

STEP BY STEP GUIDE TO BECOMING A CONTRACTOR

EVERYTHING YOU NEED TO KNOW ABOUT
BECOMING A CONTRACTOR BROKEN INTO
SIMPLE STEPS



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WHO ARE WE?

If our name sounds familiar, don't be surprised. Dolan Accountancy was set up by Simon J Dolan, the man behind the well-known brand SJD Accountancy. After selling the business in 2014, Simon stepped away from the industry for three years, but watched the market very closely – deciding in 2017 to come back into the accountancy world that he knows so well, but to do things a little differently. We thought it might help if he explains why . . .

INTRODUCING DOLAN ACCOUNTANCY

"I believe that enabling each contractor client to have proactive advice from their dedicated accountant is vital, but many firms have moved away from this level of service in favour of a more impersonal approach. These companies, and even those who have retained an element of personal service, are not embracing new technologies to make their clients' lives easier – choosing instead to use technology to increase their own margins and to mask internal inefficiencies.

I wanted to start again from scratch, with no legacy issues, providing you with a service that is second-to-none, based on my years of experience in building up the UK's largest contractor accountancy firm. My experience in other industries such as aviation and engineering has helped me to understand how efficient processes can transform my business and yours, and this is what we intend to do. I look forward to taking that journey with you."

The outcome of all this is Dolan Accountancy – dedicated contractor accountants delivering a combination of experience, service and technology for just £105.00 + VAT per month, one of the lowest rates in the industry.



Do you want to join our contracting revolution?

Call Sophie on 01442 795 100

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WHAT EXACTLY IS A 'CONTRACTOR'?

A contractor 'contracts out' their time to a client in return for payment, and usually only has one client at a time, unlike a freelancer who may work with many clients simultaneously. Contractors also usually work on the clients site, though some may work from home if that suits both parties.

As a contractor you will charge an agreed hourly or daily rate for your services, and invoice your client for your time each month, either directly or through an intermediary. Most contractors choose to set up and operate through a limited company, as it makes managing their finances far easier. In fact, many clients insist on this as part of a contract agreement.

WHY DO COMPANIES USE CONTRACTORS?

As a contractor, you are a highly skilled external specialist, who is being brought in to a client's business to carry out a specific task. They need your expertise for a period of time, in a flexible way - and as such they may not wish to employ someone permanently.

By hiring a contractor they also save on employee costs such as holiday or sick pay, employer's NI and so on. This makes it more cost effective overall, yet they are still able to pay you a higher rate than they would pay to an employee. So it works really well for both parties.

WHY DO PEOPLE GO CONTRACTING?

There is a real opportunity to make more money than you would as an employee, so this is always a key reason. But the decision to take the leap into contracting is often still one which people only take when they have to - usually due to redundancy, and not being able to find a suitable new role straight away. Having said that, once people have made the move into contracting - whether out of choice or necessity, they very quickly see the benefits and rarely go back!



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DECIDING WHICH WAY TO RUN YOUR BUSINESS

As a firm of specialist contractor accountants, we would always advise that you set up a limited company or operate through an umbrella company. The decision depends primarily on your level of income, and on how long you think you will be contracting.

Limited company

A limited company is by far the most popular way to work for most contractors, and is definitely the option that we would recommend. This involves setting up, and becoming a director of, your own limited company, ensuring that your work life and your personal life are completely separate from a financial perspective.

This means that legally you are two separate entities, and that any contract is created between your company and your client, not between you and your client. It also means that your company is liable for any genuine unpaid debts you incur, not you personally – although of course we're not expecting you to ever get into that situation!

As a contractor, you become the sole director of your limited company and you have complete control over it. But of course that does come with some legal responsibilities, and it's important to know what those are. We would also strongly recommend that you take advice from a specialist contractor accountant like ourselves, before making any major decisions.

Umbrella company

From our experience, it is only worth choosing to operate through an umbrella company if you will be earning less than £25,000 per year and/or you are only intending to contract for a relatively short period of time. If either of the circumstances are the case, then an umbrella company could be your best bet, as it simplifies your finances and your admin.

When you operate this way, you become an employee of the umbrella company, and then they 'contract out' your services to end clients, usually through a recruitment agency. You will need to complete a timesheet each week/month, and they raise the invoice to your client or agency. You then receive payment from the umbrella company in a standard PAYE manner, less deductions for tax and NI - as well as a deduction which is their margin for managing your finances. With this arrangement, you are also usually able to claim for some basic expenses, but these can be quite limited.

