



# A Recruiter's Guide to Working With an Umbrella Company



# An Introduction to Umbrella Companies

Umbrella companies began to form 20 years ago, in response to the very real need of contractors for organisations to help them deal with tax and National Insurance issues if they found themselves inside IR35, to legally manage their income, and to ensure that they got paid in a timely and compliant manner.

Nowadays there are around 500 umbrella companies operating in the UK, dealing with over 400,000 contractors, but choosing the right umbrella company – one that's compliant and offers products and services that help you do your business more effectively – can be confusing.

We've produced this guide to help recruiters make an informed decision about which umbrella company they partner with; we'll discuss how an umbrella company can enhance a recruiter's business and reputation, while saving them time and money too.

## Who is this guide for?

As a recruiter you play a vital role in the recruitment partnership of payroll, productivity and personnel. Umbrella companies help contractors with their pay and help recruiters with their payroll, among many other things.

This guide is for recruiters who are new to the concept of umbrella companies, those who are already familiar with them and wish to refresh their knowledge, and those who need to explain the idea of the benefits of an umbrella company to both end-clients and contractors alike.

## How to use this guide

We've developed this guide to offer information in straightforward sections covering all aspects of umbrella companies, their relationship with recruiters, how choosing the right umbrella is so important, and how partnering with an umbrella company can benefit a recruitment agency both reputationally and financially.

We'll cover the concept of an umbrella company, choosing the right one, creating good communication channels, establishing clear agreements and service levels, streamlining candidate placements and engagement, making the most of the marketing and business development support you'll receive, and the importance of staying compliant.



# Step 1: Understanding the Role of an Umbrella Company

This section will help you gain a clear understanding of the umbrella company's purpose, and how it operates within the recruitment ecosystem. You'll also discover the key benefits of partnering with an umbrella company, which include streamlined payroll processes, tax compliance and administrative support.

## What is the role of an umbrella company?

An umbrella company is typically defined as “a business often used by recruitment agencies to pay temporary workers”. On the simplest level this is true and accurate, but an umbrella company can be so much more than that.

Umbrella companies act as employers for contractors who are 'inside IR35' and are, therefore, subject to the off-payroll working rules. These are regulations that the Government introduced as anti-tax-avoidance measures to try and ensure that contractors paid the same tax and National Insurance contributions as their traditionally-employed colleagues when they perform similar roles.

When a contractor becomes the employee of an umbrella company they gain all the benefits and protections of a traditionally-employed individual – full entitlement to UK employee statutory rights such as sick pay, holiday pay, maternity and paternity leave, and the option to contribute towards a workplace pension scheme – while still maintaining their freedom to work where and when they choose.

However, the benefits that an umbrella company can offer to contractors are only half the story. They can also offer recruitment agencies valuable support services to enable them to run their businesses more efficiently and effectively.

As well as the contractor services that umbrellas offer to recruitment agencies, such as speedy onboarding, supporting with tailored Key Information Documents (KIDS), and administering all of the employment rights that contractors are entitled to, umbrellas also offer recruitment agencies support and services such as:

- **Free payroll services**
- **Quick and easy registration process**
- **Automated and streamlined invoicing process**
- **Quarterly Employment Intermediary reporting**
- **Cost savings on payroll administrative staff**
- **Compliance with all HMRC legislation**
- **Payments reported via RTI (Real Time Information)**

When you partner with an umbrella company you become just that – a partner in the true sense of the word. By making the most of the combined strengths of your recruitment agency and the umbrella company you've partnered with, you have access to an additional range of resources that can help your business not only succeed but thrive.



# Step 2: Identifying the Right Umbrella Company

With the increase in new umbrella companies over the last few years, choosing the right one to partner with can be difficult: the choice is wide and varied and many seem to offer the same products and services. So, who are you to trust when it comes to making this vital decision?

The number one issue to be aware of when you're looking to partner with an umbrella company is compliance. Without the guarantee of complete trustworthiness and adherence to all the relevant legislation, recruiters run the risk of putting their reputation and the livelihoods of their contractors on the line. Look for an umbrella company that regularly updates its policies and procedures in accordance with changes to tax or employment legislation and complies with all the responsibilities that go along with handling IR35 issues, Tax and National Insurance Contributions, Agency Workers Regulations (AWR) and Workplace Pensions for complete peace of mind.



The number one issue to be aware of when you're looking to partner with an umbrella company is compliance

When you're compiling your [Preferred Supplier Lists](#) (PSLs), you should only consider umbrella companies that align with your own agency's values and requirements – things such as honesty, integrity, respect, trust and transparency. In this way you can be sure that you're working with people who share your commitment to providing a service that you can be proud of and which will benefit your agency, your end-clients and your contractors.

In order to achieve this you need to conduct background checks on the potential umbrella companies so that you can fairly evaluate if they are well-suited to your agency's needs – how long have they been in business? What industry expertise do the directors have? What services do they offer?

Due diligence before the point of contact will enable your relationship with the umbrella company you choose to be successful.



# Step 3: Establishing Effective Communication Channels

Initiating open and regular communication with the umbrella company you choose will build a strong working relationship. We discussed the topic here and emphasised the importance of open and honest communication in order to both serve your end-clients and contractors well but also get the most from your umbrella partner.

The reason that good communication is so important, especially when dealing with an umbrella company, is so that everybody understands the process exactly – and when it comes to dealing with other people's income there's no room for grey areas.

