

A guide to **compliant umbrella companies**



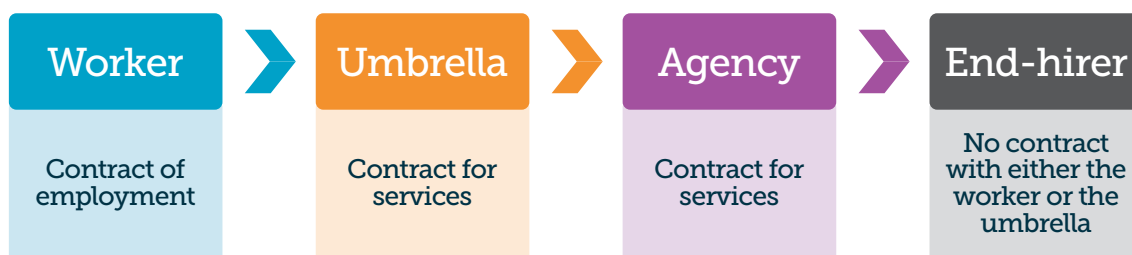


As the UK's leading membership organisation for professional employment service providers, the Freelancer & Contractor Services Association (FCSA) is committed to setting umbrella employers' standards in order to stamp out any poor or exploitative practices. This factsheet is designed to help end hirers and contractors better understand how a compliant umbrella firm operates and the benefits of choosing to work in this way.

What is an umbrella?

An umbrella company is an employer of contractors and freelance professionals who complete numerous assignments at various locations for recruitment agencies and/or end hirers. The umbrella enters into an employment contract with the worker and a service contract with the agency.

The Supply Chain



This mechanism gives the worker freedom to undertake a series of temporary assignments via a variety of agencies/hirers whilst having continuity of employment with all statutory rights and benefits.



Key benefits of umbrella employment to the agency or end hirer

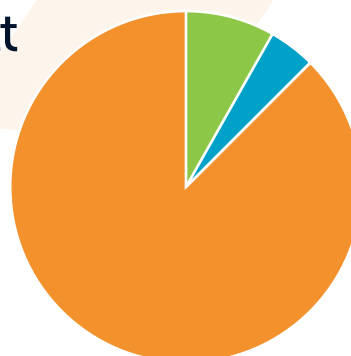
A fully compliant umbrella employer manages the commercial, employment, taxation, and statutory risks associated with the use of temporary workers for the supply chain. This minimises the overheads, employment risk, and administrative burden of managing temporary workers in-house.

The alternative would be to process a significant amount of paperwork each and every time a temporary worker wishes to be redeployed to a different role, agency, or end hirer. In a fast-paced project-driven environment where workers frequently change assignments, the resulting red tape of treating each change as new employment would quickly become unmanageable.

Key benefits of umbrella employment to the worker

- Employment rights, including all statutory rights and benefits such as holiday pay, maternity, paternity, sick leave, pension, etc
- Employment history and continuity while working on a contingent, multi-location basis (notably to support access to finance, housing/mortgages, etc.)
- Joined-up pay from fragmented working:
 - Many workers will perform multiple assignments during a week or a month
 - Umbrellas consolidate their worker's earnings and ensure appropriate taxes are paid
- Peace of mind that tax is paid appropriately, with no need to submit an annual self-assessment return to HMRC
- Employee/HR support in the unlikely event that an individual needs HR advice, such as a grievance case, as their employer the umbrella company will have processes to support them
- Ability to claim travel and subsistence expenses subject to status

Assignment Income



- Employment Costs
- Umbrella Margin
- Worker Income

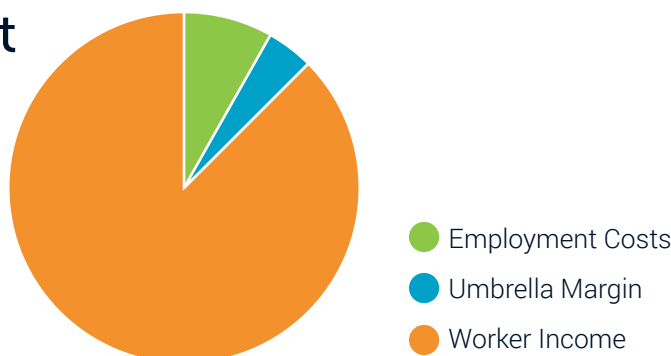


How pay is calculated

The umbrella company receives assignment income paid by the agency for the work undertaken. Like any employer, the umbrella must cover employment costs, including Employer's National Insurance, holiday pay, the Apprenticeship Levy, and pension contributions. These employment costs are deducted from the assignment income. Umbrellas also retain a small margin to cover their costs for the services they provide. This is also deducted from the assignment income and the balance is the workers' gross pay.

The Agency Workers Regulations 2010 provide that umbrella employees receive at least equivalent rights to their full-time equivalents, including pay. This means that the assignment rate must usually be greater than the rate which the equivalent employees of the recruitment agency or end hirer receive in order to achieve that. The 2010 Regulations will not apply if the worker is not under the supervision and direction of a hirer, which usually applies to higher-paid roles.

Assignment Income



Why have umbrella firms become prevalent?

Onshore Employment Intermediaries legislation, set out in the Finance Bill 2014, resulted in agencies being liable for workers PAYE, including Employer's NICs, unless shown that the individual is genuinely self-employed. This was a significant change for agencies who now needed to either pay their temporary workers via PAYE or assure themselves that workers are genuinely self-employed.

