

IN-Formed: Maximising your take home pay



Limited Company or Umbrella Company – which gives me more take home pay?

We answer this question so frequently we thought it was about time we outlined the differences for you.

What are the main differences, and how do I determine the best route for me?

There are a number of things to consider when choosing which way to set up in business, including how long you plan to be self-employed for, how much time you want to spend on administration and running your business, how much you expect to be earning / invoicing as a contractor, and whether your client(s) prefer to work with a certain type of business.

Depending on your projected level of income, you could find yourself much better off financially if you set up in business as a Limited company rather than operating via an Umbrella organisation.

The main savings you can achieve within a Limited Company compared

with an Umbrella company are in terms of National Insurance and by taking advantage of the Flat Rate VAT Scheme. You will also have additional opportunity for tax planning within a limited company which is not available to the same degree within other legal entities.

This is something which will depend greatly on your own individual situation and which you should discuss with a good tax accountant to ensure you make the most of the potential benefits available to you.

What does this mean in real financial terms?

We recently brought on board a new contractor who was considering the Umbrella company route, so let's call him John and use that as a case study.

John's hourly rate was £29 per hour, he worked a 60 hour week and estimated he would take 4 weeks holiday per year.

As an Umbrella company he would pay his agency retainer fee of around £30

per week. Then his income would be liable to Employer's NI of 13.8%.

After that he would have to pay both Employee's NI and Personal Tax equating to around 32% of the balance. All in all, the agency and tax man would take 41.3% of John's gross earnings, and his take home pay would only be 58.7%. Or in other words, the taxman would be taking more than £30,000, leaving him with around £50,000 to take home.

As a Limited Company, we registered John for VAT on the Flat Rate Scheme and advised him on income extraction, setting up an efficient split of salary and dividends. We then guided him through which expenses he could legitimately claim through his business.

The end result was that John's tax bill was less than £8,000, and he went home with more than 90% of his gross earnings. So for John, choosing a Limited Company over an Umbrella set up meant just over £23,000 more cash to spend on his family and himself. Needless to say, he was delighted.

Client Case Study

John was considering an Umbrella company structure when he came to us with the following contract:

Hourly rate: £29

Hours per week: 60

Weeks per year: 48

UMBRELLA
Take Home Pay
£46,253

LIMITED COMPANY
Take Home Pay
£69,087



If we can be of further assistance please contact us via:



@in_accountancy



0161 456 9666



askus@in-accountancy.co.uk

IN-Formed: Maximising your take home pay



THE DETAIL:

Flat Rate VAT Scheme

One advantage, both from a financial and administrative point of view, of operating as a Limited Company over an Umbrella Company is your ability to take advantage of the Flat Rate VAT scheme, which was introduced by the government as an incentive to help simplify taxes and the paperwork involved in submitting quarterly returns.

It isn't appropriate for every business, so for more detail and to determine the right rate for you, please see our **Guide to Flat Rate VAT**. However as an example, John as an IT contractor in his own Limited company was able to charge 20% VAT on his invoices, but only pay

13.5% back to HMRC. After his first year, this will increase to 14.5%, but will still equate to a net saving of approximately 2% of his gross income.

In cash terms this means approximately £1,500 per annum (on a 48 week year) if your day rate is £250, and £3,000 per annum if you charge £500 per day.

National Insurance Savings

With an umbrella company you will pay both employees and employers NI (Employers NI is 13.8% of your salary above £153 per week, and employees NI is 0% for the first £153 per week, 12% for the next £652 a week, and 2% thereafter.

So, if you are a contractor on a day rate of £250 per day the combined cost in NI to you will be £10,417 per annum through an umbrella company versus £0 per annum in

your own Ltd Company, if your income is structured efficiently. If you take 4 weeks holidays per year, your NI savings alone will total £10,417.

If your rate is £500 per day, these savings will amount to £18,746

Tax Planning

Income extraction and remuneration planning will depend on your own personal situation, so you do need to work with a good tax accountant who is up to date with all the rules surrounding contracting.

IR35

You also need to be aware of IR35 and ensure you are operating outside of this - please check our IN-Formed **Guide to IR35** for further information.

Why might an Umbrella company be a good thing?



There are certain benefits to becoming an employee of an Umbrella company which you may wish to consider:

- ~ It's easy – you can be set up and running very quickly. All you will need to do from an admin point of view is submit your timesheets
- ~ It's consistent – you will be paid as an employee, with holiday pay and insurance included
- ~ It's worry free – all your tax and NI is automatically deducted, so you know exactly where you stand
- ~ It's flexible – and can be a good choice if your are only working intermittently as it will work for both short and long term contracts

However, it is not as tax efficient as a limited company and you will therefore have lower earning potential.

The greater your projected income is, the greater this differential:

Income:	£30,000
Take Home Pay:	
• Umbrella ~	£23,734
• Limited Co ~	£26,472
Difference:	£2,738

Income:	£50,000
Take Home Pay:	
• Umbrella ~	£36,137
• Limited Co ~	£40,720
Difference:	£4,583

Income:	£70,000
Take Home Pay:	
• Umbrella ~	£46,261
• Limited Co ~	£56,106
Difference:	£9,845

Other things to consider:

- ~ Payments will all be processed through a third party, so you have little or no control over how and when you get paid
- ~ You will just be considered as another employee, rather than having the opportunity to develop your own brand and enhance your position within your target market.

If we can be of further assistance please contact us via:



@in_accountancy



0161 456 9666



askus@
in-accountancy.co.uk

