

## A Danbro guide: So you want to be a contractor?

### Introduction

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Becoming a contractor, or freelance worker, brings risks – but it also brings benefits. If you're thinking about contracting, it is important to think about all aspects of this way of working.

#### Advantages of becoming a contractor include:

- Being your own boss
- Greater flexibility about when and where you work
- Building up useful experience by working for a variety of employers
- Financial benefits, including better pay rates and opportunities to reduce your tax bill.

#### Some of the disadvantages are:

- Reduced job security
- Uncertainty about where your next contract will come from
- Lost income if you are ill or on holiday
- Working away from home if you need to take a particular contract.

Danbro have put this guide together as an introduction to some of the key aspects of contracting that you need to consider.

If you think that contracting is right for you, it would be wise to seek advice from professionals experienced in this field about the options that are best for you.

Danbro are a Firm of regulated Accountants who are specialists in providing accounting solutions to thousands of contractors and temporary workers across the UK. We have first hand experience of contracting, so we understand what you need to run your business, and can tailor our service to meet your individual needs.

### What professions are suited to contracting?

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There are a wide variety of professions that are suitable for contracting, or freelancing.

For example, members of the Professional Contractors Group, which promotes and protects the interests of freelance contractors and consultants in the UK, work in sectors including oil and gas, design, engineering, information technology, management consultancy, marketing and communications, telecommunications, construction and pharmaceuticals.

But there are no hard and fast rules. If you have specialist skills in your particular field, you may well be able to work as a contractor successfully – but you will need to research the market carefully, and assess whether there is sufficient demand in your sector.

If you are planning to source your own work, rather than going through an agency, you will want to start thinking about and organising potential clients well before you take the decision to give up your job.

## **What business Structure is best for me?**

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There are a number of business structures available for contractors. Traditionally, the most popular and tax-efficient are:

### **Limited Company**

The finances of a limited company will be separate from your own personal finances. This means that you are not personally responsible for any company debts, except in exceptional circumstances.

Limited companies have certain responsibilities, including registering with, and submitting annual accounts to, Companies House, along with an annual return to Companies House updating your company details.

Limited companies pay corporation tax and employees pay income tax and National Insurance contributions. You must also register for VAT if your turnover reaches more than £67,000 within 12 months.

A company must have one director, whose job is to make sure the company is run in accordance with company law, for example by recording company meetings.

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 or partnership. You can find out more about limited companies by visiting the Companies House website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

Here at Danbro, we offer limited company solutions that require you to spend as little time as possible handling your company, which we can even set up for you.

Then we can take care of all the administration, tax returns and financial requirements, freeing you to concentrate on contracting.

### **Umbrella Company**

Umbrella companies operate on behalf of several contractors at the same time. The contractors become employees of the umbrella company and contracts of employment are made between the contractor and the agency or client and the umbrella company.

The umbrella company will issue invoices on the contractors' behalf, collect payments from clients or agencies, calculate their tax and National Insurance Contributions and pay them directly into your bank account.

### Umbrella companies may particularly suit:

- First time contractors who want a quick and easy start-up method
- Contractors seeking a simple, cost-effective solution when they take on short-term contracts between permanent assignments.
- Contractors caught by IR35 tax regulations. These tax contractors act as if they are directly employed by a client – but without them having the benefits of paid holiday and sick leave – because they would be employed by that client, were it not for an intermediary, such as an agency. The umbrella is a legal, tax-efficient way to avoid IR35

Danbro is widely experienced in umbrella company operation and provides this service for contractors all over the UK

### Other Structures

Limited Liability Partnerships (LLPs) may be another option. This has the advantage over a traditional partnership that, like a limited company, an LLP's finances are separate from those of its members.

Any new or existing partnership of two or more people can set up an LLP. Members share profits and pay income tax, and National Insurance contributions.

LLPs must follow similar financial information to companies, including filing annual returns to Companies House, which may be seen as a disadvantage.

Self-employed or sole trader, status as a contractor is not recommended. This situation has the potential for significant tax liability, as you are likely to be considered as employed by any agency you work for.

### Do I need an Accountant?

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If you are running your own limited company, or LLP, 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.

It is important that your accountant understands contracting, so choose them carefully. Hopefully, you will have a long-term relationship with your accountant, so they must be someone you can trust and work with.

At Danbro, 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.

If you operate through an umbrella company, such as the option we offer at Danbro, you may only need an accountant to prepare your personal tax return. This is something we would be happy to help you with.

## Do I need Insurance?

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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.

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 clients visit you there, to 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.

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.

Danbro can provide you with quotes and immediate professional indemnity insurance as part of its solutions for contractors. Professional indemnity insurance is also included as part of our umbrella company service.

## What about VAT?

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If you are in business and your taxable turnover, not just your profit, goes over the registration threshold - £67,000 in the 2008-09 financial year - you must register for VAT.

You need to register within 30 days of the end of the month in which the threshold was crossed, or you could face a fine.

At Danbro, our service to limited companies includes your application for registration for VAT and submission of quarterly VAT returns.