Umbrella companies provided a solution because they employ their workforce and pay them via PAYE.



Misunderstandings about umbrella companies

Despite the important role that umbrella companies play in supporting contractors, providing all employment rights, and ensuring tax and NICs are paid, there are numerous misunderstandings about how umbrellas work in practice. As the membership body for compliant umbrella companies, we strive to ensure transparency regarding how they operate and here we dispel some of the common misunderstandings.

Misunderstanding 1 - Payment of employers National Insurance and other hidden charges

When unions first became aware of umbrella companies, they were concerned about the apparent deduction of Employer's National Insurance from workers' pay; however, this deduction is not from the gross pay; it should be factored into calculating the assignment rate, i.e., it is in addition to workers' gross pay. All employers are legally required to pay employers National Insurance, as well as processing employee deductions.

Compliant umbrella companies have always been transparent about how they calculate gross pay, i.e., that employment costs are deducted from the assignment rate. However, in some instances, this has led to the misunderstanding that employees are paying employers National Insurance, whereas, in fact, this amount does not constitute any element of the workers' gross pay.

If a worker is paid via the agency or end hirer payroll, the Employer's National Insurance (and associated employment costs) will still need to be paid in addition to the gross pay – it needs to be factored in somewhere within the supply chain.

Compliant umbrella companies explain and provide illustrations of these deductions prior to the employment contract being entered into.

Misunderstanding 2 - Umbrella employees are self-employed/can't access pensions

This is fundamentally incorrect: umbrella companies employ contractors. Anyone working through an umbrella is by definition employed and not self-employed. By being employed, anyone working for an umbrella company has the same pension rights as any other type of employment, and all of these rights are provided for by the umbrella company. Every umbrella company must provide a pension scheme and automatically enrol employees into it, as every UK employer does, under the Pensions Act 2008.



Misunderstanding 3 - No advantages to working for an umbrella

Contractors working for an umbrella company are by definition employed by that umbrella company and therefore have access to all statutory rights and benefits of employment. This includes annual leave, maternity, paternity, sick pay, and pension contributions, and all of these rights are provided for by the umbrella company.

Misunderstanding 4 - Umbrella companies are a new entity

Umbrella companies have been in existence for some 20 years. They were formed to service the requirements of professional contractors undertaking a series of assignments who needed specialist back-office support to take care of their tax affairs. Umbrella companies evolved to meet this requirement, enabling contractors to carry out their assignments without also needing to become skilled financial specialists to run their affairs.

Misunderstanding 5 - Umbrella firms are a "scam"

Umbrella companies have never been a scam; **compliant companies** offer a legitimate contractor management solution that enables individuals to receive all benefits of employment while working on numerous different assignments. **Compliant umbrella firms** are wholly transparent in their dealings with workers, providing them with a clear contract of employment, all statutory rights and benefits, and transparency in how their pay is calculated.

You will notice that we refer however to compliant umbrella companies as not being a scam; this is very important to take note of.

Most UK umbrella companies operate honestly and ethically, ensuring all statutory deductions are made, and the contractor's pay is accurate. However, the term 'umbrella company' has more recently been 'hijacked' by many businesses looking to promote their non-compliant solutions to the temporary labour market, often to benefit themselves. This has become even more prevalent since the announcement of IR35 and off-payroll reforms, which is due to come into effect in April 2021, with more contractors switching from PSC's to umbrella.

Non-compliant umbrella companies typically offer contractors 80% or more take home pay, attractive-looking loan schemes, and fail to pay the correct employers or employees contributions to the government. Ultimately, these companies expose the agency director to prosecution under the Criminal Finance Act 2017, whilst the contractor is often left with a huge bill for unpaid taxes and potential litigation from HMRC.

Recruitment agencies, end hirers and contractors can however mitigate this risk by choosing to partner with an FCSA Accredited Member who has undergone rigorous checks to demonstrate the highest standards of industry compliance.

Read our guide on how to identify a non-compliant umbrella company - [click here](#)



About FCSA

The Freelancer & Contractor Services Association (FCSA) is the UK's leading membership body dedicated to raising standards and promoting supply chain compliance for the temporary labour market. Our purpose is to safeguard the long-term future of the professional freelance sector for the benefit of the UK economy by:

- Setting and raising standards for service providers who support professional contractors
- Promoting compliance in order to protect professional contractors
- Influencing and lobbying to ensure that members' needs are represented to policymakers
- Collaborating through partnerships with like-minded organisations

FCSA's primary role is to raise standards and promote compliance and through our Accreditation, we encourage self-regulation in our sector in supporting contractors to meet their tax and legal obligations. FCSA Accredited Members are tested against our Codes of Compliance annually and must pass in order to retain their accreditation.

Our standards are the most stringent and comprehensive in the industry, as detailed in our Codes of Compliance, which is published and freely available on our website.

Importantly, no FCSA Accredited Member is allowed to operate Offshore Schemes, Loan Schemes, Trusts, Managed Services Companies Schemes, Pay-day-by-Pay models, or similar.

Any contractor, recruitment agency, or end-hirer choosing to work with an FCSA Accredited Member is assured that the member operates at the highest industry standards for the benefit and protection of the supply chain.

Find a compliant umbrella company

If you're looking for a compliant, transparent umbrella company for your contractor workforce, check they're FCSA Accredited.

You will find a list of all FCSA Accredited Members on our website, visit www.fcsa.org.uk/members

