

# VENTURING INTO CONTRACTING?



# CONTRACTING - TAKING THE LEAP

Starting up as a contractor is an exciting time but can feel daunting. Where do you start, what's involved and how do you even know if contracting is for you? In this guide we explain what to expect, what you need to consider before starting, the pros and cons of the different ways you can set yourself up, and how HMRC legislation affects contractors. There's no accounting jargon, just plain spoken, transparent, assured advice that will give you the clarity and confidence to make the right decisions.



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## HOW DO YOU KNOW IF CONTRACTING IS FOR YOU?

Contractors are skilled professionals who provide their services to end clients under a fixed contract that's usually defined by a fixed period. You're selling your skills and time for an hourly or daily rate and could be appointed either as yourself as a Sole Trader, through your own Limited Company, or through an agency as an Umbrella worker. It's become a popular way of working, with the UK moving away from 'a job for life' attitude and towards 'a life of jobs' as employees increasingly choose a more flexible approach to work and life.

### Everyone has their own reasons for choosing contracting. The main benefits are:

	<h4>More Money</h4> <p>Contractors are usually paid more than they would earn as a permanent employee doing a similar job. By taking professional advice, you can also reduce the amount of tax you pay as a contractor.</p>	
<h4>Being Your Own Boss</h4> <p>This means you can choose (to an extent) when and where you work and when to take holidays, leading to a better work/life balance.</p>		<h4>Variety Of Experience</h4> <p>By moving from contract to contract and company to company, contractors can develop very varied experience and an impressive CV.</p>

### What's the downside?

So if contracting is so great, why isn't everyone doing it? As well as only being workable for those with certain types of skills and experience, the contracting life itself isn't for everyone. Before taking the leap, it's important to do your industry research; check whether your skill-set is in high demand or if you have a niche skill that's hard for clients to come by. You can do this, and also research potential day rates by searching the relevant job sites for your industry.

The nature of contracting means that there's no guarantee of another contract when one ends, and you won't be paid sick or holiday pay either. You'll need to consider keeping some savings back to tide you over should you have a break or are ill. Contracting can be lonely, and being your own boss means you'll need to make decisions about the running of your business and your future. There are some great online forums for contractors where you can pick the brains of experienced contractors though, and partnering with a specialist contractor accountant like Intouch, will prove invaluable.

## DECIDING WHAT YOUR BUSINESS MODEL SHOULD BE



So, contracting is for you, but where do you start? It can be daunting, but fear not! Here you can find out how to take the first steps, what decisions need to be made and how best to prepare yourself. One of the first things to consider is how to set yourself up to work as a contractor. There are a number of different business models to choose from:

### FORM YOUR OWN LIMITED COMPANY

A Limited Company has its own legal identity in the eyes of the law, so as a contractor you would be a director of your own company and would be employed by it. The company would pay corporation tax on any profits made with your personal tax liability being calculated according to the income drawn by you, usually from a combination of salary and dividends. This business structure takes a bit of setting up, but can be the most tax efficient way of contracting with the added benefit of limited liability, meaning your personal assets are protected.

### CONTRACT AS A SOLETRADER

As a Sole Trader, you would be self-employed, owning your own business. Your personal tax and National Insurance liabilities would be calculated based on the profit made by you, and you would also be personally liable for any losses. It's very simple to set up as a Sole Trader, but many clients will not work with Sole Traders due to HMRC legislation, it's not necessarily the most tax efficient way of contracting and your personal assets are not protected should something go wrong.

### CONTRACT UNDER AN UMBRELLA COMPANY

An Umbrella effectively creates an over arching contract between you and the end client. The Umbrella company deals with your admin, tax and payroll. The client pays your Umbrella company which deducts their fee, National Insurance and income tax and passes what's left on to you.

