# GUIDE TO MOVING FROM PERMANENT TO CONTRACTING

# CONTENTS

1. Who are we? ..... 3
2. Why do people go contracting? ..... 4
3. Setting up as a limited company ..... 6
4. Deciding if you need an accountant ..... 7
5. Finding your first contract ..... 8
6. Expenses and IR35 ..... 9
7. VAT and Tax ..... 10
8. Why choose Dolan Accountancy? ..... 11

# 1 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 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 £125.00 + VAT per month, one of the lowest rates in the industry.

**Do you want to join our contracting revolution?**

Call Jaime on 01442 795 100

# 2 WHY DO PEOPLE GO CONTRACTING?

One of the main reasons for deciding to move from permanent employment to becoming a contractor is that there is a very real opportunity to make more money, as well as many other advantages that we'll look more closely. But even so, 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. We're also finding more and more people who are choosing to try out contracting after taking early retirement – and of course, a huge number who just look at all of the benefits and decide to take the plunge . . .

## THE PROS AND CONS OF MOVING FROM PERMANENT TO CONTRACTING

At first glance, the whole idea of becoming a contractor can seem hugely scary, which is why many people only consider it when they have to. But you only have to talk to people who have been working this way for a while, and it soon becomes clear that the advantages of the contracting lifestyle far outweigh any of the disadvantages which you might be concerned about.

- **Higher income** – as we mentioned above, you come in as a flexible, highly skilled resource, but without the costs of an employee, which means your client can afford to pay you more.
- **Better tax planning** – if you operate through your own limited company, you have far more opportunity to pay less tax through more efficient financial planning.
- **Flexibility** – you have the ability to change contracts as and when you choose, or to only work for part of the year and to take breaks between contracts.
- **Freedom** – no-one can tell you what to do in the same way an employer can. As your own boss, you can turn down a contract or choose not to renew if you don't like it.
- **Skill development** – you can choose different types of contract in order to gain extra skills in certain disciplines, to build up your own experience.
- **Variety of work** – you can opt to work within different types of businesses, and on different projects, simply to make your working life more interesting.

All of these points 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. That elusive 'work/life balance' which is so highly sought after!

We are firm believers that contracting is a brilliant way to earn the money you need in order to enjoy your life, and also to have the type of career that you always wanted for yourself. But it doesn't suit everyone, and this brings us on to a few potential negatives which should also be mentioned – though as you will see, some of these are not as bad as you might first imagine.

- **Lack of security** – 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.

- **No guarantee of next contract** – this is true, but you have to believe in your own worth and your own ability to 'sell' your services. If you found one contract, you can find another, and arguably, a new contract is easier to find than a new job, so this lifestyle may not be as 'insecure' as it first appears.

- **Financial uncertainty** – you may of course 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.

- **No holiday pay and sick pay** – this is a common concern, but remember that you're getting a higher income because your client isn't having to pay 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.

- **All that paperwork** – 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 Her Majesty's Revenue and Customs (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.

We think that covers the main concerns which most people mention, but if you have any others, then talk to a good accountant before making the decision to go contracting.

# 3 SETTING UP AS A 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, once you've decided to take the plunge and go contracting. This involves setting up, and becoming a director of your own limited company - which gives you all of the 'limited liability' benefits that you don't get as a sole trader, and ensures 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're going to explain them later, but we would also strongly recommend that you take personal advice from a specialist contractor accountant like ourselves, before making any major decisions.

You may also have heard of Umbrella Companies, and this is certainly another option for contractors – but generally only 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 you do not fall into either of these categories, and you want to gain all of the potential benefits of being a contractor, then this may not be the best option for you.

# 4 DECIDING IF YOU NEED AN ACCOUNTANT

We thought we'd address the most obvious point up front, and of course it's no surprise that we're going to say yes, you do! But it's perfectly reasonable that you'd want to know why you need to take on the services of a specialist contractor accountant, even though it is no longer a legal requirement to have your accounts audited in the way it used to be.

As things stand now, you do not have to do this if your annual sales are less than £6.5m – and for even the highest paid contractors, this is unlikely. However, 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.

As you read this document, you will notice that we regularly refer to responsibilities which 'your accountant' will handle for you – so bear in mind, if you choose not to take on the services of an accountant, all of these responsibilities will fall to you. Not easy while you're trying to set up and run your new life as a limited company contractor!

It's also important to remember that an accountant's role goes far beyond form filling and dealing with HMRC or Companies House. 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 – so their worth cannot be under-estimated.

