

A Guide to Start Thinking about Contracting

Chapter 1: Introduction

If you are new to the world of temporary work or contracting, it is likely you have a comprehensive list of questions that you would like answered. Here at JSA, we like to provide impartial advice to those that are considering contracting. This guide is designed to answer some of the frequently asked questions that we receive on a daily basis from hundreds of prospective contractors all around the UK

As a leading provider of accountancy services, recognised as a Quality Accountant by the Professional Contractors Group (PCG), we welcome the opportunity to share our expert advice with you.

Becoming a contractor does bring risks, but the benefits can far outweigh them. If you are seriously thinking about contracting, it is important to think about all aspects of this way of working and this guide will help you do it.

Chapter 2: Benefits vs Drawbacks

If you are trying to establish what exactly you will get out of contracting as opposed to being in full time employment, this table should be useful:

Benefits	Drawbacks
Flexibility about when and where you work	Reduced job security
Build up your experience through working for a variety of employers	May have to work away from home if you need to take a particular contract
Be your own boss	
Increased pay rates and opportunities to reduce your tax bill	
Build up your network, meeting a variety of people with different skills along the way	



What professions are suited to contracting?

There are a wide variety of professions that are suitable for contracting. If you have a specialist skill in your area of work, you should be able to work as a contractor successfully.

Chapter 3: Finding the work

When looking for a contract, you have two main options:

Source the work through a recruitment agency – there are thousands of agencies in the UK, many of which specialise in specific industry sectors. Sourcing your work through an agency is probably the most common way to find work as a contractor.

Source work on your own – if you have a strong network of clients that will want you to work on small jobs for them, you are in the fortunate position of being able to deal with them directly, cutting out the need for a recruitment agency.

Chapter 4: Me, Myself and I

Contracting is a competitive environment and to be a cut above the rest you need to be different, flexible and willing to develop your skill set along the way. Here is a list of some of the things that you can do to improve your chances of being offered a contract:

- **Promote yourself** – there are a whole range of sites where you can promote your skill set, experience, availability and personal ambitions. Some of these sites you may want to visit are:
 - **Linkedin.com** – this is a fantastic networking site where you can interact with potential clients, agencies and others working within your industry.
 - **Freelancesupermarket.com** – you can be rated as a contractor on site such as this. You will also have access to the latest news related to the contractor community.
 - **Contractoruk.com** – one of the more reputable contractor communities where you can receive some great advice, job opportunities and up-to-date news from fellow contractors. There is one thing you should not be, and that is afraid to promote how good you actually are at what you do.
- **Create a great CV** – again, this is all about differentiating yourself against the next applicant.
- **Continually improve your skill set** – you should always seek to improve your skill set through relevant courses which will enhance your chances of landing future contracts.



Chapter 5: IR35 legislation

What is IR35?

IR35 is a piece of legislation that was introduced in April 2000 as a way of preventing Limited Companies from taking a dividend where they acted as an employee, thus forcing people who were caught by IR35 to pay PAYE tax and class 1 National Insurance Contributions (NICs). The two main ways of establishing whether you fall within the legislation are:

- **Your written contract:** This will detail information such as pay rates, notice periods, job specification and other important elements.
- **Your working practices:** This is basically the job specification (i.e. what service you will be providing)

How do I stay IR35 compliant?

There are a number of principal factors that need to be considered in order to remain IR35 compliant, especially when entering into a contract. The three main elements to consider are:

Control: it is essential the Service Company maintains autonomy over how, when and where the services are provided, both in the contract and in genuine working practices. The contractor must not be supervised or controlled by the client as if he/she were an employee. Where a client can move the contractor from job to job due to the changing priorities, there will be a right of control over what is to be done and this is a strong indicator of employment.

Right to Substitution: a Service Company enters into a contract to provide a service rather than personal skills and should be able to provide a substitute or engage helpers to provide the service. An employee would provide his services personally.

Mutuality of Obligation: An employer will try to make sure that their employees have a continuous supply of work and will also expect the employees to carry out the work when it requires. A Service Company will do the work it has been contracted to do and will complete the project with no expectation of further work.

When work is regularly provided and accepted over a period of time, HMRC may take the view that “employee” status has been created by custom and habit.

If you are still unsure about your IR35 status, we would recommend that you get your contract reviewed by a specialist. We offer detailed IR35 reviews at JSA so, if this is something that you want, please contact us and we can assist you with this.

There are a number of other elements which can assist in determining your status and you can view these within our guide to IR35 on our website at www.jsagroup.co.uk. Alternatively, if you wish to discuss IR35 with one of our specialist experts, feel **free** to contact us on: **0800 25 26 40**.

Chapter 6: Once I source a contract, how do I get paid?

There are a number of business structures available for contractors. We always provide contractors with unbiased advice to ensure they choose the most suitable payroll or accounting solution tailored to their individual needs based on the information collated on the following subject topics:

- **Length of contract**



- **Basis of pay**
- **Working practice**

As a contractor, you may choose to use one of the following business structures.

- **PAYE**
- **PAYE Umbrella**
- **Personal Umbrella Company/Your own Limited company**

PAYE (Pay As You Earn)

PAYE is a withholding tax in the United Kingdom, the Republic of Ireland, and certain other nations. It is an amount collected by employers on behalf of the government from employees as a provisional payment of income tax on the employee's earnings.

