



clearsky
contractor accounting

with you all the way

The beginner's guide to contracting

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Our top tips to get you started

Contracting has enjoyed a surge in popularity over recent years – and with good reason. Companies are always on the lookout for freelance professionals to support them on temporary projects because they offer specialist skills.

Whether you're trained and experienced in the field of IT, accounting, medicine, teaching, construction, engineering or the creative industries, then there's scope for you to explore contracting.

The facts

People go into contracting for a range of reasons. Maybe you're looking for a new challenge? Perhaps you want more flexibility to fit work around your lifestyle? Have you been made redundant and want to test the water before you try out a new career? Or maybe your eyes light up at the prospect of doubling your earnings? Whatever your motives are you need to know the facts before you jump in feet first. So here goes:

- You can earn up to twice as much as a permanent employee
- You can claim for expenses incurred as part of your working day
- You have the chance to develop existing skills and acquire new ones
- You'll be able to experience different company cultures and management styles
- You could work in a variety of different industries
- Contracts can vary in length – anything from one day to several years
- You're responsible for finding your next contract, meaning you have to be proactive
- You're responsible for negotiating pay and working conditions
- You'll need to brush up your networking skills and have the confidence to sell yourself
- You'll need to build relationships with recruitment agents
- You only get paid for the work you do
- You may need to commute long distances

The right path?

If the prospect of contracting still appeals after what you've read so far, then it could well be the ideal career path for you. To become a contractor, you'll need to have a formal set-up so you pay the right amount of tax, National Insurance and VAT. You'll also need to think about marketing your services and making sure you charge clients correctly. These are some of the common questions we hear...

- I'm looking to move into a contractor role as soon as possible, how much will my three-month notice period affect my chance of securing a contractor role?
- Are there any official bodies/websites where I can send a copy of my contract for advice on running as a limited company or as self employed through one of the many umbrella companies?
- I'm getting loads of interviews but no one actually wants to employ me, what am I doing wrong?
- I am looking for a new contract role and once I secure one I will need to set up a limited company. Would it be easier and cheaper for me to set this up myself or are there any benefits in allowing my accountant to do this?

But with the Beginner's Guide to Contracting, there's no need for those new to contracting to feel daunted.

Mammoth myths

At ClearSky Contractor Accounting we hear all the myths about contractors setting up on their own and believe us, there are a mammoth amount! Here are just a handful of myths that we're pleased to bust for you.

I'm not good enough to go into contracting

YES you are. You don't need to be the number one expert in your field to make it as a successful contractor. The demand for contractors is driven by the need for a flexible workforce and there are contracts available for everyone of every skill level.

Contracts are always the tedious projects no one else wants to do

NO they're not. Contracting is as interesting and varied as permanent work. A lot of contracting opportunities come about when a business needs a special skill gap filling or when they have a new project that requires extra workers. And remember you also have the freedom to pick and choose which sorts of contracts you go for.

Contracts will always go to the best person for the job

NOT necessarily. You might have all the skills and knowledge to be able to do the job, but if you don't know how to sniff out contracts and win the business, then it doesn't matter. This is why it's vital to ensure you have a high-impact CV, ensure you manage your personal brand and build up effective relationships with potential clients. This means you can prove you're the best person for the job and win the contract.

I can make up my rates as I go along

WRONG. Rates are determined by market demand and it's crucial the rate you charge reflects your skills, as well as the industry norm. Underselling and overselling yourself can prove to be equally damaging when trying to secure contracts.

If I become a contractor then I'll have to deal with all the hassle of tax and IR35 by myself

NOPE. Just because you're a contractor doesn't mean you have to fly completely solo. An umbrella company or specialist contractor/ freelancer accountant can help ease the pressure of paperwork, navigate all the legislations and help you make a success of your chosen career.

Protecting yourself

Once you have decided to become a contractor, you may wonder why you hadn't gone down this route before. The freedom to choose your own hours, be your own boss and make more money are all certainly appealing traits of the job. But it's important to protect yourself ethically and financially by making sure your new business venture is all above board. You need to be accountable to HMRC, as well as pay the right tax, National Insurance and VAT. There are six legitimate options for you to choose from, and it's best to go with the one that will give you the right balance between tax efficiency, administrative responsibility, costs and earnings.

