Good Future for Contractor Umbrella Companies by Ashley Carron

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The Future is Umbrella Companies

A look ahead for Umbrella Companies

Will Umbrella Companies be abolished or will they thrive?

Are Contractor Umbrella Companies next for the chop?

Why Contractor Umbrella Companies have a future

Survey

According to a recent survey by the Professional Contractors Group there are 1.4 million freelancers in the UK. Of those 570,000 are IT Contractors or around 40%.

Here is the breakdown of what type of freelancers they are.

14% (200,000) are in an Umbrella Company

29% (406,000) are in a Limited Company

29% (406,000) are in Agency PAYE

21% (294,000) are Sole Traders

It is thought that most of the IT Contractors are in either a Limited Company or an Umbrella Company.

It breaks down in favour of the Limited Companies by about 2-1

IR35 Tax

Umbrella Companies have come from nowhere in 1999 after the advent of the IR35 tax to grab a 14% share of the freelancer market and almost certainly an even higher percentage of the IT Contractor market.

Many people thought that they were a temporary phenomenon and that they were just a way of subverting IR35 legislation in order to let contractors claim some tax for their expenses, usually about 5%.

The Government did indeed crack down on what were called Managed Service Companies which were claiming they had special dispensation to give contractors higher rates of expenses.

Many of them are now out of business after the crackdown or have had to change their business model.

Contractors and pundits in the marketplace believed that it was only a matter of time before the Government turned their sights on the remaining ones.

Pundits Wrong

However, it looks as if the pundits have been wrong. There are two reasons for this.

First of all the Government are very happy that 200,000 contractors are now paying a much higher rate of tax than previously and seem happy to let them claim a small amount of expenses.

Also, it is far easier to legislate for a few hundred brollies rather than hundreds of thousands of contractors. It is far more manageable for them.

Advantageous

Contractors will also remember that in their review of IR35 the Government review body said that many contractors would leave the brollies and go back to Limited Companies and the Government didnâ€™t see that as a good thing.

So, will there be more or less contractors in brollies in the future?

As it as advantageous for the Government to have as many contractors as possible in them rather than Limited Companies one would have to say that the Government are likely to act in their own interest in the future. One would expect there to be many more contractors in Umbrella Companies in 5 years time.

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