



Dolan Accountancy
Accountancy built on reputation

Call: 01442 795 100



Contractor FAQs

All your questions answered

We hope that the following Frequently Asked Questions may help you to determine whether or not to go contracting, how to operate as a business, how much you could earn, and how to deal with some of the other responsibilities of being a contractor.

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 client site, though some may work from home if that suits both parties.

How would I charge for my services?

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 such as a recruitment agency.

Why do companies use contractors?

Contractors are a highly skilled external specialists, who are 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.

What are the benefits of hiring a contractor?

By hiring a contractor, companies 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!

I've heard that most contractors work through a limited company - why is that?

Operating a limited company ensures that your work life and your personal life are completely separate from a financial perspective. Legally you are two separate entities, and any contract is created between your company and your client, not between you and your client. In general it makes managing your finances far easier, and many clients insist on it as part of a contract agreement.



Do you want to join our contracting revolution?

Call Sophie on 01442 795 100

I've also heard about umbrella companies – how do they work?

When you operate through an umbrella company, you become their employee, and then they 'contract out' your services to end clients, usually through a recruitment agency. You will need to complete a timesheet each week or 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.

Which is best – limited or umbrella?

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.

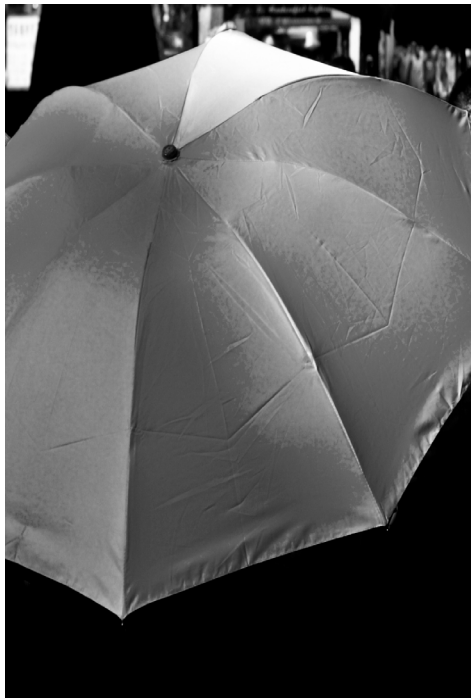
How much administration is involved in managing my limited company?

We generally say it works out at about 15 minutes a month on things like sending invoices, recording expenses and sending any payments to HMRC. We

often talk to people who are put off the idea of contracting because they think they will be swamped by admin tasks, or they are terrified of dealing with HMRC. In reality though it's not anything like as bad as you probably imagine, and most of it will be done by your accountant.

What are the main advantages of going limited?

One of the main benefits is of course the ability to earn a higher income, but some of the other key benefits include better tax planning, more freedom and flexibility, more opportunities for skills development, and of course a greater variety of work. All of these really come down to one thing – quality of life. You spend a huge amount of your life at work, so you might as well do something you enjoy, something you get paid well for, and something that works around the rest of your life - not the other way around.



Should I worry about lack of job security?

We don't think so, as an employee you have a perceived level of security which you maybe don't have when working as a contractor. But jobs can come to an end too, sometimes without any warning, whereas you will know when your contract is up for renewal. So you can be planning accordingly for what comes next.

And what about financial insecurity?

It's true of course that you may have times when you end up with a gap between contracts, or need to take time off for various reasons, and it's understandable to worry about your income if this happens. But if you plan ahead and put a percentage of your income into a 'rainy day' fund, this won't be an issue.

How much can I earn as a contractor?

Day rates vary significantly depending on the type of job you do, and your level of experience. Some contractors start on as little as £200 a day, and some earn more than £1,000 a day – but that's quite rare! Somewhere in the middle is probably the most likely. But the bottom line is that you will take home more than you would as an employee.

So how much will I actually take home?

This varies depending on whether you set up as a limited company, or choose to operate through an umbrella company. On average, as a limited company you will take home 75% to 80% of your total billings - but with an umbrella company, that will drop to 60% to 65%. These guideline figures will give you a good idea of your monthly income in each case:

Day Rate	Limited	Umbrella
£300	£5,078	£3,939
£400	£6,619	£5,039
£500	£8,160	£6,138
£600	£9,701	£7,238
£700	£11,242	£8,337
£800	£12,783	£9,352

I'm concerned about the lack of holiday pay and sick pay, should I be?

This is a common concern, but remember that you're getting a higher income because your client isn't having to fork out for those types of things. So it's down to you to prepare for those eventualities by planning your finances accordingly, to cover times when you are not able to work, or choose not to.

