

Limited vs Umbrella

Here we will look at the benefits of going limited versus working through an umbrella company. We will compare the two and review the advantages and disadvantages. We will also provide take-home pay calculations for different fee base scenarios.

Limited Company	Umbrella Company
Advantages	Advantages
Tax efficient and can claim more expenses.	Suitable for short term assignments 3-6 months or less.
Take advantage of the flat rate VAT scheme, the 5% allowance and the employment allowance.	Removes all administrative burden of running a business.
Retain risk and control.	Salary received net of Tax and NI so no further deductions.
Many clients prefer to deal with limited companies.	Suitable for Contractors starting out and trying out contracting for the first time.
Disadvantages	Disadvantages
Company is in the public domain and therefore your affairs are less private.	Expensive. Umbrella fees are high and you can claim less expenses.
Administrative burden of record keeping.	Many clients prefer to deal with limited companies.
Accountancy fees.	Lack of control as the umbrella company controls the finances.
Note	Note
A limited Company is always financially beneficial for long term contractors whether working within or outside IR35	A contractor would only consider an umbrella company if working within IR35.

When considering Umbrella versus Limited it is easily proven that Limited is always the best solution in terms of maximising take-home pay. It has to be because you can claim more. The % take home pay when operating through a limited company is significantly greater than that of an umbrella company.

The financial benefits of operating through a limited company can be summarised as follows when working outside IR35:

- Contractors can take advantage of the flat rate VAT scheme
- Apply the 5% deduction rule
- Receive employment allowance up to £3,000/year
- Multiple directors/shareholders of the company can each claim the £5,000 dividend allowance.
- Accountancy fees are no more expensive than umbrella company fees and you can roughly budget the same amount. In fact at Tax Compute our fees are just £80/month plus VAT compared with £100 to £120/month for most umbrella companies.
- Improved payment terms, greater cash flow.

Working through an umbrella company is always a more expensive option. So why do some Contractors use them? Well, the main argument is that all the administration is done by the umbrella company leaving the contractor to concentrate on their chosen profession. All the contractor has to do is send in a timesheet and his expenses and everything is done for him.

But what is the administration for a contractor if he/she operates through a limited company? Probably very little more than an umbrella company. If you decide to use Tax Compute all we expect you to do is send in your monthly invoice(s) and a list of your expenses together with receipts. We do the rest. No more than sending in your timesheet and expenses to the umbrella company. Probably a fraction more work at year end but nothing significant. Certainly not enough to justify forgoing significant financial benefits.



In summary we believe a limited company is always the best solution for long term contractors either operating in or outside IR35.