

LIMITED COMPANY OR UMBRELLA COMPANY?

The first task for any contractor is to decide upon the best business structure to work under, the two most common being a limited company, or utilising the services of an umbrella company.

LIMITED COMPANY

Incorporating your own limited company has key benefits, however it also carries significant responsibility. As a director of a limited company you will have statutory, financial and commercial obligations, such as submitting annual accounts to Companies House, fulfilling tax obligations to HMRC (company and personal) and holding suitable insurances.

One of the main benefits of contracting via a limited company is a potential higher retention of earnings. Many expenses incurred whilst conducting your business (mileage, equipment costs, subsistence etc) can likely be offset against your taxable company profits and unlike a permanent or temporary employee (including utilising an umbrella service), you control how you remunerate yourself.

Dividends are taxed differently to salary earnings and are not subject to National Insurance contributions. Whilst changes to dividend tax rates in April 2016 significantly lessened the extent of this benefit, structuring your remuneration through a combination of salary and dividend payments can still result in a far higher retention of earnings compared to that of a PAYE employee.

Many specialist accountancy firms provide competitively priced, comprehensive services to personal service companies (which you would be considered). They can help you with everything from incorporating your limited company to setting up a company bank account and servicing your bookkeeping and accounting needs.

If you are considering contracting as a personal service company, through the means of a limited company you will need to be aware of the IR35 legislation. See our separate resource document for more information.

USEFUL INFORMATION (LINKS):

[Limited company guides and information for contractors](#)

[Umbrella company guides and information for contractors](#)

[Comparison table – Limited company or PAYE Umbrella](#)

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UMBRELLA COMPANY (PAYE)

An umbrella service acts as a vehicle for you to work on a contractual basis, without the need for your own limited company.

They are effectively acting as a limited company for you, typically invoicing the client on your behalf for your time worked and in turn, paying your wages as a PAYE employee, minus your income tax and national insurance contributions (which they will pay to HMRC as part of their payroll service).

Umbrella services are reasonably cheap and provide a hassle free vehicle for contracting, however you will not benefit from the tax efficiencies of contracting through your own limited company.

An umbrella service may suit you if you're just "testing the waters", contracting short term and/or prefer less admin.

There are pros and cons of using either of these structures, our consultants can provide guidance on the different routes and help you to make an informed decision based on your specific circumstances.

The information above provides an overview and is in no way comprehensive. We recommend contractors obtain more information before making their final decision.

We have provided some useful resources to help below.

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[Limited company guides and information for contractors](#)

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