

LIMITED OR UMBRELLA COMPANY?

If you are thinking about moving from permanent roles into contracting you need to make sure you set up your business in the best way. You want to minimise your long term tax liabilities while maximising your income.

Your options are to set up a limited company or operate through an umbrella company. Both are viable options and your decision will depend entirely on your personal circumstances.

Limited companies

Contracting via a limited company is the most tax-efficient way to operate. Provided your contract falls outside IR35 (i.e. you're not deemed to be an employee of the client using a limited company as a disguise) you may draw dividends from the company that are not subject to National Insurance (NI) contributions.

Running a limited company does come with additional responsibilities and obligations; you will have to submit annual accounts to Companies House (the registrar of companies in the UK), run the company responsibly and meet your HMRC tax deadlines.

A specialist contractor accountant can help you manage your finances and give you advice around [IR35](#) (the Intermediaries Legislation).

Umbrella companies

If you decided to take this option you essentially become an 'employee' of the umbrella company. You submit timesheets to the umbrella company who will in turn, invoice the end client (or agency) for the work you have done. The umbrella company will then pay you a salary minus deductions for tax, National Insurance, expenses, the umbrella company's fee, and any other pre-agreed costs.

This option is not as tax efficient as running your own limited company but it does mean you don't have the responsibilities and obligations that limited company directors have.

By using a third party organisation there is also an element of risk as you are reliant on the umbrella company to collect your money from the client or agent and then to pay you. This is why it is important to choose the right umbrella company if you are going to take this option.

We have many contractors running their own limited company and just as many contracting via an umbrella company. The option you choose is totally down to your personal circumstances and preferences. For more information and advice visit the [Contractor UK website](#).

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