

Please Note: This communication is for informative purposes and may not affect you



Your Pay Rate Explained

When we quote you an hourly rate, this rate is normally on the basis that you will be paid by way of an **umbrella company** or your own **limited company**.

If you wish to be paid directly by us, as **PAYE**, then a lower hourly rate applies.

Why is this?

The **PAYE rate is lower**, because, in addition to the payment we make to you, we also have to pay:

1. employer's national insurance contributions,
2. holiday pay,
3. pension contributions,
4. apprentice levy

If you are paid by an **umbrella company** or your own **limited company**, it is their responsibility to account for these 4 items. Therefore, the **hourly rate** is higher in order to compensate for these responsibilities.

What does this mean?

Although the hourly rates are different, the net amount you receive into your account, after all the relevant deductions for tax and national insurance, should be broadly similar, depending on the following:

1. How many hours you work,
2. Whether the assignment you are doing falls 'Inside' or 'Outside' IR35 (see below).
3. Whether you can claim any expenses for the assignment
4. The level of fees charged by the **umbrella company** or any accountant helping you with your **limited company**

If the assignment falls 'Inside IR35' the you should retain a higher amount being paid by us as **PAYE**, as you will avoid the fees charged by the **umbrella company**, or fees charged by an accountant to administer your **limited company**

Worked example

Pay comparison	PAYE	Umbrella	Limited
Hours worked	40.00	40.00	40.00
Hourly Rate (£)	22.50	25.00	25.00
Gross Pay	900.00	1,000.00	1,000.00
Deductions:			
Tax	(131.92)	(131.92)	(131.92)
Employee National Insurance	(88.08)	(88.08)	(88.08)
Employer National Insurance		(101.29)	(101.29)
Fees		(20.00)	(30.00)
Total deductions	(220.00)	(341.29)	(351.29)
Net Pay (£)	680.00	658.71	648.71
Notes:			
<i>The above excludes pension contributions and the apprenticeship levy</i>			
<i>The current level of pension contributions are:</i>			
<i>3% of qualifying earnings for the employer, and</i>			
<i>5% of qualifying earnings for the employee</i>			
<i>The apprenticeship levy is charged at 0.5% of Gross Pay</i>			
<i>The above figures are estimates for illustrative purposes only based on certain assumptions</i>			
<i>The above uses the basic tax allowance of £12,500 and tax bandings as currently published for the 2019/2020 tax year</i>			