Limited company?

I plan to contract for many years to come and I want to see the results of my hard work rewarded with the most money possible.

You might want to set up your own limited company. This is the most popular option for contractors because it's often the most profitable. Running your own business comes with a certain amount of responsibility. You'll have to set up your company, arrange insurance, look after your finances, check your IR35 status and make sure you're paying the right tax. A specialist contractor accountant like ClearSky can help you with this by taking most of the paperwork burden off your hands.

A limited company is a good choice if:

- You're a freelancer working on multiple projects
- You want to maximise your income
- You've decided to commit to contracting for the long-term
- You're happy to take on the extra responsibility
- You have a specialist contractor accountant to take over the majority of paperwork
- You're happy to manage your own finances and set aside money for tax

A limited company is not such a good choice if:

- You don't want any hassle or responsibility at all
- You can't get your head around the basic principles of tax, IR35, NI contributions etc
- You want to pay tax as you earn (PAYE), instead of being landed with one big tax bill
- You earn below £35,000 a year

Umbrella company?

I've been thinking about going into contracting for a while and have managed to secure a couple of short-term contracts. However, I'm worried about committing to anything in case it doesn't work out. What's my best option?

If you're just starting out in contracting and aren't sure yet as to whether it's right for you, using an umbrella company is the ideal option. An umbrella company essentially acts as a middleman between you and the company you contract for. You're employed by the umbrella company and, for a fixed margin; they handle all the admin concerned with your contract (i.e. invoicing, tax, VAT and National Insurance Contributions). Although you're on their payroll, your pay will be determined by your specific contract agreement, and they'll invoice, chase and retrieve your money for you. They'll also help you claim back all your legitimate expenses, offsetting them against tax.

An umbrella company is a good choice if:

- You only plan to be a contractor for the short term or you want to test the water and try contracting for a while before committing
- You have a natural aversion to paperwork and don't like the idea of completing tax returns
- You want to stay out of the whole IR35 debate
- You travel medium to long distances and claim travel and subsistence expenses

An umbrella company is not such a good choice if:

- You're happy to take on the responsibility of your accounts
- You don't have internet access
- You can't claim much by way of travel and subsistence expenses
- You're a high earner, over £35,000 a year

Agency or PAYE?

I want to do some admin work on a temporary basis to save up to go travelling. Numbers and me don't get on, so I want someone else to sort out all my tax. Help!

People who are looking for temporary positions such as secretarial or bar work might want to consider agency PAYE. Similar to an umbrella company, this option gives you a middleman, in this case, a recruitment agency. The recruitment agency will pay you and sort out your tax and National Insurance Contributions on a Pay as You Earn (PAYE) basis. Unlike an umbrella company though, you are not actually employed by the agency. This means you won't be entitled to rights such as Statutory Sick Pay and you'll be unable to claim back expenses. It's a hassle free choice in the respect that you can offload all of your paperwork, but you might need to change agency with each new contract.

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Agency PAYE is a good choice if:

- You're not interested in the financial benefits of going it alone
- You want someone else to sort out your tax and National Insurance without having to think about it

Agency PAYE is not such a good choice if:

- You don't want to be tied to one agency
- You can change contracts frequently
- You want to maximise your income and claim expenses
- You earn over £35,000

Sole trader?

I want to set up my business quickly and easily – with minimal costs. Although I want to be my own boss, I'm worried about the legal side of things. What's my best option?

Becoming a sole trader is perhaps the simplest and quickest way to get started. You don't need to set up a company; you simply register as self-employed with HMRC. You'll need to complete a Self-Assessment Tax form, which an accountant who specialises in contractors will be able to do for you. There are a couple of issues that put contractors off setting up as a sole trader. Firstly you have to find all of your own contracts, rather than go through an agency. And secondly, you have to pay tax on all your income, unlike a limited company where you might be able to limit the income taxed at higher rates.