If I decide to go contracting, do I have to have an accountant by law?

Not any more – it used to be a legal requirement to have your accounts audited annually, but you now only have to do this if your annual sales are more than £6.5m – and for even the highest paid contractors, this is unlikely! But you won't be surprised to hear us say that we absolutely recommend that you do have one.

So why do I need an accountant then?

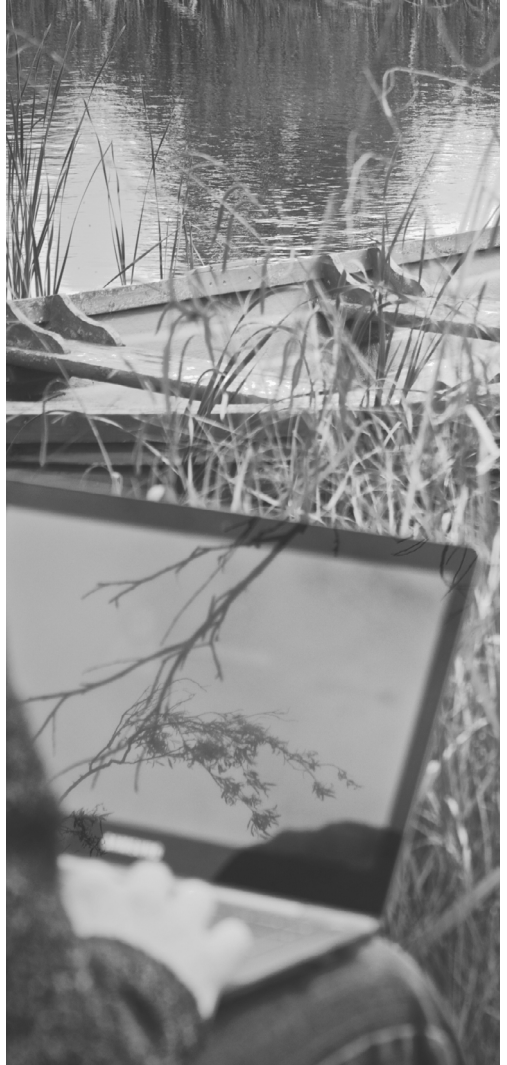
The main reason is that, if you do not complete all the relevant paperwork correctly, and on time - as the director of a limited company, you could be liable for a hefty fine. Or possibly even imprisonment if there is any suspicion that incorrect information was supplied on purpose. And that's not just scare tactics, it's fact.

What else can an accountant do for me?

An accountant's role includes helping you to set up your limited company initially, and then all of the form filling you will have to do – such as tax and VAT returns. We also deal with HMRC and Companies House on your behalf. Beyond that, a good accountant will also be able to advise you on how to run your business in the most effective way, and how to take advantage of tax planning opportunities to maximise your income.

Do I need a registered address if I don't have business premises?

Yes you do. 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.



How do I register my new company?

You can do this online on the www.gov.uk website, or of course your accountant can do it for you, and help you to get all the necessary paperwork together. 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.

Do I need a business bank account?

Absolutely, 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.

How do I get paid by my clients?

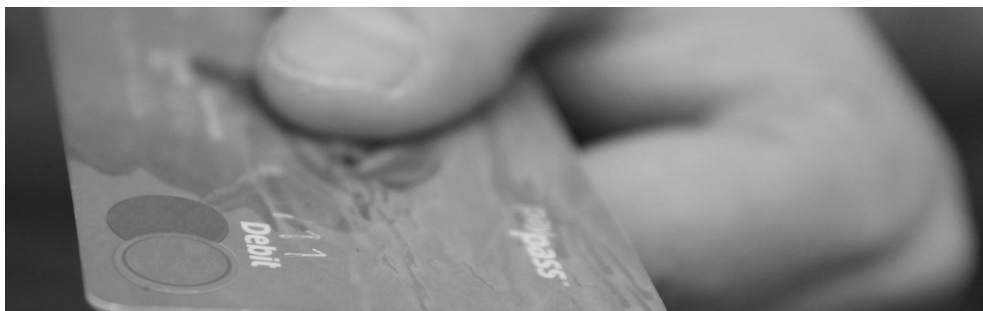
You need to send invoices on the evening of the last day of each month, detailing hours worked and adding VAT at 20% if you are registered. You should request payment within whatever timescale you agreed at the start of the relationship - as detailed in your Terms & Conditions. Don't forget to include your business bank details, so they can pay you directly into your bank account.