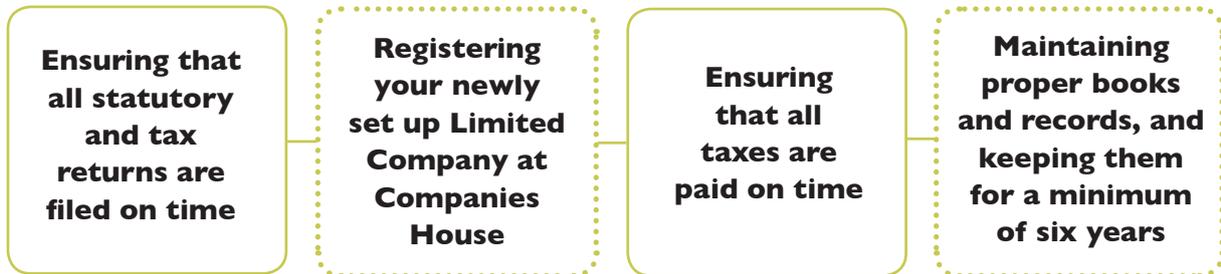
This way of working is very simple to set up but less tax efficient than the other routes as you're effectively treated as an 'employee' from a tax point of view.

## Which business model is right for you?

It's a really good idea to start getting advice from a specialist contractor accountant even before you make this decision, as the choices you make now can make a real difference to your tax efficiency later. As a rule of thumb, if you earn over £140 a day and are likely to be contracting for at least six months then you can keep more of your pay by contracting through your own Limited Company. Contractors working on Public Sector assignments may be obliged by their clients to use an Umbrella solution due to legislative restrictions in the sector (more about this later). Intouch Accounting will be able to advise on the best set-up for your personal circumstances.

## YOU'VE DECIDED TO GO LIMITED - WHAT'S NEXT?

Being Limited is fantastic for those who see contracting as a long-term option and are earning enough to see the benefits from tax relief. As a Limited Company director you will have certain legal responsibilities. These include:



Most people will choose to use an accountant to look after their accounts and statutory returns and many accountants will set up your company for free when you join them. You'll be talked through the relevant decisions you need to make about company structure and then sent a formation package with all the relevant paperwork to sign.

So if you are looking to start up as a Limited Company contractor, one of the first things you might consider is choosing an accountant. A good contractor accountant will be able to offer all the professional advice needed for getting set up, as well as managing the financial nitty gritty, and advising you throughout your trading year.

### How to choose a Limited Company accountant

As with all services, it's worth asking around (almost half of our business comes from recommendations). Doing some online research and reading reviews in order to draw up a short list is also a good idea. Some of the things you could consider are:

#### 1 Help getting started

When you're just starting out, finding your first contract will be a priority, and it's understandable that you wouldn't want to pay out for an accountant before you know you'll be working. At Intouch we recognise this and will be happy to advise you in advance of getting your first contract prior to signing up with us.

Getting in touch with the accountants on your shortlist at an early stage means that you can ask all those questions you have about getting set up, and it's also a useful way of identifying the right accountant for you.

#### 2 Choosing a specialist

A specialist contractor accountant will understand how you work in practice and they'll be best placed to give advice. You'll need someone up to date with the latest industry thinking on legislation such as IR35 (more on this later), and who will make sure that you are fully compliant with HMRC returns and deadlines. So demonstrable experience in dealing with contractors and freelancers is a must.

If you're not yet Limited, we would set up a company for you and register it with HMRC. If you're already Limited, we can swap you over to our books quickly and easily. We would also deal with financial issues and paperwork on your behalf...leaving you with more time to focus on winning work and doing what makes you a success.

### 3 Check who you'll be dealing with

It's brilliantly simple these days to manage your accounts online and you can happily deal with accountants purely by phone and email. But many online accounting software providers are just that – only online. It's really just the software you're paying for. Others add on a phone or email help desk manned by client managers who field queries for accountants. This can be frustrating; when you have a question about your finances, you want an answer straight away.

