pay that should have been paid out. However, nine times out of ten, I'd imagine the umbrella company will pay holiday entitlements up front so that the liability is discharged."

Umbrella company contractors need to be wary

However, contractors are warned to be wary of less compliant umbrella companies who may not be entirely transparent about their holiday pay policy, and wouldn't make the process by which a contractor claims holiday pay clear. In such a circumstance, a thorough review of the employment contract is all that is required.

"I would suggest that the contractor reviews the employment contract and the associated staff handbook that they should receive from the umbrella employer in order to make sure that the holiday pay policy is clarified."

Futcher concludes: "If the umbrella company uses an accrued holiday pay model, the contractor should either pick another umbrella company or ensure that their service provider sticks to the rules and claim what they are entitled to."

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