What should go in my Terms & Conditions, and do I really need them?

Agreeing proper Terms & Conditions might sound a bit formal, but it is standard procedure with a new client, and no-one will be offended if you send in a simple document which just states things like your agreed rate, working hours, payment terms, any travelling expenses and so on. This way everyone knows where they stand - and legally, even if they do not acknowledge the email, you are covered if you can prove you sent it.

How do I make sure I get paid on time?

A client isn't quite the same as an employer, so you can't just rely on it to happen without checking, and chasing if needs be. It is your responsibility to ensure that your client pays you - so always check that a payment has come in when you expect it to, based on whatever payment terms you agreed at the start. This should be a key part of your Terms & Conditions - so there are no grey areas about how much 'credit' you are willing to extend the company.



How do I pay myself from my limited company?

Once you have money in the bank, you can then pay yourself a salary. But it's important to carefully manage how you do this, so you pay the least possible amount of tax, legally of course. The best option is always to pay yourself a small salary, and then to take the rest of your monthly income as a dividend. One of the main reasons for doing this is that a dividend is not subject to NI, as opposed to a salary which is.

How much should I pay myself as a salary?

You don't actually have to draw a salary at all, but it is still worth doing this, as the cost of the salary can be offset against your company's Corporation Tax liability. The best bet is to keep your salary to £8,160 a year, as you only start paying Employees' and Employers' NI contributions when your annual salary reaches this amount. It's also well under the £11,500 personal tax allowance for 2017/18. In your first year though, make sure you take any other income from past employment in the same tax year into account as well, when calculating your salary.

You mentioned paying the rest of my income in dividends, how does this work?

As we said, you should pay yourself a low salary and then top this up with dividends. As long as your limited company is in profit, you can pay yourself a dividend of any amount, at any time during your financial year. Dividends are taxed as the top tier of your income, after your salary and any other income has been taken into account - but at a lower rate.

Should I take everything I earn each month out of the business?

Not unless you absolutely need to. Leaving some of it behind means you don't have to pay tax on it, and you can also earn interest if you are lucky enough to have a business bank account that offers this.

Do I have to register for VAT?

Legally, you only 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. 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.

When should I register for VAT?

You don't have to sign up straight away unless you want to, as you only have to register if you expect to exceed the £85,000 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.

**Got a question on VAT?**

Speak to Jaime on 01442 795 100

**What paperwork is involved in being VAT registered?**

If you do choose the standard system, you need to keep all of your VAT receipts and then complete a detailed VAT return each quarter, listing your 'output' tax – which is the total amount of VAT you have charged your clients – and your 'input' tax, which is 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.

What kind of things can I claim VAT back for?

Typically you can claim VAT back on IT equipment such as laptops, PCs, printers and so on, software packages which you use for work, stationery, phone and internet costs, accountancy and legal fees, and mileage allowance. You can't however claim VAT back for public transport, technical publications, postage or payments to the Registrar of Companies. Make sure you check HMRC's website for full details.

What is the Flat Rate VAT Scheme and should I be on that instead?

The Flat Rate VAT Scheme is far easier to manage and saves you from having to complete a more complex VAT return each quarter. It was created primarily for service based business that charge for their time, rather than buying in goods and selling them on, as would be the case with a more traditional business. This means that the benefits of the standard VAT scheme are not as appealing, as you do not have that many 'goods bought in' for the business which you can claim VAT back on.

I've heard you can actually make money from the Flat Rate VAT Scheme, is that true?

Sadly not any more, as the rules changed in April 2017. There is still a very minimal benefit, but only about £200 per year on a £100,000 a year contract. Under the previous system, businesses paid a lower rate of VAT depending on their business type – for example 14.5%. So in the same scenario the 'profit' would have been £2,600 – although that would of course have been taxed at 19% as well.

Which VAT scheme should I opt for?

In general we still recommend the Flat Rate Scheme, as it is far easier to administrate, and you do gain an extra 1% discount in the first year - 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.

What is 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.

Do I have to pay Employer's National Insurance Contributions?

Legally yes, but actually not necessarily. 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 the low salary we mentioned earlier and then taking dividends - as tax rates are lower, and there is no NI due on dividends.

What about Employee's National Insurance Contributions?

Same again, 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. However, you can also avoid this by paying yourself a low salary and then taking dividends.

Do I have to register for self-assessment tax?

If you've always been an employee then you will probably never have needed to do this before, but you do have to do this now, if you don't already receive a self-assessment tax return from HMRC. Make sure you register for self-assessment as soon as you set up your limited company.