PAYE Umbrella Company

Umbrella companies operate on behalf of several contractors at the same time. Contractors using this structure become employees of the umbrella company. The umbrella will issue invoices on the contractor's behalf, collect payments from clients or agencies, calculate tax and National Insurance contributions and pay them money directly into their bank accounts. This solution is ideal for:

- **First time contractors wanting a quick and easy start-up method**
- **Contractors seeking a simple, cost-effective solution**
- **Contractors caught by the IR35 legislation**

Personal Umbrella Company/Your own Limited company

A personal umbrella company is effectively your own limited company, with yourself as the sole director and employee. You would still receive your net pay directly into your personal bank account, similar to a traditional umbrella company. You would not have to deal with any extra paperwork normally associated with a limited company as JSA's team of qualified accountants will process all the documents required by HMRC and Companies House, as well as making any payments for tax.

Is this solution for me?

The Personal Umbrella solution is ideal for those freelance contractors who work within IR35 and incur few business expenses. If these criteria apply to you then your net pay would be increased compared to the tradition umbrella company as we pass on any financial advantage of operating your company flat rate VAT scheme. In most cases the benefit passed onto you not only covers our fees but leaves you with a bit extra, in some cases over £50 a week extra.



Limited Company

If you fall outside of IR35, setting up and operating through your own Limited Company is likely to be the most tax-efficient way for you to work. The finances of a limited company will be separate from your own personal finances, meaning that you are not personally responsible for any company debts, except in exceptional circumstances. This solution is ideal for:

- Contractors wanting to take advantage of the tax benefits a limited company can offer
- Contractors wanting to take control of their financial affairs

How to form your Limited Company

There are different ways to form a limited company, including setting it up from scratch, buying a ready-made company off the shelf or converting an existing business partnership. At JSA, we are able to assist you in forming your limited company within 24 hours. Feel free to contact us on: 0800 25 26 40 for more information on this.

Do you need an accountant?

If you are running your own limited company, you will need an accountant to help you manage the work and responsibilities involved, including drawing up end-of-year accounts, calculating corporation tax, completing corporation tax returns and preparing VAT returns, if necessary. At JSA, we can take care of all the accountancy issues associated with running a limited company, from assisting in setting up a company bank account to preparing your annual accounts.

Chapter 7: Insurance for Contractors

Insurance is a wise investment for any business. As a minimum you will require business use insurance for your vehicle and property and contents insurance for your business property, if you have one, which could be your home. Here are some of the insurances that you need to consider:

- Public liability insurance will cover you against accidents to members of the public or any damage to property that occurs as result of your business activities, plus legal costs. If you work from home you will need this cover if your clients visit you there. This will protect you if they injure themselves while they are on your premises.
- Professional indemnity insurance protects you against claims of negligent acts, errors, omissions or breach of professional duty. If you give any advice that could make you legally liable, you should have a suitable policy.
- Personal Accident Insurance provides cover for accidental bodily injury which results in death, loss of limbs or eyes, permanent disability or temporary disability within 24 months of an accident which is not an intentionally self-inflicted injury and does not result from illness and which occurs whilst performing occupational duties, including commuting. Your policy should include retrospective cover, so that you are protected from the day you started trading.

If you stop contracting, you should make sure you are covered for at least 12 months afterwards in case a claim is made against you. If you use an umbrella solution, you should be covered by these automatically. If you have or plan to set up a limited company, we can help you source all the appropriate insurance at the most competitive rates within the market.

For more information, feel **free** to contact us on **0800 25 26 40**.



Chapter 8: Preparing for a rainy day

There will inevitably be times when you need a break or are between contracts. You may also need to take time off work because of a family emergency or illness. Despite these unforeseen circumstances, you will still need to cover all your business costs, such as accountancy fees (if you operate through your own Limited Company), money for your tax bills etc, as well as your personal costs, such as mortgage payments and utility bills. You should aim to build up a cash “buffer” that would cover your living expenses for at least six months. If you cannot afford to build up this kind of buffer, you probably cannot afford to work as a contractor.

Chapter 9: Other Financial Considerations

As a contractor, you may struggle to secure mortgages, pensions and insurance on the high street due to your unique working structure. We have teamed up with the Independent Financial Advisors (IFAs) at ContractorFinancials who specialise in offering tailored financial solutions to contractors and freelance workers.

Whether you are new to contracting or a veteran, the specialist advisers can show you how to make the most of your money, avoiding the common pitfalls that freelancing can sometimes present and bridging the gap between your contractor status and the benefits you may have left behind as an employee. Some of the financial elements we can help you with are:

Pensions – significantly reduce your tax and avoid NI payments today by transferring part of your contract into a company-sponsored personal pension whilst also building a tax-efficient nest egg for your future.

Mortgages – take advantage of special arrangements with lenders and save the time and hassle of finding a mortgage or remortgage that reflects your contractor status.

Income Protection – maintain your income in the event that you are unable to work through illness or injury.

Critical Illness Cover - will pay out on diagnosis of a range of medical conditions so that you can continue to enjoy your current lifestyle.

Life Cover – safeguard the future for your family with life cover that will pay out in the event of your death.

ISAs and Investments – make the most of your savings and shelter up to £10,200pa in a tax-efficient Individual Savings Account.

Private Medical Insurance – avoid NHS waiting lists and make a speedy recovery with private medical insurance for contractors.

Chapter 10: Summary

Whether you are a newbie or a veteran to contracting, it is likely you will always have questions. As a firm of regulated accountants providing best advice to thousands of contractors around the UK, we aim to provide free, unbiased advice in the hope we can make contracting seem less daunting and more fulfilling. If you would like to talk to one of our specialist advisors on any of the given topics in this guide, feel **FREE** to contact us on: **0800 25 26 40**.

