

## THE UMBRELLA COMPANY – HOW DOES IT WORK?

### BACKGROUND

A 'permanent' employee working in one place cannot be reimbursed his/her expenses of travelling to and from work, without having to pay tax on them.

But a 'permanent' employee whose job is to work on assignments in a succession of qualifying 'temporary workplaces' can be reimbursed those expenses, without having to pay tax on them.

The purpose of the arrangements offered by an umbrella company is to be the employer for such employees, and so to open the door to the employees being able to get the benefit of tax-free reimbursement of those expenses.

This is the only business activity carried on by the umbrella company, and it has no income other than that brought in by its employees. The income generated by its employees has to cover all the costs related to the umbrella's function of being an employer.

### 8 STEPS TO HOW THE UMBRELLA SYSTEM WORKS IN PRACTICE

1. You become our employee, engaged in an 'over-arching' contract of employment, with a view to doing a succession of assignments for various agencies / clients in the course of that employment. This will allow the location of each assignment to be treated by HMRC as a qualifying 'temporary workplace' for a period of up to 2 years. This in turn will allow us to reimburse your expenses in relation to travel to and from work, free of tax, out of the income you have generated.
2. The agency or end client pays us an 'uplifted rate' – the contract rate – to cover both payment to you for the work you have done, and all the costs related to your employment e.g. Employers National Insurance. At this stage, the money we receive from the agency / end client represents the gross income of the umbrella company that you represent.
3. We make provision for your basic pay to be at least National Minimum Wage ('NMW') level.
4. We also make provision for the Employer's National Insurance Contributions relating to all payments (other than reimbursed expenses) that are to be made to you.
5. We set aside provision for your holiday pay (though at your request, we can release this to you, in advance of you actually taking a holiday).
6. The amount of your taxable pay must be at least NMW for provision of your expenses. If reimbursing all your expenses pushed your pay below that level, we would have to hold back some of your expense claim, until a later period when there is sufficient money available.
7. **YOUR PAY** : Your basic pay, and any release of holiday pay add up to your total taxable pay, and are shown as such on your pay-slip. These are paid, subject to PAYE and Employer's National Insurance Contributions.

**YOUR EXPENSES:** processed if genuine, and are shown as a benefit without deduction of tax.

8. **PAY -SLIP:** Each pay period, we send you not just a pay-slip, but also a statement, showing exactly what has happened to the money you have generated and what we have received.