Do I still have to fill in a personal tax return?

As a director of a limited company you do have to do this, as you will pay yourself an income of some type. Your accountant will be able to complete the return for you, based on the information you provide about your income and expenditure. This needs to be submitted by the 31st January, to cover the financial year which ended on the previous April 5th.

What happens if I don't pay my tax on time?

HMRC has procedures in place to deal with non-payment if it is considered to be 'fraudulent or negligent' and it can obtain what is known as a 'freezing order' over your personal assets, in order to ensure that payments are received. Even if you accidentally miss a deadline by just a few days, you could still be fined - and HMRC can also ask for interest on the funds which were not paid. Bottom line? Pay your tax on time!

I thought my personal assets were protected by my 'limited liability' company?

Not in this case. The 'limited liability' which you gain from operating through a limited company does not cover you for non-payment of tax and NI.

What expenses can be offset against income, to reduce my tax bill?

An expense is defined by HMRC as something which is made 'wholly and exclusively for the purposes of your business' - 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.

Do I have to keep all my receipts?

Yes, definitely – even though your accountant will not ask to see them. 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.

Should I buy myself a car through my limited company?

We wouldn't recommend that you do this. 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.

What is IR35 and do I need to worry about it?

IR35 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.

How do I know if my contract is inside IR35?

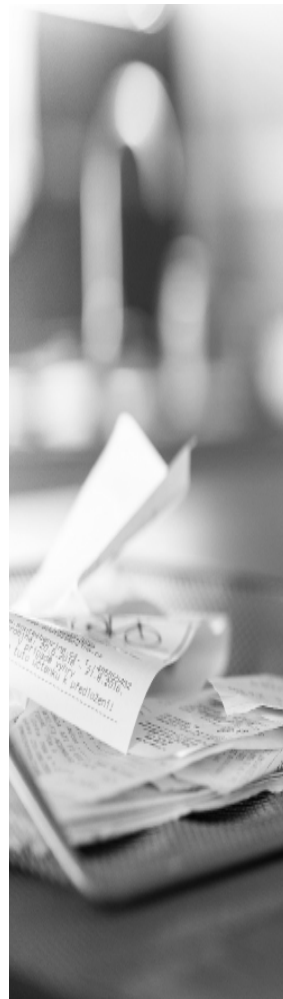
A contract is classed as being inside IR35 if you will have 'the same level of risk, responsibility, liability and control' as a permanent employee within the same business. In effect, HMRC believes that, while working in this contract, you would not be taking on the financial risks of being a limited company contractor, as the terms of your role are the same as that of an employee - making you a 'disguised employee'.

Can anyone tell me for certain whether my contract is inside IR35?

This can be quite difficult, as the specifics of how your relationship with your client will operate may not be known until you have already started working for them. It is also partly your responsibility as a contractor, and partly your client's responsibility in how they treat you, which can make the difference. As HMRC puts it, is your relationship with your client 'indicative of an employer/employee relationship?'.

Who decides my IR35 status?

This one has recently become far more complicated, as the rules for IR35 in the public sector changed in April 2017. In the private sector, you are responsible for determining the IR35 status of your own contract, and for making sure that your client treats you in an appropriate way if you consider it to be outside IR35. Bearing in mind though that, if you get it wrong, you will be liable for back taxes and very possibly fines as well.



What about if I work in the public sector, who decides my contract's IR35 status then?

As of April 2017, the responsibility for determining the IR35 status of a contract falls to 'any other third party who is closest to the limited company contractor' – so in effect, the organisation that pays you. This is because they are the ones who would have to deduct the tax and NI from your payments each month, if your contract is deemed to be inside IR35. That third party could be the client themselves, but in reality it is more likely to be your recruitment agency.

How does being inside IR35 affect my income?

You have to pay the full amount of tax and NI contributions on your income, as you would if you were an employee. Which means you are not able to take advantage of the option to pay yourself a low salary and top it up with dividends – so many of the benefits of running a limited company are reduced.

Does IR35 affect what I can claim on expenses?

Yes it does – if you're inside IR35 you have a reduced allowance for expenses, meaning that you can only claim tax relief for certain things. These include employer contributions to approved pension schemes, gross salary paid, plus any employer's NI contributions, professional subscriptions and professional indemnity or personal liability insurance. You can also claim 5% of your gross income from relevant engagements, to cover your running costs.

How does the 5% allowance work and what does it cover?

This amount is intended to cover all of the expenses of running your limited company, including accountancy fees and the Companies House filing fee. This may be higher or lower than your actual expenses, so for Corporation Tax purposes you must still keep a record of the actual amounts.