If you feel that working through an umbrella company is your best option, or would like to know more about how it works based on your specific circumstances, then please have a look at our sister company's website - www.contractorumbrella.com.

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HOW TO SET UP A LIMITED COMPANY

Once you have made the decision to set up a limited company, it's a really good idea to get an accountant on board straight away. Of course we hope you choose Dolan Accountancy, but most good accountants will be able to guide you through the process. It really isn't as scary as it sounds, especially with the right advice and support from an expert!

1) Company name

Many people use a combination of their name and initials, but the key thing is that it cannot be the same as, or even similar to, another registered company name, so you will need to check the Companies House register before proceeding.

2) Decide on your registered address

This is the address where HMRC will send all your official paperwork and it has to be a physical UK address. Most people simply use their home address - or some accountants, including ourselves, offer a serviced office address, if you'd rather not use your own.

3) Appoint a director and shareholder

Any limited company has to have at least one director, and this will be you - you will also be the only shareholder and will own 100% of the company. The named director is responsible for running the company in accordance with all relevant legal requirements.

4) Create memorandum and articles of association

When you register a new limited company you need a 'memorandum of association' which is a legal document signed by all initial shareholders, so in this case, you. You also need 'articles of association' which are written rules about running the company. Templates for both can be found on the Gov.uk website.

5) Register your company

Once you have all of the above areas in order, you can then register your company online, or your accountant can do this for you. After your limited company has been registered, it will usually be set up within a few hours. Every new company has a date on which it was 'incorporated', and this date will be shown on your Certificate of Incorporation.

6) Set up your business bank account

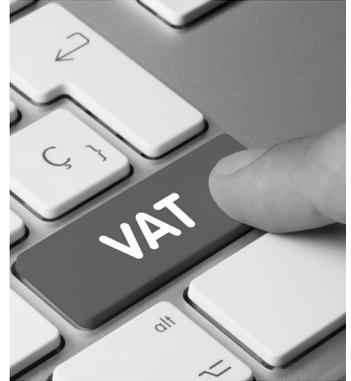
This is a legal requirement for all limited companies, so that all funds which go through the business are traceable. This includes your own business income and expenses, and the salary or dividends you pay yourself - plus things like NI, Corporation Tax, VAT payments if relevant, and so on. A good accountant can help you with this also.

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REGISTERING FOR VAT - OR NOT

This is something which is important to consider as soon as you set up as a limited company contractor. Legally, you have to register for VAT if you expect to earn more than the current VAT threshold in any given tax year, and at the moment that is £85,000 for 2017/18.

You don't have to sign up straight away though – as you only have to register if you expect to exceed the threshold within the next 30 days, so theoretically you could wait until near the end of your first year in business. Bear in mind though that you could be liable for financial and legal penalties if you do not register in time, so don't leave it too late – and make sure you can prove the date you registered by keeping a copy of your Registration Notification in a safe place.



Many contractors choose to register for VAT as soon as they set up their limited company anyway, even if it is not legally necessary, as it can help you to appear more professional. There are also options to earn a small amount of extra income from your VAT by registering for the Flat Rate VAT Scheme - although these are not anything like as lucrative as they used to be after changes to the scheme came into effect in April 2017.

If you choose the standard system, then you need to keep all of your VAT receipts and then complete a detailed VAT return each quarter, listing the amount of VAT you have charged your clients – and the amount you want to claim back for eligible expenses. You also need to know exactly which ones are eligible and which ones are not.

In general we still recommend the Flat Rate Scheme, as it is far easier to administrate - but please do talk to your accountant, who will be able to help you make the right decision based on your own personal circumstances. Remembering of course that if you are on a contract of less than £85,000 a year, and have no other income, you could always opt not to register at all.



Have you got any further VAT questions?

Call Sophie on 01442 795 100

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HOW TAX WORKS FOR LIMITED COMPANIES



Tax is not that complex, but you need to know what your options are, and how to make the most advantageous tax planning decisions. A good accountant will be able to help you with all of this. The key thing to remember is that you and your company are two totally separate entities, for the purposes of tax.

Corporation Tax

This is the amount you are taxed on the profit your company earns – which is your 'net Sales, less net expenses'. All limited companies have to pay this, and the current rate is 19%. This needs to be paid within nine months and a day of your company's financial year end.

Employer's National Insurance Contributions

Your limited company is your 'employer' so it has to pay Employer's NI – which is 13.8% of any salary that you pay yourself, over the Employer's NI threshold. However, you can avoid this by paying yourself a low salary and then taking dividends - as tax rates are lower, and there is no NI due on dividends. Read our Contractor's Guide for more details on dividends.

