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Umbrella companies remain best option for construction contractors

- **Unions protesting against use of umbrella companies – but they are picking the wrong target**
 - **More transparency from umbrella companies on costs could help the situation**

Lobbying by the construction workers' unions against umbrella companies is misguided, as they provide the best option for freelance construction workers to manage their tax affairs, says NoPalaver Group, a leading provider of accounting services to contractors.

NoPalaver expects increased criticism of umbrella companies after a parliamentary meeting and protest on November 26th against the use of umbrella companies and the impact this model has on construction workers, organised by the Union of Construction, Allied Trades and Technicians (UCATT) and Unite.

NoPalaver says that as long as construction companies continue to prefer to use freelance contractors to complete short term contracts demand to use umbrella companies will remain high. NoPalaver says that where an umbrella company has transparent costs it should offer freelancers in the construction sector the most attractive, tax efficient option for those workers to continue to work as freelancers.

NoPalaver explains that HMRC's introduction of "Onshore Employment Intermediaries" legislation in April to tackle what it saw as false self-employment has led to a rise in the use of umbrella companies by contractors in the sector. That legislation pushed all construction sector contractors away from being paid as self-employed through a third party and into umbrella companies - as this was one of the few routes by which they could retain their freelance status.

NoPalaver explains that there are few practical alternatives to umbrella companies for construction contractors. Construction companies are unwilling to hire short term contractors as full-time employees and the high administration costs that are necessary to operate through a limited company ensure that this model is also not suitable for many contractors.

NoPalaver says that although some construction workers have seen a fall in net income since the new rules were adopted, the structure of umbrella companies is not to blame.

Take home pay for some construction workers has fallen because the rate paid to umbrella companies by some construction companies did not cover the extra cost of employers' National Insurance Contributions (NICs) when the new rules came into force. Employers NICs needs to be paid so the workers' umbrella companies have been forced to deduct this from the amount they have received for that worker.

Graham Jenner, Director at NoPalaver, continues: “Some contractors are receiving smaller pay packets as a result of these rules and are directing their anger towards umbrella companies.”

“The pressure on umbrella companies from the unions is misguided as many have forgotten or not realised the role that construction companies have played in this problem. They have pushed the burden of meeting National Insurance costs onto the shoulders of the workers – hitting their take home pay.”

“Unions mistakenly believe workers are being unfairly treated by umbrella companies so are putting pressure on them - but they should be asking the same questions of the construction companies.”

“This is not an issue that is set to go away, so all parties need to reach a consensus about how to best move forward.”

“Umbrella companies can help by being more transparent on costs that have to be deducted. If a contractor gets hit with a big deduction they weren't expecting, that can cause major problems for their personal finances, so transparency is a major part of any umbrella company's core service.”

NoPalaver explains that the benefits of using umbrella companies to contractors include:

- Potential for low overheads - setting up a limited company can be costly and time-consuming, using an umbrella eliminates these costs. Due to the high administration costs, it may not always be worthwhile for a contractor in the construction sector to operate through a limited company
- The flexibility offered to the contractor - there is no need to spend time and effort on tasks which do not generate revenue such as billing and chasing payment

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About NoPalaver

The NoPalaver Group provides accountancy, taxation and payroll services to agencies, businesses, contractors and personal service companies. The NoPalaver Group includes:

- NoPalaver Accountants, which provides specialist accountancy support to contractors working through limited companies.
- NoPalaver Umbrella, which employs and payrolls contractors in all sectors.
- NoPalaver CIS, which helps construction companies, agencies and sub-contractors in the construction industry with self-employment status, payroll and CIS tax issues.
- NoPalaver Contractors, which assists contractors in other industries with employment status issues.
- NoPalaver International which provides solutions to contractors, agencies and employers working overseas or bringing workers from overseas to the UK.

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