

Reasons and practicalities of moving from an umbrella to a limited company

Introduction

There are two types of payment structure when you are contracting: Umbrella or Limited company. We discussed the differences in our article [Limited Company or Umbrella: Deciding on a Payment Structure](#). Having chosen an umbrella this article discusses the reasons you might wish to move to a limited company structure and the practicalities of doing so.

Why Move?

The potential reasons why you would wish to move from an umbrella company arrangement to that of having your own limited company are as follows:

When you started life as a contractor, you were not sure if it would be a long term prospect, so decided to go for a short term option, i.e. an umbrella company. You have now decided that you like being a contractor and having your own limited company seems a more appropriate solution for the future.

You wish to have a degree of control over your company affairs, to enable you to be more directly involved in expanding and developing your own limited company.

You are unhappy with the service of your existing umbrella company and feel you may avoid some of the problems if you took control yourself.

You are sensitive to umbrella company costs (they are usually more expensive than running your own limited company, since they do more work and take more responsibility). This is the same as owning a car or renting one.

Practicalities of Moving

Moving from an umbrella company to a limited company should be fairly painless.

You will need to examine the existing contractual arrangements you have committed to with your existing umbrella company and your agency.

It will be difficult to transfer an existing running contract from an umbrella company to a new limited company, unless you have the co-operation of the umbrella company and agency concerned.

Some umbrella companies have a tie in period with costs if you leave early. A bit like a fixed mortgage. Check your contract first.

There is no 'closing down' process or dissolution procedure for leaving an umbrella company, as there would be for leaving your own limited company. Your only concern will be to ensure that the umbrella company fully pays you all amounts owed and any retentions for holiday pay etc., which they have held back during the period of the contract.

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You will need to ensure you get paid correctly by the current umbrella company, and then have to go through the process of [choosing an accountant for your limited company](#) and then [set up the limited company](#).

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