If I'm inside IR35, is it still worth operating as a limited company?

The reality is that, if your contract is inside IR35, then you will end up paying the same amount of tax and NI as someone who is an employee and earning the same salary, so the ability to earn more is taken away. However, you can still earn interest on any funds which are held by your company, and you still have 5% of your turnover available to cover expenses. Remember also that, even if your current contract is inside IR35, the next one may not be.



Do I need any insurance when operating as a limited company?

There are two possibilities – Public Liability insurance and Professional Indemnity insurance. Public Liability depends on the type of work you do, but it's generally better to be on the safe side as this protects you if a member of the public tries to claim against you for damage or injury to property or people. Professional Indemnity works in a similar way, but in this case the 'damage' relates to your professional actions, such as any costs you might incur if you have to defend yourself against a claim from a client – where they 'suffer financial loss due to any negligent act, error or omission' by you.

What kind of things might this insurance need to cover?

With Public Liability, it could be as simple as someone tripping over your laptop bag in the office and breaking their arm, so don't make the mistake of thinking that it won't happen to you. For Professional Indemnity, this could be an error on your part which causes your client to lose business from one of their clients, or suffer internal costs due to delays.

How much does insurance cost?

Public Liability insurance costs in the region of £115 a year, so definitely won't break the bank – and Professional Indemnity is slightly higher at around £165 per year. Bear in mind also that on this second one in particular, clients may insist on you having it in place before awarding a contract. But the good news is that the cost of the insurance is fully tax deductible – so definitely worth it, just to be on the safe side!

Can I change back to permanent employment easily?

Yes of course, all you have to do is to go through the necessary steps with HMRC and Companies House to close down your limited company, and you're all set. Though we genuinely believe that once you see all the benefits of working for yourself, you're unlikely to ever go back!

Why should I choose Dolan Accountancy over all the other contractor accountants out there?

Because 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 – 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.



Do you want to join our contracting revolution?

Call Sophie on 01442 795 100

What does the £105 + VAT per month include?

Our monthly fee, which is one of the lowest rates in the industry, covers the following:

- A dedicated and highly experienced contractor accountant
- Access to the highly-acclaimed FreeAgent™ accountancy software platform
- Personal self-assessment tax return for one director
- Quarterly VAT returns
- Payroll bureau
- Year-end accounts for your limited company
- Handling all communication with Companies House and HMRC on your behalf
- Ongoing advice on paying yourself, including dividends; allowable expenses; personal and company taxes due to HMRC; and IR35 in relation to your contract
- And of course our 'money back' service level guarantee!

Do you also help with getting everything set up in the first place?

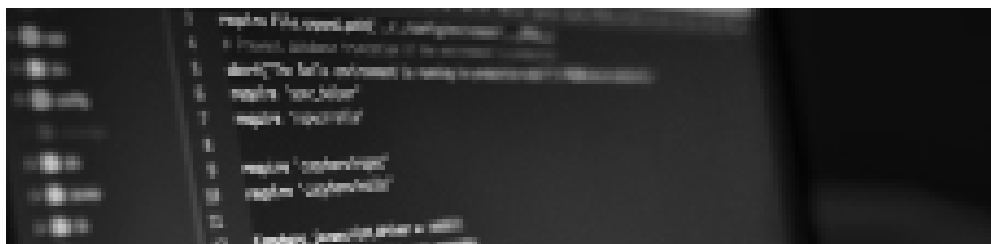
Of course we do! Once you sign us up as your chosen accountancy firm we will help you form your limited company, free of charge, and give you advice on the best structure. We'll also register you for an appropriate VAT scheme if you'd like us to, including recommendations on which one to choose. Beyond that our service includes 12 month's free business banking, plus a free Registered Office address and a free Director's Service address.

What exactly is FreeAgent™?

Our partnership with FreeAgent™ is one of the many things that really sets us apart from the competition. It's a specialist online bookkeeping software platform which is designed specifically for contractors, freelancers, small business owners and their accountants - and is already trusted by over 50,000 other businesses.

What benefits will FreeAgent™ give me?

It provides you with a wide range of benefits including invoices that send and chase themselves if you want them to! You also get hassle-free expense tracking, using your mobile phone camera to capture receipts - and a connection to your business bank account so that you can automatically import transactions. Lastly, you also gain access to auto-generated charts and graphs to help you understand your finances.



Tell me more about your money back guarantee?

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.

**THINKING OF JOINING
DOLAN ACCOUNTANCY?**

Give us a call
on 01442 795 100