Article published on March 12th 2012 | Business

An umbrella company is an employer to the employees that work under a fixed contract period. These companies get the employees essentially through the recruitment agencies. What the recruitment agencies would do is, they issue contracts to the limited companies. In this way their liability is minimized. The umbrella companies prepare and furnish the invoices to the recruitment agencies, who are happened to be their clients. When the invoice is paid out for the umbrella companies, they in return pay the contract employees. This is how the system of the umbrella companies function. This system gained popularity in the UK since the introduction of the IR35 legislation. The same system is being introduced in France as well.

Let us have a look at the structure of an umbrella company. These companies work on and process the timesheets that they receive from the contractors and employees. After receiving the same, they process the invoice and send it to the clients for the payment. They also provide the payroll service to their clients on behalf of the contractors. As mentioned earlier, the companies for which the contractors work are the clients. This can be seen in the same company o across different levels. The agency works for their clients in recruiting the contractors.

The job of the contractor is to complete his/her job, fill timesheet and present it to the umbrella company along with any extra expenses that were incurred. These companies generally use PAYE system to calculate taxes on the income of the contractors. The sole difference here is that the umbrella companies charge a fee from their customers for the level of service that they offer. The fee that they charge is small and this is for processing the payroll of the contractors.

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Article Keywords:
umbrella company,umbrella companies

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