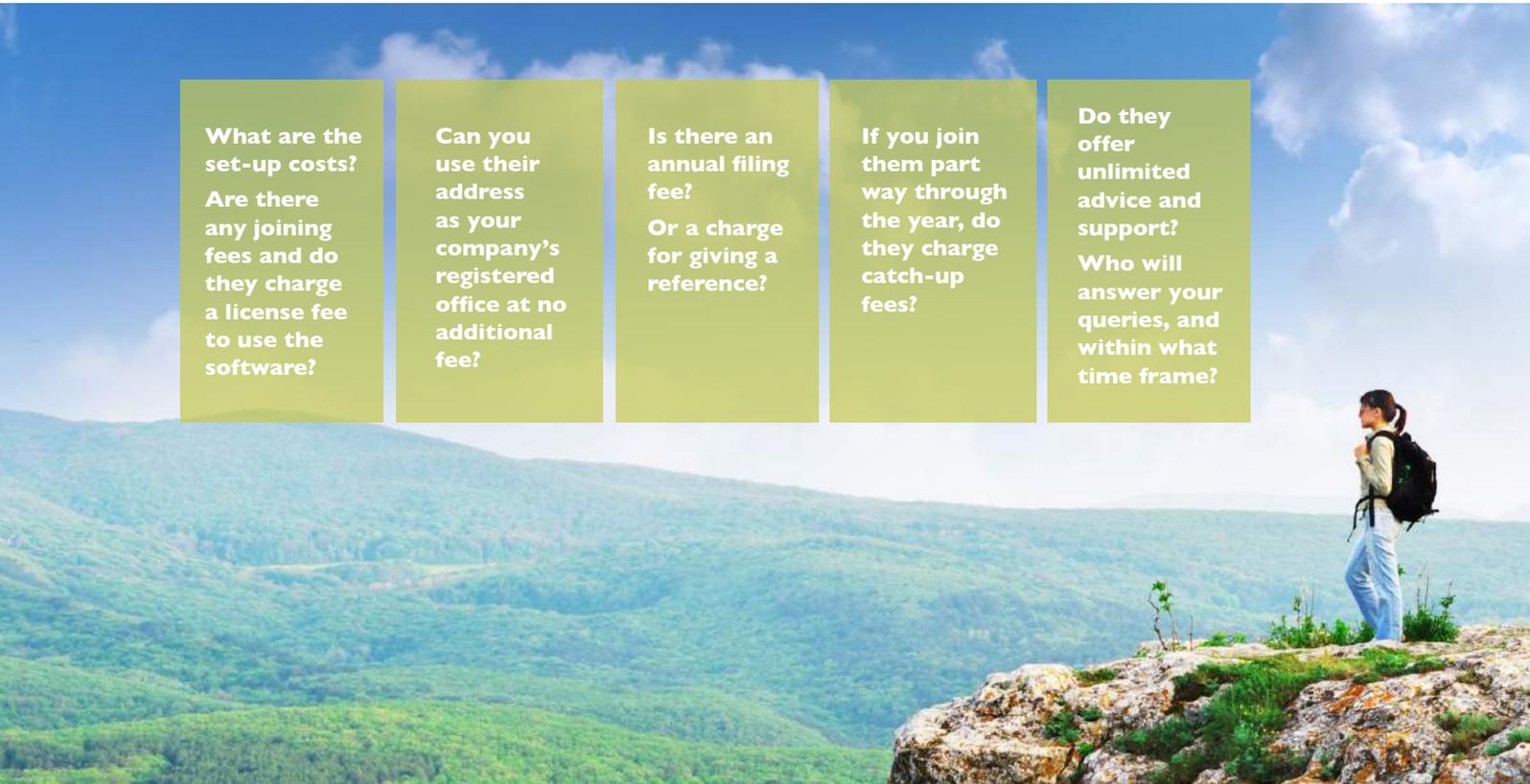
When you join Intouch, you get access to one of our Personal Accountants and their direct line, so you can speak as often as needed.

### 4 Fees - do they add up?

Most contractor accountant companies charge a monthly fee to cover their services so that you don't get hit with big bills at busier times of the year, such as when your tax return is due. At first glance, some appear to be much cheaper than others but, as with many things in life, what you see is not always what you get.

If you're looking for more than just the basics and want an accountant on hand for advice and to take a pro-active approach to your accounts, a personal service from a dedicated accountant is a must, and perhaps worth a slightly higher monthly fee.

Look at the detail too – what's included in that monthly fee, is it really 'all inclusive' or are there added extras?



