

Contractors' guide

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A brighter way to work as a contractor

Helping you manage your contractor or freelancer finances

Being self-employed and your own boss is an increasingly popular option for modern, skilled workers. In fact, self-employment is at its highest rate for over 40 years, with 15% of UK workers having taken the leap and set up shop on their own.

So, what's the attraction of being a freelancer or contractor?

If you've ever worked in a big organisation as an employee, it can be a refreshing change to step outside the confines of that corporate world. A regular company paycheque, and the employee benefits that go with it, can be tempting. But ultimately, you're less in control of your own destiny.

Having more control over your own career and its trajectory are a big part of becoming a contractor or freelancer. For many, it's about freedom:

- Freedom to choose who you work for.
- Freedom to manage your own time.
- And freedom to make your own money.

Keeping on top of your finances

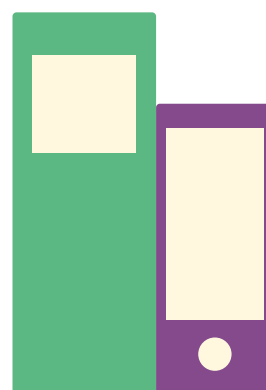
Making your own money is a hugely empowering thing to do. But keeping on top of your financial management, your regulatory obligations and the day-to-day admin of being paid as a contractor can be hard work.

So how do you cut out the hard work and make the most of your earnings?

That's what this guide is all about.

- We'll talk you through the process of setting yourself up as a self-employed worker and guide you past the common obstacles that keep contractors from making the money they should.
- We'll show you how the combination of modern cloud technology and the knowledge of a specialist contractor business adviser (that's us) makes contracting a breeze.
- We'll cut down your paperwork, take care of the tax and legal side and make sure you get every penny you deserve from every single contract.

Let's start at the beginning and look at how you set yourself up...





There are plenty of reasons for setting yourself up as self-employed. You might want to start your own business. You might want the flexibility of short-term contracts. Or you might just like the idea of being your own boss for a change.

But whatever your circumstances, there are some key things you need to do before you can start trading.

What's in a name?

One of the first things to think about is the name you'll trade under. Will you use your own name or a company name?

- **Your name?** – If you're contracting directly through recruitment agencies, it makes more sense to stick with trading under your own name. They'll be putting you on their payroll so there's no real advantage to a company name.
- **Company name?** – If you're looking to freelance or start your own one-person business, a company name is more useful. It creates a more professional image, gives you a brand to market yourself through and opens more doors for work with bigger companies.

Plus you'll need that company name if you decide to become a limited company later on.

What kind of business structure?

You need to decide on what business structure works best for you. And think about the long-term implications of each option.

- **Sole trader** – This is the most basic set-up. You're self-employed, you register with HM Revenue & Customs (HMRC) and you trade as one individual.
- **Employee through an umbrella company** – You work through a recruitment agency and you're an employee of their 'umbrella company' who pay you and do all the admin (more on this in a bit).
- **Limited company** – This is the best option in the long term. You set yourself up as a limited company and become a director of your own company (so you're officially the boss!).

Which option you choose depends on your longer-term plans for contracting/freelancing, how much you want to earn and how much admin you can handle.

Get yourself a business bank account

If you're trading as a self-employed business, you need a business bank account. Most banks will prefer you to have a separate account for your business rather than using a personal account (it's usually in their terms and conditions).

- Some larger companies won't consider hiring you for freelance or contract work unless you've got a proper business account and you're set up as a limited company, so there are advantages to getting both of these sorted.
- Shop around for business accounts with the high street banks and check which gives the best deal – unlike a personal account, business accounts usually have a monthly fee and some transactions will also be charge for.

Tell HMRC you're trading

As soon as you're self-employed you need to register yourself or your business with HMRC.

- It's HMRC who you'll be dealing with to pay your self-assessment tax at the year-end, so they'll need to know details of when you started trading and what you're intending to earn.
- You'll also get a Unique Taxpayer Reference (UTR) issued to you. Keep this safe! You'll need it to do your tax return.
- You'll also need to start paying Type 2 NI contributions.