You can find out more about VAT at the HM Revenues and Customs web site at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## Other Points to Think About

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This Danbro guide is intended as an introduction to contracting, so we cannot cover all the issues involved – but here are some key points that you do need to consider.

**Banking** – if you are operating as a limited company, you will need a company bank account, separate from your personal account, in the company's name.

You may be happy to open a separate account with your existing bank, or you may want to shop around – internet accounts can offer good value. As a minimum, you should look for an account that offers:

- Free banking
- A company cheque book
- Overdraft and loan facilities

You will also probably want a separate savings account, with a good rate of interest, to invest the company money you set aside to pay VAT and tax bills.

It is important that you do not mix up your company and personal banking. If you do so, HM Revenue and Customs can consider your personal finances as part of your business operations and ask to see your personal bank records.

**Keeping Records** – it is in your own interest to keep your paperwork up to date, although if you operate through an umbrella company, this will be greatly reduced.

As well as maintaining good financial records, such as recording all your bank transactions and petty cash spending, it will make your life – and your accountant's – much easier if you keep copies of documents such as timesheets, invoices and receipts for business expenditure, on goods and services, and your business expenses.

**Holidays, illness and a "Buffer" fund** – remember that you will no longer be receiving holiday or sickness pay from an employer, and that 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.

However, you will still need to cover all your business costs, such as accountancy fees, telephone bills and money for your tax bills, 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.

## The Danbro Solutions

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Danbro offers a range of solutions for contractors – we hope that one of them will be right for you. Listed below are the key services offered within each solution and we would be happy to talk to you in more detail about any of these.

### Umbrella Company

- Flat rate fee of £22 per week or £68.67 per month
- Daily payroll runs, so you receive prompt salary payments
- Professional indemnity cover of £1 million
- Group pension scheme
- Protection from the IR35 tax regulation
- Childcare Voucher Scheme
- Personal Accident and Death Insurance Cover

## Limited Company – Standard Service

### What we can do for you?

Our standard monthly fixed fee of £80 plus VAT is based on a yearly fee of £960 plus VAT, payable in 12 equal installments.

### What you receive for the standard fee?

- A dedicated client manager
- All aspects of company tax and accountancy advice; including IR35
- Provision of a comprehensive spreadsheet to help with the recording trading activities and management controls of the company
- Preparation of weekly/monthly pay slips for one fee earning director and one additional non fee earning employee
- Preparation of Quarterly VAT returns
- Advice on joining the Flat Rate Scheme for VAT
- Dividend administration
- Support for all secretarial matters
- Dealing with all correspondence from HMRC and Companies House
- Preparation of Mortgage / Tenancy References
- Preparation of annual PAYE returns
- Preparation and submission of Annual Accounts
- Preparation and submission of corporation tax computations and corporation tax return.
- We will prepare the self assessment tax return for the director free of charge on the basis that their income is derived mainly from their limited company. If their tax affairs are more complex a small fee maybe payable.

### Initial Setup

The above assumes that you have already set up a Limited Company. If that is not the case, we are able to assist you with the initial setup for a fee of £85 plus vat, which will include the following -

- The formation of your own Limited company
- Advice on the optimal share structure for your new company
- Registering the company with HMRC for PAYE and corporation tax

- Registering the company for VAT – if required
- Assistance with the opening of a company bank account
- **Tailoring our Services**

To compliment our standard service you may wish to consider some of our additional accountancy services that would suit your needs.

#### **Add Our Bookkeeping Service**

- If you do not have the time to complete our spreadsheet or to record your trading transactions using a standard accounting package, you may want to send all your paperwork, bank statements, details of cheques etc to us.

#### **Add Quarterly Management Accounts**

- Receive quarterly management accounts that provide a snapshot of your trading activities highlighting profit available for dividends and all tax liabilities of the company.
- Under this service you will usually receive draft annual accounts within 1 month of you company's year end reporting date.

#### **Or simply use our Complete Service**

- As part of this complete service, on your request, we are able to offer the facility to generate sales invoices on behalf of your company which would then be sent to your agency for payment into your Company bank account.
- If you also send details of the expenses that you have incurred, we will be able to complete a weekly or monthly advice sheet highlighting net salary payable, reimbursable expenses and estimate profit after tax.
- Includes bookkeeping and quarterly management accounts service noted above.

#### **Professional Fee Insurance**

- As part of the 'Best Practice' advice that we have received from our Institute, we offer Professional Fee insurance, which will cover any accountancy fees, in the event of an investigation from HMRC.

#### **Registered Office**

- Use our office address as your company's registered office.
- Ensuring important documents from HMRC and Companies House are sent direct to Danbro.

**Additional fees for these services will apply. Contact a Danbro consultant for further details.**

We hope you have found this guide useful. If you would like to talk to us about contracting, or find out more about any of our services, please contact us:

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Email: [enquiries@danbro.co.uk](mailto:enquiries@danbro.co.uk)

**Web: [www.danbro.co.uk](http://www.danbro.co.uk)**