**What are the set-up costs? Are there any joining fees and do they charge a license fee to use the software?**

**Can you use their address as your company's registered office at no additional fee?**

**Is there an annual filing fee? Or a charge for giving a reference?**

**If you join them part way through the year, do they charge catch-up fees?**

**Do they offer unlimited advice and support? Who will answer your queries, and within what time frame?**

Costs can add up quickly, so transparency is key; choose an accountancy provider that is truly inclusive of all the regular compliance and advisory services you will need. And one that is clear about any additional costs for one-off services that you may need at some point.

## ALL ABOUT IR35



IR35 is tax legislation introduced to combat tax avoidance by workers supplying their services to clients/hirers via an intermediary such as a Limited Company, or in contracting terms a 'Personal Services Company' (PSC), who would otherwise be an employee. HMRC refers to these individuals as 'disguised employees'. If 'inside' IR35, you're considered a permanent employee and will be taxed as such, either via payroll or an Umbrella Company. If 'outside' IR35, you're considered to be self-employed and will be entitled to structure your remuneration so as to benefit from the lower rates of tax that apply to dividend income.

### How is your IR35 position determined?

HMRC have a set of rules to determine if you're working inside or outside of the IR35 legislation. The rules relate to the way you work as well as the actual contract details, so you'll need to consider IR35 for every new contract you undertake and regularly review your working practices. The rules aim to identify whether you're actually working and behaving as you would if you were permanently employed doing the same job:

#### Personal Service

If your Limited Company has the right to provide someone other than yourself to deliver the services that it's contracted to provide, then this would strongly indicate that you're operating outside of IR35.

The level of control that your client has a right to exercise over your working practices impacts on whether you'll be inside or outside of IR35. If you're in charge of when and where, but most importantly how you work, you're less likely to fall within IR35.

#### Control

#### Mutuality of Obligation

As an employee you're obliged to go to work at certain times and days of the week and there is an obligation to pay you even if the work dries up. If this describes you, then you could be 'deemed employed'. A higher level of obligation implies that IR35 might apply.

These basic rules are easy to understand, yet applying those rules and determining employment status can be far more complex. A specialist contractor accountant such as Intouch will be able to review your contracts and working practices on a case-by-case basis and advise on your IR35 status.

## WHO DECIDES WHETHER YOUR CONTRACT IS WITHIN IR35?

### IR35 in the Private Sector

If your contract is with a Private Sector client, currently it is your responsibility to determine your status under IR35 and you bear the tax risk if you get it wrong. HMRC do carry out IR35 investigations, and if you have determined that your contract is outside of IR35 but the authorities decide that you're 'deemed employed', there will be more tax to pay and HMRC could apply tax retrospectively. This is why it's useful for you to take professional advice to determine your status. Working with a specialist contractor accountant offering unlimited IR35 reviews included in their fee really pays off.

### IR35 in the Public Sector

When working in the Public Sector, hirers will have to determine the employment status of the contractors they engage. Having determined the contractor's status, Public Sector hirers will then have to inform the 'fee payer' (often the supplying agency) whether the contractor should be paid net or gross of tax.

IR35 decisions should be carried out on a case-by-case basis (as mandated by HMRC). However, decisions on IR35 are still more likely to be risk averse and some contractors remain wary of Public Sector assignments for this reason. So it's important to remember that although some contractors remain wary of Public Sector assignments, they don't mean you'll automatically be working inside IR35.

## CHANGES TO IR35 IN THE PRIVATE SECTOR FROM APRIL 2020

HMRC have decided to bring the rules around IR35 in the Private Sector in line with the Public Sector from April 2020.

The main change will be that your IR35 status will be determined by the hirer (i.e. your client) and not you, with the associated tax risk also moving to the hirer. The rules used to determine IR35 are not changing so if you're genuinely outside of IR35 now, you should remain outside post April 2020.

However, lack of preparation and knowledge among hirers leading up to this reform could be problematic. Learnings from the Public Sector suggest that some hirers may be overly risk-averse in their assessments and deem more contracts to be inside of IR35 as a result. This proved counterproductive in the Public Sector as contractors were left feeling frustrated, with little option but to stop working on Public Sector projects. The result was a major talent drain and projects put at risk. It's essential that Private Sector hirers learn from these mistakes and seek expert advice so as to retain their valuable contractor resources.

