

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



We offer 3 ways you can be paid:

1. PAYE, payment made directly by us to your personal bank account
2. Umbrella company, whereby we pay your umbrella company, you are an employee of that umbrella company, and they make payment to you
3. Limited Company, whereby we pay your Limited Company (Personal Service Company), and you distribute funds from that Limited Company to yourself

### **PAYE**

We have a contract with you, which gives you certain rights, for example holiday pay. We have to pay employer's national insurance on top of the amount we pay to you. Hence, the hourly pay rate is lower than the hourly rate for umbrella company or limited company.

### **Umbrella Company**

We have a contract with your umbrella company, and you have an employment contract with them, giving you your rights. Your hourly rate is higher than for PAYE directly with us, however this is to cover the employer's national insurance they will have to pay when making payments to you.

### **Limited Company (Personal Service Company)**

We have a contract with your Personal Service Company. Your hourly rate is the same as for umbrella company, which is higher than for PAYE directly with us, however this is to cover the employer's national insurance the PSC will have to pay when making employment payments to you.

Operated correctly, if the assignment is 'inside IR35', **the net amount retained by you should be similar across the 3 methods**, however you will incur weekly fees from an umbrella company, and typically monthly fees from an accountant to administer your PSC and help you submit your PAYE, VAT and Corporation Tax returns, as well as your annual accounts.

### **What is IR35?**

IR35 is tax legislation that is designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used.

Such workers are called '[disguised employees](#)' by HMRC. If caught by IR35, they have to pay income tax and National Insurance Contributions (NICs) as if they were employed

Since April 2017, public sector clients are required to assess whether IR35 applies to the assignments/shifts it issues to agencies. Public sector clients typically determine that shifts are subject to IR35, meaning that if you are paid through a Limited Company the agency has to deduct tax and national insurance contributions from payments made.

### **Pros and Cons of payment methods**

#### **PAYE**

##### **Pros**

Peace of mind that your tax affairs will be taken care of, with no nasty surprises from HMRC

No fees

##### **Cons**

If you work through several agencies, you may have to treat as a 'secondary employment' and pay higher tax in the short-term, before claiming it back at the end of the year

#### **Umbrella Company**

##### **Pros**

If you work through several agencies, you can manage your tax affairs through one 'employment'.

##### **Cons**

Weekly fees

If the umbrella company doesn't manage your tax affairs correctly, you could face a large tax bill and penalties

#### **Limited Company**

##### **Pros**

If your assignment is 'outside IR35' you may be able to extract funds from the company in a more tax efficient manner i.e. dividends, business related expenses

##### **Cons**

Monthly fees

If 'inside IR35', and work is in the public sector, your agency has to deduct tax and national insurance deductions

If 'inside IR35', and work is in the private sector, your agency has to deduct tax and national insurance deductions from April 2020 onwards, and you should already be paying money to yourself by way of salary, with the necessary tax and national insurance deductions