

## Choosing an umbrella company or company formation

Often a contractor can be faced with the question of whether to use an umbrella company or pursue a company formation instead. In general contractors are registered as self employed and will carry out work assignments for large companies or on a set term basis. There are certain industries that will only take on a contractor that is part of a limited company. This is often due to invoicing and in these circumstances a good solution is to use an umbrella company. What are umbrella companies? An umbrella company is in essence a middle man that allows the contractor to do their work whilst managing their billing. This is a simple approach for a contractor where they have a one-off job. It can take away all the hassle of billing so a contractor can focus solely on their job. Some contractors prefer not to use umbrella companies on an ongoing basis to avoid the fees that are charged for their services. There are also some umbrella companies that will view a contractor as an employee paying them in this format which can cause the monies to be affected by tax and NI contributions up front. What about company formation? The alternative is to carry out a company formation. By being a limited company the contractor can invoice the company direct. As a legal entity a limited company is more tax efficient and a contractor can pay themselves using dividends rather than using the PAYE system. This reduces the amount of tax to be paid and can increase the money taken home. A contractor also benefits from limited liability which is not available when self employed. There are advantages and disadvantages for both methods and a contractor needs to consider the type of work they carry out to decide on the best way forward. At Churchill Knight & Associates Ltd we offer limited company, umbrella company and sole trader services.

## About the Author

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