Take note of the communications you receive from your umbrella company and review them regularly, as you would with any other business partner on your PSL.

- Does their customer service team respond quickly and courteously to any queries you may have?
- Do you have a named customer service team member who knows your circumstances in detail?
- Do they regularly update you on changes to current legislative changes that might affect you or your contractors and end-clients?
- Do they offer individually-tailored KIDs to your contractors?
- Do they offer transparent and easy-to-understand payslips and reconciliation advice for contractors every time they are paid?
- Is their website unambiguous and are there clear contact details so you can speak to someone if you need to?
- Do they make the most of social media and leave a good impression online?

Just as you define communication protocols within your own organisation, you should expect the same levels of proficiency from your umbrella company. Without these protocols miscommunication can occur, misalignment may take place and all parties in the recruitment partnership are at risk of misunderstanding.

In your initial agreement with an umbrella company you should define what you expect from them in terms of communication – who will be your point of contact, how frequently they will contact you, and what kind of information you expect to receive. Clarity at the outset will avoid uncertainty later.



# Step 4: Aligning Contractual Agreements and Service Levels

In the same way that it's important to establish good communication channels with your umbrella partner, it's also vital to establish clear expectations with them at the outset. This is to ensure transparency around how you will both operate throughout your partnership, and to avoid any misunderstandings in the future.

You should be clear about what kind of involvement you want from your umbrella partner. Do you simply need to refer contractors to them or would you benefit from a payroll processing partner who can reduce your administrative burden and free you to concentrate on your core recruitment activities?

Your initial research into and subsequent meetings with your choice of umbrella company will enable you to discuss precisely what you want and what they can offer to improve your levels of professional service to both your contractors and your end-clients.

# Step 5: Aligning Candidate Placements and Engagement

As a recruiter, one of the most rewarding parts of your job is placing people who need work with companies that need workers. Did you know that an umbrella company can help you with that?

By partnering with a compliant umbrella company you can integrate its processes seamlessly into your candidate placement workflow, benefiting your own company, as well as the contractor and the end-client.

An umbrella company offers recruiters the opportunity to share all candidate information promptly, accurately and confidentially in order to facilitate smooth onboarding and engagement. Look for an umbrella that offers simple and speedy registration for your contractors – it should only take a matter of minutes thanks to sophisticated technology – and one that provides a personalised Key Information Document (KID) to each contractor to enable them to understand their assignment, and its terms, immediately.

For example, i4 offers the [My i4 App](#), where contractors can easily see the status of their engagement, access their payment details and more.



# Step 6: Leveraging Marketing and Business Development Support

One of the great advantages of an umbrella partner is the amount of non-payroll support it can offer you. These less-obvious benefits are a result of years of experience and expertise on their part, and can provide marketing and business development support in ways that you might not have considered previously.

Marketing initiatives, co-branded materials, webinars and networking events can all be part of the services that umbrella companies offer, and can raise your profile, enhance your agency's visibility and attract top-tier candidates.

# Step 7: Staying Compliant With Employment Legislation

We hardly need to emphasise how important partnering with a compliant umbrella company is. Failure to do so, even if you were unaware of non-compliant activities, can result in tax investigations from HMRC, fines and public naming-and-shaming, potentially destroying your own and your business' reputation.

When you're looking to partner with an umbrella company it is of the utmost importance that you ensure they are compliant, abide by all tax legislation, and update their policies and procedures to reflect new laws. It's an area they should be vocal and transparent about on their website and they should be proud to emphasise their duty and responsibility to contractors, end-clients and recruitment agencies alike. Their website should offer a full explanation of issues such as IR35 Legislation, Tax and National Insurance Contributions, Agency Workers Regulations (AWR), and Workplace Pensions, and why these financial matters are so important in order to maintain compliance within the law.

When you're doing your due diligence for your PSLs you can avoid partnering with non compliant umbrella companies by the simple method of noting whether they make spurious assertions such as claiming that contractors can retain excessively high levels of their income and still be compliant, paying contractors through 'loans' or 'other payments, making 'additional' payments which are not listed on contractors' payslips, making payments from offshore companies, or offering non-taxable arrangements such as salary advances, profit shares, grants or capital payments. A compliant umbrella company will never offer dubious payment processes such as these. You should also beware of any umbrella company claiming to be 'HMRC-approved' or offering payments which are 'better than PAYE', as they indicate non-compliance.

A compliant umbrella company will offer you advice and information about changes to employment legislation as and when it happens, and will tell you exactly how it will affect your agency and your contractors. In this way you'll be able to leverage their expertise to navigate complex legal requirements, mitigating risks for your agency.



# Finally...

Your partnership with an umbrella company should be just that – a partnership. And as in the most successful partnerships it's a balance of giving and taking that works best. Developing this true partnership can be difficult if the umbrella company you've chosen fails to communicate properly, or leaves you in doubt about legal changes which affect your business, so it's vital to select one that delivers on its promises and lives up to its own exacting and high standards.

Here at i4 Services we have over 18 years' experience of providing compliant products and services to over 11,500 agencies and 39,000 contractors, making in excess of 730,000 payments during that time. Our reputation is our guarantee and we're proud to uphold the highest standards of compliance and service.

If you'd like more information about the products and services that can help your business move forward in today's challenging recruitment climate you can call us, or drop us a line on our contact form [here](#).

We look forward to hearing from you.

 **0800 084 3058**

 **hello@i4services.uk**