A sole trader is a good choice if:

- You work for a number of different clients simultaneously
- You want to reduce your legal responsibilities
- You want to be your own boss
- You want to set up quickly, easily and cheaply

A sole trader is not such a good choice if:

- You want to maximise your tax efficiency and your take home pay
- You don't want the responsibility of finding all your contracts by yourself
- You have longer contracts that last a minimum of a few days
- You are worried about personal liability – because if the worse happens your assets are at risk

Corporate partnership

My wife and I are going into business together. Because we'll be working side by side, we don't mind managing our own finances. How should we go about setting up?

Your best bet might be to set up as a corporate partnership, which is also known as an LLP. This set up is often popular with accountants and lawyers as it has a few extra benefits compared to limited companies and allows for a bit more freedom. It's worth pointing out though that some recruitment agencies might have a concern over the employment risk, meaning it could be difficult to get contracts through an agency if you run a corporate partnership.

A corporate partnership is a good choice if:

- You work with others and want flexibility
- You're a freelancer working on multiple short projects with a partner
- You've decided to commit to contracting for the long term
- You're happy to take on the extra responsibility
- You have a specialist contractor accountant on your side to take over the majority of paperwork
- You don't mind budgeting for your tax bill, which may be paid in one lump sum
- You're happy to manage your own finances

Corporate partnership is not such a good choice if:

- You work alone and have no partners
- You plan to get some or all of your contracts through a recruitment agency
- You don't want any responsibility at all
- You can't get your head around the basic principles of tax, IR35, NI contributions etc
- You want to pay tax as you earn (PAYE), instead of being landed with one big tax bill
- You earn below £35,000 a year

Common law partnership

I'm planning on working with a number of other people on projects for our clients and am happy to manage my own finances. What should I do?

If you're one of several people coming together to provide a range of services to all manner of clients for short-term projects, then a common law partnership could be ideal. This set up gives you more flexibility than either a limited company or a corporate partnership. However, it's not a set up that fits easily into the traditional contracting marketplace. And as with corporate partnerships, recruitment agencies have similar concerns over employment risk, which means they're not always keen to give you a contract so you might have to find work all by yourself.

Common law partnership is a good choice if:

- You want to work with other people, offering a range of services to clients
- You've decided to commit to contracting for the long term
- You're happy to take on the extra responsibility
- You don't mind budgeting for your tax bill, which may be paid in one lump sum
- You're happy to manage your own finances

Common law partnership is not such a good choice if:

- You work alone and have no partners
- You plan to get some or all of your contracts through a recruitment agency
- You don't want any responsibility at all
- You can't get your head around the basic principles of tax, IR35, National Insurance contributions, etc
- You want to pay tax as you earn (PAYE), instead of being landed with one big tax bill
- You earn below £35,000 a year

Getting to grips with IR35

What is it? And when was it brought in?

Strictly speaking it's actually a set of guidelines directing how contractors should be treated for tax purposes by the companies that employ them. The 'IR' part of the name stands for Inland Revenue and '35' represents the number of the press release in which the initiative was announced back in March 1999.

Why was it brought in?

During the 1980s and 90s there was a growing number of freelancers operating via personal service companies. By the late 90s, an increasing number of employees began leaving their job, setting up a limited company and returning immediately as a contractor to do the same job – purely to reduce the amount of tax they pay. The government brought in IR35 as a means of tackling contractors who played the system in this way.

Who has got to pay it?

If you operate through a limited (or personal service) company, then IR35 will be an issue for you. People who are considered employed are inside IR35 and subject to higher tax, whilst those deemed self-employed are outside of IR35. However, if you operate through an umbrella company, then you are effectively an employee paying PAYE so you won't need to worry about IR35.

How do I sort it out?

One of the simplest ways to make sure that your IR35 is sorted out legally is by employing the services of an accountant who specialises in contractors, freelancers and interims. They will be able to assess your personal circumstances and specific contract to determine your IR35 status and offer accurate advice. What's more, they'll be able to recommend the best option for you to make sure you're able to take home the maximum pay for your hard work.

