

Personal Service Company v Umbrella Company

What is a personal service company?

You would become the director and shareholder of your own limited company. The company is a separate legal entity which means that it has its own assets and would provide the services in its own name. The directors of the company would be responsible for managing the company's affairs and submitting relevant documentation to the authorities. You would have ultimate control over the money owned by the company and its activities. This is a very tax efficient way of operating with good options for the reclaim of expenses. However, there is some admin involved and you need to ensure that you are comfortable with your IR35 position.

Advantages

- The most tax efficient option
- Wide range of claimable expenses
- Tax planning opportunities
- Full control over your affairs
- Personal liability is limited

Disadvantages

- Can be costly if only contracting for a short period before employment
- May not be worthwhile for low value contracts
- Need to ensure not caught by IR35
- Some paperwork necessary

What is an umbrella company?

In effect, you personally would become an employee of the umbrella company. You will submit timesheets to the umbrella company who will invoice on your behalf. When the money comes in, they will deduct their fees, tax and National Insurance, and pay the remainder out to you as salary. This is a simple way of working but is expensive from a tax perspective with very few expenses claimable, if any.

Advantages

- Simple to operate
- Good if IR35 would apply
- May be better if you have a low income
- Good if only contracting for a short period & likely to return to employment

Disadvantages

- Taxed as though you're an employee
- Few expenses claimable
- Reliant on others to collect your money

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Rob Mitchell
Mitchell Taylor Workshop Ltd

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