



# **Umbrella guide**



## What is an umbrella company?

Umbrella companies take on agency workers and other types of temporary workers as their own employees with continuous contracts of employment. The main purpose of an umbrella company is to employ people like you (often called 'contractors'). To meet the rules to be a 'continuous' employment, the umbrella company must usually pay you for 336 hours of work per year at the national minimum wage.



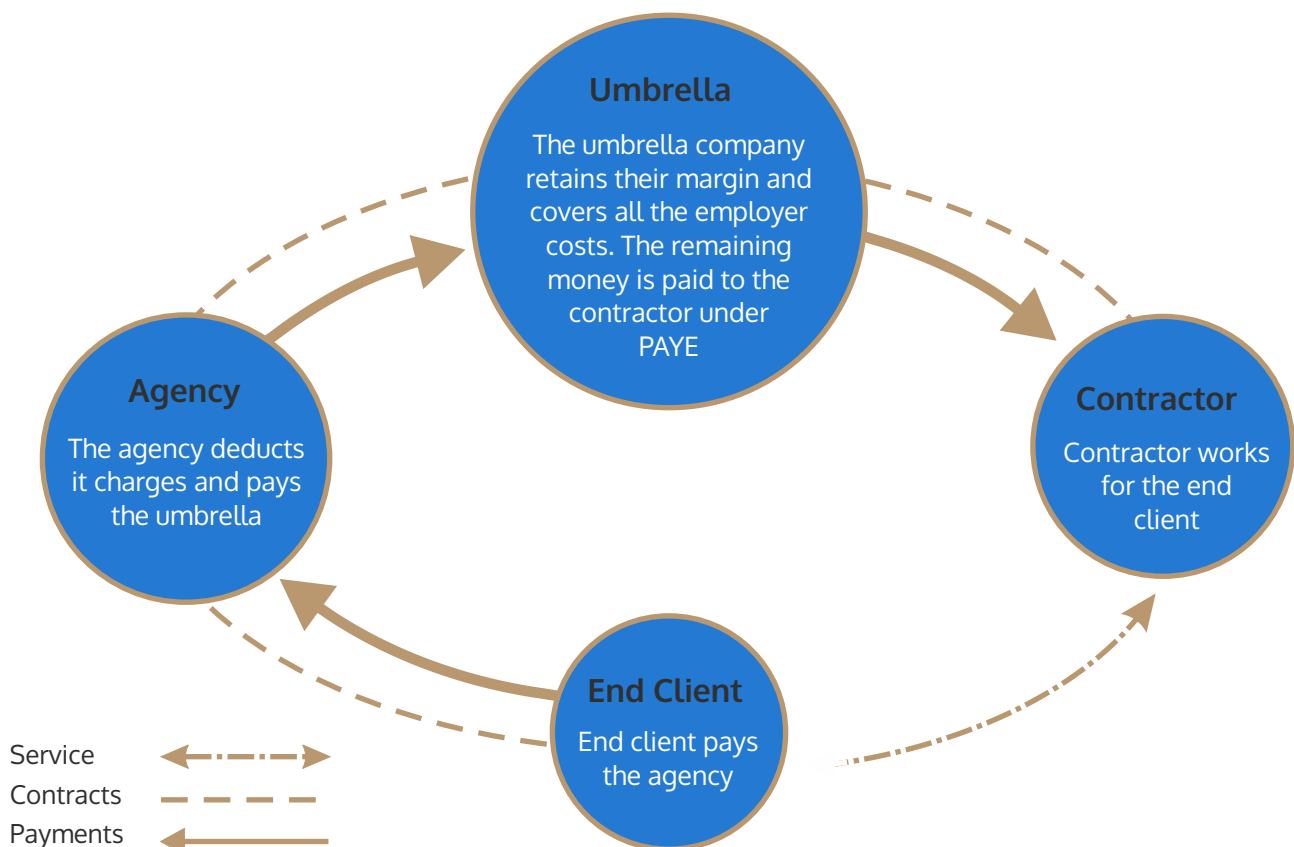
## Why do I have to use an umbrella company?