To find out more about IR35 click here or use our helpful online calculator today for an illustration of your potential net income taking IR35 in to account.

You are the brand

Branding is important for any company, and as a contractor this is no different. Because you are flying solo, you ARE the brand. It's vital for you to refine and develop your professional brand in order to stay ahead of the game and thrive in an increasingly competitive world. And whilst making sure you're suited and booted to meet clients, the best place to start is probably by cleaning up your online profile.

There are endless ways of communicating on the web. Facebook, Twitter and LinkedIn – the list seems to get longer by the day. Unless you've had your head stuck in the sand for the last few years, chances are you have an account on at least one of these social networking sites. Although these online tools can be great for keeping in touch with friends, there is the possibility they may hold the ability to ruin your reputation. A quick Google search can bring up a multitude of sins in a matter of seconds – and could make or break you if a potential client happens to stumble across any incriminating evidence.

If there are any photographs, videos, slightly offensive messages that you wouldn't feel comfortable with your own mother seeing, let alone a potential client, then try to get rid of them. It might also be a good idea to change your security settings so you can select who sees what on your profiles.

But remember – even if you think your security settings would baffle the likes of MI5, if it's online, there's always the chance it could be seen by someone you'd rather not. After you've cleaned up your personal profiles so they're not too off-putting for future clients, you might want to create a professional account for business purposes. On your Twitter account, for example, you could tweet about contracts you have recently won and which projects you're working on. You could also use it as a platform to initiate discussion about the industry you're in, and also highlight current news stories that may affect your line of work. Not only is this a simple (and free!) way of creating an online CV, it's also a great way to show others that you are knowledgeable, up-to-date and enthusiastic about your sector.

CV facts

Your CV needs to tell potential clients that you are perfect for the job and it will become a vital tool for you to win business.

FACT: Your CV will be scanned for only 20 seconds before it is decided whether or not to invite you to an interview.

So **DON'T** write your CV as your life story. Potential clients are not interested in everything you have ever done in your life, which is why general CVs often don't work. Make the potential client's job easy by only including the most relevant information for the contract you're trying to win.

FACT: The client needs to think, "Wow, this contractor is perfect for the job".

So **DO** structure your CV for maximum impact. Place the most relevant and current information first and make sure your points prove that you have the necessary skills for the job, and proven experience of using them.

FACT: The main purpose of your CV is to secure an interview.

So **DON'T** go into too much detail. Include enough information so the potential client can clearly see you have the skills, experience and knowledge to potentially succeed in the job, but leave all the nitty, gritty details for the interview stage.

Knowing your worth

People expect to get what they pay for, and as a contractor, the price you charge will translate into what people think you are worth. If you fail to quote the market rate for your skills, then you could lessen your chances of winning business. It's vital that you pitch yourself at the right level. If your CV and skill set don't match you run the risk of failing to secure contracts – so research the market and charge the right rate.

Quoting LESS than the market rate means:

- Potential clients may (wrongly) perceive your skills as inferior to others, meaning you might fail to get interviews and win business
- Because you charge less than your competitors, you could find you secure lots of interviews, but then struggle to get anyone to sign on the dotted line due to being overqualified
- You might end up lining the agents pocket with a healthy margin instead of securing your own higher income

Quoting MORE than the market rate means:

- You might struggle to get many interviews because you appear more skilled than you actually are
- It could be difficult to secure contracts because you're charging more than your competitors
- You may fail to get any offers after interviews because you aren't as qualified as your rate suggests

Need a different kind of partner?

If you'd like to find out more about starting your own business or would like further clarification about operating as a sole trader, limited company, or partnership, then contact the team at ClearSky today. We've been helping individuals startup their own businesses for many years and have the experience and expertise to help you manage your business professionally and compliantly.

Get in touch with ClearSky today

Whether you're interested in starting up as a sole trader, limited company or partnership [click here](#) to speak to ClearSky Contractor Accounting about your options