Make sure you're covered

There's one major difference between being an employee and being self-employed. If a freelancer doesn't work, then they don't earn any money. There's no sick pay, no holiday pay and none of the cushy benefits associated with being on a company payroll.

Contractors working through umbrella companies will accrue some benefits over time, but it's best to make provisions that protect your income.

- **Insurance and medical cover** – Look into getting insurance that covers both the business and your own personal health. If for any reason you can't trade, you suddenly have no income. So it's a great idea to have insurance in place to cover yourself in the future.
- **Put money away** – It's always a good idea to leave as much money as you can 'in the business'. If you're sat on a nice nest egg, any periods where you're not working have less of an impact with the cash there to tide you over.
- **Think about that tax bill** – You also need to put money aside for your annual tax bill. As a rough guide, you should be putting at least 20% of your income aside for tax. You'll be in a much better position to pay your bill if you know the money's squirreled away already.

As you can see, there's quite a lot to think about before you start trading.

But getting these areas straight right from the start give you a great foundation for the future of your self-employed business.





When you're self-employed there's one person who's responsible for all your admin and paperwork.

And that you!

Whether you're working on one long-term contract, or doing jobs for a number of clients at once, you're going to be busy, busy, busy. And that means there's precious little time for dealing with that tedious, time-consuming admin.

Bookkeeping and accounts

Part of running your own business is keeping your accounts, or books, up to date. And that means dealing with a whole load of financial processes.

- **Raising invoices to customers** – Every time you complete a job or a piece of work, you have to invoice your customer before you get paid.
- **Paying bills from suppliers** – When you're running the business you'll need to pay suppliers for materials, utilities and all the costs of trading.
- **Chasing outstanding payments** – Some customers take a while to pay, so you'll need to chase up any unpaid invoices and make sure you've got cash coming into your bank account.

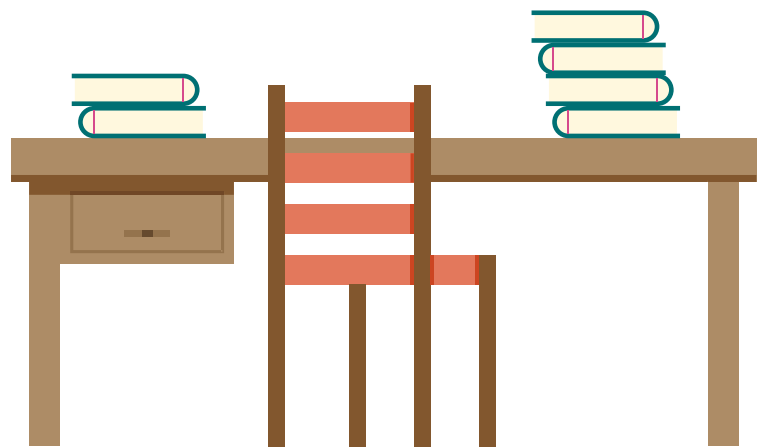
Dealing with expenses

Expenses are those day-to-day costs you work up while running the business. And they all need to be recorded in your books.

These could include:

- Travel costs
- Petrol costs
- Subsistence costs
- Accommodation costs

Some of these costs are tax exempt – depending on your situation and your company structure – so it's important you record them as you could end up getting some of the costs back from HMRC.



Filling out tax returns

Whether you're a sole trader or a limited company, you'll have to file a tax return with HMRC at the end of the year.

- For sole-traders this will be a self-assessment tax return.
- For limited companies this will be a corporate tax return.

These returns list everything you've earned in the year, all the costs you've paid out and all the money going in or out of the business.

Doing your books regularly and efficiently is a huge help when filing your return – if you've done it well, all the numbers you need are already recorded and ready to roll.