**Ready to appoint us for just £125 + VAT per month?**

Call Jaime on 01442 795 100

# 5 FINDING YOUR FIRST CONTRACT

If you're thinking about going contracting, then we know you'll probably have been working as an employee in your chosen field for some time, so we don't want to teach you how to suck eggs! But at the same time, some of these tips might just come in handy along the way – as finding a contract is rather different to finding a role as an employee.

The first step will be to register with as many job sites as you can

– and some of the best ones at the moment are:

- www.contractoruk.com
- www.technojobs.co.uk

Most job sites allow you to register for alerts based on certain job criteria, so you can be informed when a new contract is advertised, and this can be a very good way to stay on top of your search activity.

As you search the job sites, you will see that most of the positions advertised are through recruitment agencies, so it's good to make contact with these as well and get yourself onto their books – making it clear you are only looking for contract roles. It's also worth remembering at this point that you could opt to work directly with the end client, if the chance arises, and not go through a recruitment agency at all – but of course they do have access to the widest range of opportunities, so don't rule anything out.

You'll need a great CV of course - and if it is your first contract role, you may want to include a covering note when applying which explains why you're switching to contracting, so the agency understands the motivation behind your career path adjustment. You may be asked for an initial interview with the agency, and will have the opportunity to expand on this then, and to explain the types of contracts you're looking for. Remember at this point, and when being interviewed by an end client, that you are not just looking to be an 'employee' - you are a highly skilled and experienced individual, who they will be lucky to have on board!

During your research process, you may also see specific opportunities that you'd like to apply for, so you can ask the relevant agency to put you forward at the same time. From here on, they will then proactively alert you when suitable contracts come up, to check if you are happy to be put forward for those as well. Generally, the client will set the contract rate, but you can of course tell the recruitment company what rate you are looking for as a minimum, to ensure they do not propose any roles which fall outside your budget.

# 6 EXPENSES AND IR35

**Expenses**

As a new contractor, it's important to get into the habit of keeping 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.

**IR35**

Small Private sector companies – 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.

If you determine that your contract is outside IR35, you need to be as sure as you possible can be that this is correct. There are many companies who will offer to give you an 'IR35 Assessment' based on the terms of a paper contract, but this is never 100% reliable - as it all depends on working practises, and how you are treated in the workplace. Be very wary of these types of assessments, and do not rely on them when deciding on your status.

Medium to Large private sector companies and Public sector – The contractor is no longer responsible for determining the IR35 status of their own contract. This change was made as the government felt it was losing out on additional income due to the fact that contractors were incorrectly assessing their IR35 status – and while they could be identified and fined, this was not happening in the way it should be, leading to high levels of lost revenue.

With the new system, 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 a recruitment agency.

The reality of this change is that clients and recruitment agencies are likely to err on the side of caution, and may in fact insist on classing a contract as being inside IR35, just to be on the safe side.

# 7 VAT AND TAX

**Registering for VAT – or not**

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 £30,000 for 2026/27. 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. Once you do this, you need to keep all of your VAT receipts and then complete a detailed VAT return each quarter. You could choose to register for the Flat Rate VAT Scheme instead – and in general we still recommend this, as it is far easier to administrate. But it is no longer as lucrative as it used to be, after major changes to the scheme in April 2017. Remember also that if you are on a contract of less than £90,000 a year, and have no other income, you could always opt not to register at all.

**How tax works for limited companies**

These are the four main types of tax which you will need to be aware of. The key thing here is that you must pay your tax on time. If you miss a deadline by even a few days, you could be fined!

a) 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%.

b) Employer's National Insurance Contributions - your limited company is your 'employer' so it has to pay Employer's NI – which is 15% 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. Read our Contractor's Guide for more details on dividends.

c) Employee's National Insurance Contributions - You may also need to pay National Insurance on the salary you pay yourself. Employee NI is currently charged at 8% on earnings between £242.01 and £967, with a further 2% payable on anything above £967. Many directors reduce this liability by taking a lower salary and drawing the rest of their income as dividends, which can often be more tax-efficient.

d) Personal Tax - you will need to complete a personal self-assessment tax return. Make sure you register as soon as you set up your limited company, if you don't already receive a self- assessment tax return from HMRC.

# 8 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 – just £125 + 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.

- 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 £125 + 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.

**DO YOU HAVE ANY QUESTIONS ABOUT MAKING THE MOVE TO CONTRATCING?**

Give us a call
on 01442 795 100