Employee's National Insurance Contributions

As an employee of your company, you also have to pay NI on the salary that you pay yourself – which is 12% on anything you earn above £157 per week, up to £815 per week. Beyond this, you then pay just 2% on the remainder. You can also avoid this by paying yourself a low salary and then taking dividends.

Personal Tax

As a director of a limited company you will pay yourself an income of some type, and so need to complete a personal self-assessment tax return by the 31st January, to cover the financial year which ended on the previous April 5th. Make sure you register for self-assessment as soon as you set up your limited company, if you do not already receive a self-assessment tax return from HMRC.

It's not hard to see why operating as a limited company provides far better tax planning options, as tax rates for dividend payments are far lower, and you also don't get taxed on any income that you leave in the business. Remember though that it's very important to pay your tax on time, as if you miss a deadline by even a few days, you could be fined.

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EXPENSES AND IR35**Expenses**

It is important to keep track of all your business expenses, as these can be offset against income and so will help to reduce your tax bill. You need to keep all of your receipts for at least six years so that you can prove the purchase was made, to cover you in the unlikely event of a tax inspection.

An expense is defined as something which is made 'wholly and exclusively for the purposes of your business' by HMRC - and can include things like company formation, company bank charges and interest, pension contributions and accountancy fees. When it comes to the day to day running of your business, it also covers areas such as business travel and hotels, stationery and postage, phone and internet costs, equipment for business use and so on.



It is better to own your car privately and use this for business purposes, as you can charge your company up to 45p per mile, and this is also tax deductible. If the business buys the car it is classed as a 'company car' and taxed as a benefit in kind, so this is less beneficial. Also, if you use your home as an office, then you are able to claim back a 'use of home' allowance, to cover some of the costs.

IR35

Everything we have outlined so far covers the basics of how operating as a limited company contractor works. However, for some people, the rules have to be different because they are affected by something called 'IR35' - which was introduced in April 2000, to guard against what HMRC refers to as 'disguised employment'. For example if you were to leave your employer on a Friday afternoon and go back on the Monday as a contractor, with all of the benefits that brings - but essentially doing the same job and having the same low level of risk - the argument is that you shouldn't have access to any of the benefits of being a contractor.

If your contract is deemed to be 'inside IR35', many of the benefits of running a limited company are reduced. You have to pay the same amount of tax and NI contributions as you would if you were an employee, and you can't take advantage of the option to pay yourself a low salary and top it up with dividends. A good accountant, including ourselves, will offer a detailed IR35 review and can give you a professional opinion as to its status.

One last thing to mention, as of April 2017, the rules for public and private sector are now also different, adding extra confusion. To find out more read our [IR35 Plain English Guide](#).

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WHY CHOOSE DOLAN ACCOUNTANCY?

We have the heritage, reputation and credibility of the Dolan name - coupled with our firm financial footing, our money back guarantee, and of course our ability to offer you the best possible price of just £105 + VAT per month. We believe this makes the decision to choose Dolan Accountancy crystal clear - and we hope you do too, once you've had time to understand our level of knowledge and experience.

WHAT DO WE OFFER?

- Free limited company formation
- 12 month's free business banking
- FreeAgent™ online accounting software
- Free Registered Office address
- Free Director's Service address
- Your own dedicated accountant
- Money back guarantee

This last point is very important to us. We have been in the industry long enough to know that service is everything. We know you want a fast response to any queries you may have and an efficient and friendly service at all times. As such, we guarantee that if we fail to deliver on any one of the points below, in any given month, we will refund your entire £105 + VAT fee for that month. Just let us know where we failed and we will arrange your refund - as well as dealing with the issue in question of course!

- When you become a client, your dedicated accountant will be in touch within one working day of your signed contract being received by us.
- If you email us before 4pm on a working day, we will respond the same day - if after 4pm, we will respond by the end of the next working day.
- Subject to all appropriate information having been received, draft Company Year End Accounts will be sent to you for approval within 15 working days.



- We will ensure that our client/accountant ratio is always maintained at a level that enables us to provide an exemplary level of service.
- If you do have to leave us a phone message for any reason, we will respond within one working day.
- If you send us a letter, we will respond within two working days of receipt.

We also work closely with our sister company Contractor Umbrella, a member of APSCo - giving you the flexibility of using either our Limited Company Accountancy Services or our award winning Umbrella Service for no additional cost.

HAVE ANY QUESTIONS?

Give us a call
on 01442 795 100