



UMBRELLA COMPANY PAY CALCULATIONS



Contractor **Voice**

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There is much to consider when calculating your take home pay and what deductions will apply. Unfortunately, it is not unheard of that umbrella companies will inflate the predicted pay in a contractor/freelancers illustration in order to win their business. Please remember, or refer to our 'Choosing an Umbrella Company' eGuide, that the only variance in your take home pay should be that of the umbrella margin; the charge that an umbrella makes to cover its administration costs. Knowing that another contractor/ freelancer has had a good experience using an umbrella company or doing your own due diligence in finding the company that you wish to work with is crucial when deciding which umbrella you wish to work with.

Every employee will have a tax code, provided by HMRC, and used to calculate the amount of tax that needs to be deducted and paid to HMRC from the Contractor's/Freelancer's gross pay.

When requesting an illustration from an umbrella company, check that the umbrella use a standard tax code, which is 1250L, or your tax code if you know it and have it to hand (for every £2 that you earn over £100,000 your personal tax-free allowance will reduce by £1).

Before accepting a pay calculation (illustration), you should make sure the umbrella has asked you about pension contributions, student loans and any additional deductions that may come out of your pay; any one of these could significantly affect your net pay and may have been a deciding factor in your decision to go with your chosen umbrella company.



HOLIDAY PAY

In March 2021 there was a BBC Moneybox programme that exposed a "compliant" FCSA umbrella company for keeping accrued holiday pay for themselves when it should have been paid to the contractor. Part of the work that we are doing at Contractor Voice is to raise awareness of this practice and ensure that as many contractors/freelancers know how their holiday pay is calculated and managed so that they do not fall foul of the umbrella companies that flout the holiday pay legislation and retain the payment, intended for the contractor, as their own.

Holiday pay is calculated at 12.07% of a contractor's gross taxable salary. This 12.07% of your gross pay (the amount that the end client is billed by the agency) is allocated to show holiday pay on your payslip. This means that contractors are no better or worse off, and holiday pay is included in the amount you're paid for working on your assignment. It's essential that holiday pay is understood before accepting a position because it's an amount that needs to be considered in the assignment rate. Umbrella company contractors can usually have holiday pay paid to them in two ways.



'Rolled Up' - This is calculated for every day that you work and then paid to you every pay day in your net pay

'Accrued' - This is retained by the umbrella company and then paid to you on request



Compliant umbrella companies will deduct a margin from their employee's gross pay, which covers the umbrella company's administration and business costs. This should be the only income that the umbrella company receive; all other deductions (such as Tax and NI) are sent to HMRC on the employee's behalf. An umbrella company's margin can vary and most companies charge between £10 - £30 per time sheet.

Employer's National Insurance - This is paid to HMRC for each employee working for an employer; it equates to 13.8%.

The Apprenticeship Levy - This is a government deduction that larger organisations need to contribute to and, because umbrella companies often employ thousands of employees, it is mandatory that this deduction and contribution is made; the Apprenticeship Levy equates to 0.5% of the company's overall wage bill.

In April 2020, the Government introduced the Key Information Document, with the intent to increase pay transparency for agency workers. An agency should provide a contractor with a Key Information Document before undertaking an assignment. This will detail a tailored take-home pay projection that will assist in understanding the earning potential (all deductions, inclusive of employment costs, are taken into account). Key Information Documents ought to be issued for each assignment and both APSCo and REC have provided guidance to their members surrounding the distribution of a KID to agency workers.

Here at Contractor Voice we want to help you with any queries you may have so don't hesitate to get in touch with any questions you may have.

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