

## 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 provide a proactive, professional accounting service to many hundreds of contractors and freelance 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 £64,000 within 12 months.

A company must have one director and one company secretary, 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 will 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 - £64,000 in the 2007-08 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)

## Tax matters

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If you are operating as a contractor through your own limited company, and you are not affected by the IR35 rules, you will need to pay:

- Corporation tax on the company's income
- Employer's National Insurance contributions
- Income tax on your own taxable income
- Employee's National Insurance contributions.

Your invoices will be paid into your company bank account and your accountant will set up a payroll to calculate your income tax and National Insurance contributions, allowing you to pay yourself a modest monthly salary, net of these deductions.

You will also receive income from the company in the form of shareholder dividends, which you will need to declare on your annual self assessment tax return. This

includes all details of personal income received, to make sure that you are paying the right amount of tax.

Your accountant will also produce annual accounts and you will be liable to pay corporation tax on all profits made during the year.

If you are operating through an umbrella company, like that operated by Danbro, you will pay:

- Income tax
- National Insurance contributions.

Each week, you will invoice your umbrella company each week, which then invoices the client. You will be paid a salary (and any allowable expenses), with National Insurance contributions and income tax deducted on your behalf.

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

## Pensions

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If you become a contractor, you need to make pension arrangements for your retirement, because you will have no employer pension to fall back on.

They are also tax-efficient way to use your money. For example, if you are trading as a limited company, you can invest money directly from your company bank account and do not have to pay income tax or National Insurance contributions on the payments.

Different pension options suitable for contractors include:

- Personal/stakeholder pensions: the most common type of pension, available to almost anyone (although not to contractors who run a limited company and contribute to an executive pension). You choose your pension provider and make contributions, on which the provider claims tax relief at the basic rate and adds this to your fund.
- Executive pensions are designed for company directors and people who run their own businesses. Your company makes regular payments into the plan and you can also make personal contributions. The contributions are invested to provide your retirement income.
- A Self-Invested Personal Pension (SIPP) is a collection - or “wrapper” - of pension products organised by the individual investor. It offers more flexibility than a conventional pension scheme as the SIPP holder can manage their own pension, which they can choose to put into a wide range of investments and funds.

Anyone can contribute to any number of pension schemes as long as the total contributions do not exceed 100 per cent of their annual earnings, up to a limit of £215,000.

As part of our umbrella company service, Danbro offers a group personal pension scheme through Friends Provident.

## 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 £20 per week or £60 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

## Limited Company – Standard Service

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

We will provide the following for our standard fee:

- Provision of a comprehensive spreadsheet to help with the recording of 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 the Flat Rate Scheme for VAT
- Dividend administration
- Support for all secretarial matters
- Dealing with all correspondence from HMRC and Companies House
- Preparation of annual PAYE returns
- Preparation and submission of Annual Accounts
- Preparation and submission of corporation tax computations and corporation tax return

## 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 –

- 1 The registering and setting up of your own Limited Company
- 2 Registering the Company for PAYE scheme
- 3 Registering the Company for VAT – if required
- 4 Assistance with the opening of a company bank account

## Tailoring our Services

Additional Services Include:

### **(1a) Our Standard service + Danbro Bookkeeping Service & Quarterly Management Accounts Service**

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

The management accounts would provide a snap shot of the trading activities of the company via a profit and loss account and balance sheet.

**OR**

**(1b) Our Standard Service + Sales Invoice Administration & Weekly Management Accounts**

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/client for payment to be made into your company bank account.

**(2) 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 case of investigation.

**(3) IR35 Contract Status Review**

**(4) Registered Office**

On your request, Danbro will be the registered office of your company.

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:

**Tel: (01253) 600140**

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

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