Using an Umbrella Company when Contracting by Aimee Wells

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Over the years, many IT contractors and people that work in other industries where workers are hired on similar terms have elected to start their own limited company in an effort to minimise their end-of-year tax bill and to maximise their weekly take-home pay. However, more and more people are realising that this is not the only option that is open to them and that there are alternatives that enable them to save a lot of money without having to do any paperwork themselves.

Setting up as a sole trader is one option that involves less paperwork than forming a limited company but it can still eat into your spare time considerably and if the tax office decides that you are essentially employed on a full-time basis by the company for whom you are contracting, the time spent on keeping your own accounts will have been a complete waste. An option that more and more people are considering these days involves registering as an employee of what is known as an umbrella company. Such an organisation allows you to work for whomever you wish whilst leaving them to deal with the accounts and tax returns.

For those that worry that this type of arrangement will mean that they earn less, it will be comforting to know that it is still possible to claim for all the usual business expenses when working for such a firm. There is obviously a charge for the administrative services that they provide but in many cases, this may work out to be the same or less than a sole trader or director of a limited company would pay an accountant to look over his or her books before submitting them at the end of every year.

Many firms that provide this type of service take care of everything that a contractor would normally have to do, such as raising invoices, making payments to a tax efficient pension scheme and handling national insurance contributions. Another benefit that does not occur to people until they need to apply for a loan or mortgage is that they are considered as an employee of the company that takes care of their paperwork so there is no need to worry about having to submit several yearsâ€™ worth of business accounts in order to be approved.

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