

# Contractor guide



ACCOUNTING  
— SERVICES —

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# What is a contractor?

Contractors perform a service or function for other businesses on a contractual basis, without ever becoming their employee.

They might operate as a sole trader, be contracted through their own company, or through an agency.

The length and expectations of the contract are generally agreed in advance, with contractors often working on a project basis.



# The benefits of contracting

Making the decision to start contracting can be a scary one, especially if it means leaving the relative security of full-time employment.

That said, there are plenty of potential benefits to working as a contractor.

It can be very fulfilling, allowing you to undertake projects which make the most of your particular skills. You're also likely to get more out of the contracts that you work on; more money, and more recognition.

Working as a contractor will still call on you to fulfil customers' expectations, but not in the same way that working for an employer will.

You'll have greater flexibility, operating how and when it suits you.

You may find yourself immersed in other teams and working environments during the course of a project. Coming into contact with new systems and processes will rapidly increase your knowledge, and therefore the value of services which you offer.



## Who can be a contractor?

Anyone with skills that other businesses want to utilise can become a contractor!

Contracting doesn't exclude you from also being employed, either.

Some people decide to work for an employer during the day and operate as a contractor for other businesses in their spare time.



# Considerations

If full-time, permanent employment is what you're used to, there may be an adjustment period whilst getting used to being the boss.

Here are a few things to consider:

## Tax and National Insurance

Without an employer to take care of your tax and NI through PAYE, you are solely responsible for paying tax on your earnings.

## Pensions

As a contractor, you will not be automatically enrolled into a pension scheme like you would if you were employed. It will become your responsibility to set one up for yourself.

## Employment benefits

As a contractor, you won't be eligible for some benefits, such as Statutory Sick Pay, Statutory Maternity Pay or Holiday Pay.





## Industry enrolment

Some industries require enrolment into a governing body or scheme.

For example, working as a contractor in the construction industry requires you to register for the Construction Industry Scheme (CIS), and file monthly returns to HMRC.

## IR35

IR35 is a piece of tax legislation brought in with the Finance Act 2000 to prevent tax avoidance by 'personal service companies'.

It was introduced to limit income tax avoidance by people working for a client through an intermediary, for example; a contractor who operates as a limited company.

The tax rates that affect those working under IR35 rules are significant, so seeking professional help is advised. If you're not sure where to start then please read our [IR35 guide](#).





## Is there a demand for your skills?

Assess if there is an appetite for the services you provide and where that demand is, geographically.

If you are not able to provide services remotely, you'll need to be flexible about travel, or even relocation.

A steady amount of work available will mean you don't run out of contracts after two jobs.



## Choosing a legal structure

The next big step after deciding to move into contracting is choosing the legal structure for your business.

As a contractor you can operate as either a sole trader or limited company, depending on which structure is more tax efficient. You also have the option of working through an umbrella company.

### Sole trader

Running your business as a sole trader involves significantly less paperwork than a limited company.

To operate as a sole trader, contractors should register for Self Assessment with HMRC. You'll need to submit a Self Assessment tax return every year, so HMRC can work out how much tax and National Insurance you owe.

**It's useful to put money aside for this each time an invoice is paid, to avoid any unpleasant surprises in your tax bill!**

As a sole trader, there's no tax distinction between you and the business. It means that you get to keep all of the profits, but that you're also liable for all of the debts.

To learn more about this you should read our [sole trader guide](#).



## Limited company

Some contractors decide to operate as a limited company, for tax purposes.

The business will be considered as a separate legal entity, so your personal assets won't be at risk if the company runs into financial difficulties.

Many contractors choose to operate as a limited company if the business requires financing. Limited companies are assessed for funding on their own credit rating, rather than the personal one of a sole trader.

If you decided to operate as a limited company you'll have to register the business with Companies House, as well as paying Corporation Tax.

Unlike sole traders, you can't automatically keep any profits you make, as these belong to the company. Instead, you can choose to pay yourself a director's salary, dividends, or both.

To learn more contracting as a limited company please read our [limited company guide](#).



## Umbrella company

Contractors can also carry out their work via an umbrella company.

**This is where another company or agency handles the financial relationship between the client and the contractor.**

Usually, this involves the contractor submitting their invoice to the umbrella company, who then invoices the client. The umbrella company essentially acts as an employer for the contractor, handling things like PAYE and holiday pay etc.

The client still gets the benefit of utilising a contractor for a project, rather than employing temporary staff.

As a contractor working through an umbrella company, you'll take home less money than you would as a self-employed person, but you won't have to worry about any of the paperwork!

It's also worth noting that working this way means IR35 won't apply to you, because you'll be paid through the umbrella company's payroll.



# Setting your rates

Price usually isn't the single most important factor for businesses when choosing a contractor. However, it can make the difference when deciding between two similar contract applications.

If you're expensive, your price might not be seen as good value. Too cheap, and not only does your income suffer, but you could also be perceived as inexperienced.

**Research the industry rates, and the worth you can add to the contract over your competitors.**

Most people decide to become a contractor because of the potential to earn more money than they would if they were to remain only in employment.

When setting the price for a job, consider the value that you offer to customers, how in-demand those skills are, and what you can realistically hope to earn after expenses are deducted.

Keep in mind that any income will be subject to National Insurance and income tax.



## Searching for contracts

Employment agencies can be a handy source of potential projects available in your local area.

There are also a variety of contractor marketplaces which have popped up in the last decade. Website such as [Upwork](#), [Freelancer](#), and [Peopleperhour](#) allow businesses to advertise their available contracts for contractors to apply for.

You can also use these websites to create your own profile, so businesses can search for the contractor that has the skills they are looking for.

Businesses already know they need to find a contractor, so half the battle is already won. All you need to do is convince them you are the right person for the job!

## Applying for contracts

Applying for contracts can vary across different sectors and even just between businesses within an industry.

Some people might just want you to come in, assess the job and supply a quote. Other times the contract application process might be more complex, with a set of questions to answer and a requirement to supply evidence of previous experience.





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