Accountants like Intouch, who are dedicated to supporting contractors, will be actively engaging with agencies and end hirers to ensure that the rules are applied properly and the impact upon contractors is mitigated.



### IR35 specialist law firm support

- IR35 specialist law firm support
- Actively advising end hirers to mitigate 2020 impact
- Keeping you up to date with legislation

## WHAT ELSE DO YOU NEED TO THINK ABOUT?

When you're a director of your own Limited Company, you'll need to decide things like how much salary to take versus paying out dividends to your shareholders (you!), your VAT options and what are legitimate business costs that you can put through your company.

At Intouch, we would explain and advise on all of these issues as well as any new legislation that might affect you and your business.

When you set up your first Limited Company, you'll also need to open a business bank account and consider the appropriate insurances.



### BUSINESS BANKING

#### Why do you need it?

As a Limited Company contractor, by law you must open a business bank account, to ensure your personal and business finances remain separate. New companies can be formed in a matter of hours, but setting up a new company bank account can take a little longer.

#### Who can help?

**Metro Bank** offer a specialist bank account for contractors with free banking and a mobile banking app. Ideal for busy professionals on the move. We work with Metro Bank closely to ensure speedy opening of new accounts and automatic transfer of banking data into our portal.

### INSURANCE

#### Why do you need it?

When you provide services via your Limited Company it's important to protect your assets with insurance. For almost all contractors a requirement to be insured will form part of your contract with agencies and/or clients. If your actions as a contractor lead to property or reputation being damaged, injury to an individual or financial loss to a client, it may result in a claim against you or your company.

There are a number of insurances that you may consider; Professional Indemnity Insurance is often required by the employer, with Public Liability cover optional. You should ensure that any business assets are covered either by your home insurance or a separate policy, and don't forget car insurance and business travel cover!

#### Who can help?

There are a number of providers of insurance specific to contractors, supplying packages that include all relevant cover. Intouch recommend **Kingsbridge Contractor Insurance** to any Limited Company contractors looking for a complete business insurance solution.



# New to Contracting?

Join Intouch for specialist support in setting up your business, maximising your take home pay and remaining fully compliant

**Join Intouch and we'll be with you every step of the way**, supporting you with the day-to-day running of your business and helping you to maximise your take home pay, while staying on the right side of the taxman.

## All inclusive service for just £105 +VAT per month

No set-up fees, no tie-in periods, no leaving fees.

Everything you need to set up and run your Limited Company from an accounting and tax point of view:

- Free company set-up and use of our address as your registered office
- Help setting up your bank account and insurance
- Unlimited expert advice from your dedicated Personal Accountant
- 24/7 access to your accounts via our online portal
- Expert IR35 guidance
- All HMRC and Companies House returns completed and filed
- Access to contractor-specific mortgage, wealth and protection services

## Expert IR35 guidance - all part of the service

### Clarity

#### Unlimited IR35 reviews

- Contract and working practices covered
- Practical end-hirer ready output

### Protection

#### Switch between Limited and Umbrella

- Minimum disruption – just one call
- Finances kept up to date and in one place

### Support

#### IR35 specialist law firm support

- Advising end hirers to mitigate 2020 impact
- Keeping you up to date with legislation

## It's easy to set up your new business with Intouch

### 1 Set up

Fill in one simple form and we'll do the rest – your business will be registered within 48hrs

### 2 Sign up

We'll call to finalise the sign-up process over the phone...now you're ready to go

### 3 Chat & plan

Get to know your dedicated Personal Accountant, share goals and familiarise yourself with the portal

### 4 Learn & earn

You're done! Read our guides and talk to your Personal Accountant anytime as you build your contracting business

## Don't just take our word for it



**50%** of all our contractors have been referred to us by a friend or colleague



We have an **'excellent' 5 star** Trustpilot score



We've won **'Best Contractor Accountant'** in the reader-voted ContractorUK Reader Awards for three years running



Freelancer and Contractor Service Association (**FCSA Accreditation**) - recognised as the industry's compliance gold standard.

Any questions, or ready to get set up? Call now on 01202 901 385