Normally, if you are placed through an agency, they would deal with your pay themselves. However, these days, agencies prefer not to employ you as it saves them money and leaves them with more time to concentrate on placing workers with available work. Hence, they usually suggest that people use an umbrella company. An agency asking you to use an umbrella is not against the law but they need to ensure that when they pass you over to an umbrella company, they also pay sufficient funds to cover all the employment costs that the umbrella company needs to meet including the fee the umbrella provider may charge.

As your employer the umbrella company will deal with your pay and other employer obligations instead of the agency. This includes paying you your wages with correct tax and National Insurance deducted as required by the Pay As You Earn (PAYE) system.



## How an umbrella company works?





## **What are my employment rights?**

You will be an employee of the umbrella company and so will have the same rights as any other employed individual. These include the right to minimum wage, holiday pay, auto-enrolment into a pension scheme and to statutory benefits such as sick pay, paternity and maternity pay (provided you meet the relevant criteria).



## **Do the Agency Worker Regulations (AWR) still apply?**

The AWR mean that agency workers should receive an equal treatment comparable to the end client's own employees. As an umbrella company employee, you are still classed as an agency worker for the purposes of AWR. For example, you should be allowed to use any shared facilities (e.g. a staff canteen or childcare) from the first day you work in an assignment location. After 12 weeks' of continuous employment in the same role, you should get the same terms and conditions as the end client's own employees, including pay and annual leave above the minimum 28 days required by law.

Usually you will be given a 'matched pay' employment contract by an umbrella company which provides for equal treatment once you've been on assignment for 12 weeks (in reality contractors tend to be on similar packages across the board so you are unlikely to see much difference to your position because of AWR).



## **Can I claim some relief on my travel expenses?**

Historically, if you worked through an umbrella company then you could claim tax and NIC relief on the costs of getting to and from your work locations. However, this was essentially due to a legal loophole, that since April 2016 has been closed to anyone working under 'supervision, direction or control' of the end client. This catches a lot of people and it would be very rare for a worker to now qualify for home to work expenses relief.

However, you may still qualify for relief on travel expenses incurred while working, as opposed to getting to work (e.g. visiting clients). Where you use your own car for such travel, you may be able to claim tax and NIC free 'mileage' from the umbrella company. As the umbrella only has the funds received from the agency to pay you out of, this is unlikely to be paid to you on top of your normal pay, but rather you will be asked to swap some of your normal taxable pay for the tax and NIC free mileage payment – this should still leave you better off. For any other type of expenses (e.g. train fares) you will have to put in a tax claim to HMRC.



## How will my holiday pay be calculated?

Full time workers have the right to a minimum of 28 days paid leave including bank holidays (although you could be entitled to more under the Agency Worker Regulations, as explained previously). If you work on a casual basis or very irregular hours, your holiday entitlement will probably be calculated as a percentage of your hours. 28 days is equivalent to 12.07% hours. Example: John works 30 hours one week, 40 hours the next week, and then 20 hours for next two weeks. After a month of working, he has built up entitlement to approximately 14 hours of paid leave (110 hours x 12.07%). This can be different for a worker employed in the education or medical sector. For more information please contact us.

Many umbrella companies offer to include an amount for holiday pay in your wages on an ongoing basis (a system known as 'rolled up' holiday pay). Strictly this is incorrect unless it is shown separately on your wage slip, as the law says that it should be paid out at the time annual leave is taken, but many workers prefer the 'rolled up' system.



## Which Umbrella Companies to avoid?

You should beware of umbrella companies that:

- ① Guarantee 80%-90% take home. As per HMRC guideline this is lawfully not possible as the minimum income tax rate is 12% and the payments are further subject to NIC.
- ② Umbrellas processing only part of your income through payroll and subject to pay-as-you-earn – this implies you are paying tax on a certain percentage of your income which can lead to trouble in the future
- ③ You get payment through loans, credit or investment payment like dividends or capital payments.
- ④ Getting paid through different organisations
- ⑤ Any other schemes advertising 100% HMRC compliant or promising to reimburse expenses other than mileage (in special circumstances) without proper SDC assessments.



## Award winning accountants



## Get in touch

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