

When you work for an agency you'll often get a couple of options on how you can be paid. Typically, agencies refer to Umbrella and PAYE. Umbrella is a term used for a third-party organisation that provides payments to you on behalf of your agency. PAYE is the standard pay method for most organisations in the UK. Another option is to be paid through your own limited company depending on certain criteria.

What's the difference between Umbrella and PAYE payments?

If you are paid through an umbrella company you become their employee and they process your payments weekly or monthly in arrears. As your employer there are additional deductions shown on your payslip to cover the costs of your employment which are paid to the relevant authorities. The rate of pay offered by your agency is usually higher (than the PAYE rate) to cover the additional deductions. You will normally be charged a fee or 'margin' by the umbrella company for processing your pay. If you are paid PAYE you become an employee of the agency who will process payments either weekly or monthly in arrears. Your agency will make provision for the costs of your employment and pay these to the relevant authorities. This means you are likely to receive a lower rate of pay compared to being paid umbrella. Being paid PAYE does not incur a fee or 'margin'.



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What are the costs of employment?

For every employee in the UK the employer is obliged to pay the following:

- Employers National Insurance – is calculated as a percentage of your total pay and is paid to HM Revenue and Customs by your employer
- Employer Pension contribution – Again, this is a percentage of your total earnings which is paid to the pension company.
- Apprenticeship levy – Introduced in 2016, the government states that a 0.5% levy applies to all workers where the employer's payroll is in excess of £3 Million per year.

How do I decide what is best?

It is often the case that the end result of either the PAYE or Umbrella pay method will be a very similar take-home pay. So, what else do you need to consider?

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| Flexibility | If you intend to work for more than one agency, it is worth considering the umbrella option as this enables multiple agencies to pay through a single account. |
| Reliability and trust | Look for an umbrella company that has industry accreditations. Find out about how you'll be paid and if there are any 'creative' pay schemes be careful as they are likely to be non-compliant which could result in future penalties for you. |
| Additional benefits | Many umbrella companies offer additional benefits for enrolling with them so it is worth asking what they offer. If you can achieve the same take home pay for umbrella and PAYE and one option offers additional benefits, it is probably worth considering that option. |

Compliance without compromise