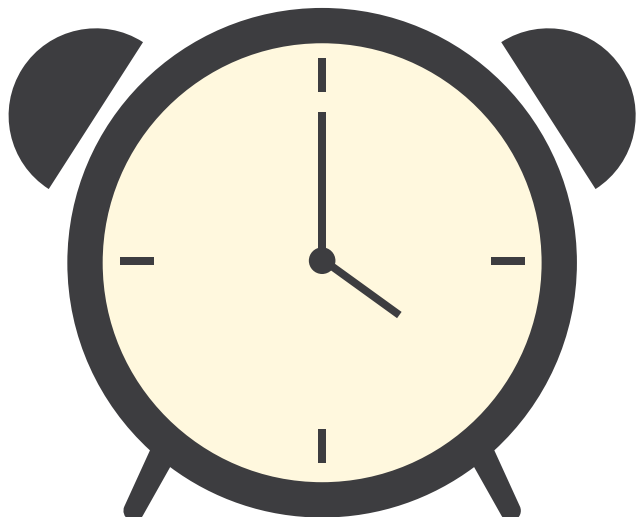
Where did your time go?

There's one big downside to all this bookkeeping and admin, though.

It takes up a LOT of your time.

And time that you spend doing data entry and form-filling is time that you're not out there getting new customers or earning money working on a job.

So, how do you get some of this time back?





Cloud accounting is an online way to keep on top of your finances.

You log into cloud software (from any internet-enabled device, even your smartphone) to account for all your incoming and outgoing cash. And there are two key benefits of this:

- You have a better handle on your money
- You get back more time to work (or play)

A better handle on your money

With cloud accounting software, all your numbers and paperwork are in once place (not on three different spreadsheets, a payslip and the back of an old envelope).

Your software shows you:

- What's in your bank account (through a direct link to your business bank account)
- Who you've invoiced
- Who you need to pay
- Who hasn't paid you yet (so you can chase them), and
- How much money is coming in and going out of your business.

More time to work

All your financial processes, like bookkeeping, invoicing and running expenses, are simpler and quicker.

- You don't need to spend hours rifling through a box of paper receipts at the end of the year.
- You can just snap a photo of your coffee or petrol receipt on your smartphone and upload it straight to your software.
- You spend less time on data entry and admin.
- And that means you get back time to focus on working...or relaxing.

FreeAgent as your financial hub

There are plenty of cloud-accounting options out there. But FreeAgent is the top choice for contractors, freelancers and any one or two-person small businesses.

- It throws out the technical accounting jargon.
- Gives you a clear view of your money.
- It's simple and incredibly easy to use.
- You'll be up and running with it in no time.

You can find out more about FreeAgent at www.freeagent.com



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Umbrella companies

(and what they're for)



If you're contracting through a recruitment agency, it's more than likely that you'll have to deal with an 'umbrella company' at some point.

So what's an umbrella company?

- In a nutshell, an umbrella company is a way for you to be employed by an agency so the end client can pay you.
- The umbrella company provides the payroll service and deals with all the financial admin needed to get you paid for your contract work.

It's a good short-term option

Working through an umbrella company is much more like being a regular employee, so it's less of a culture shock if you're new to contracting.

It can be a good option if:

- You're working on short contracts, of less than 6 months, or
- You're unsure about contracting (as a long-term thing) and want to dip a toe in the water.

You do less of the financial legwork

There's also less of an admin commitment as the umbrella company does most of the paperwork, like the invoicing and payroll etc.

But you will earn less

There is a big BUT, though. You're still technically an employee so you have to pay normal PAYE tax and NI.

- Because PAYE and NI contributions are deducted from your pay at source, you'll earn less money than if you were being paid direct.
- So the trade off is that you have less responsibility, but also earn less cash.

It won't help you build your own business

You're still an employee of the umbrella company. So if you do decide to start your own business, you have to start from scratch.

It's not the most tax efficient option

You can end up being affected by the IR35 tax rules for contractors (more on this later), which can have a serious impact on the amount of money you bring home.

The way around this is to set yourself up as a limited company...





Thankfully, there's an alternative to being an employee of an umbrella company. And that's to set yourself up as a limited company.

Becoming a limited company isn't as grand as it may sound – it basically means you registering with Companies House and HMRC, and becoming a director-only business.

And there are a number of important benefits of being a limited company...

You earn more (more cash in the pot!)

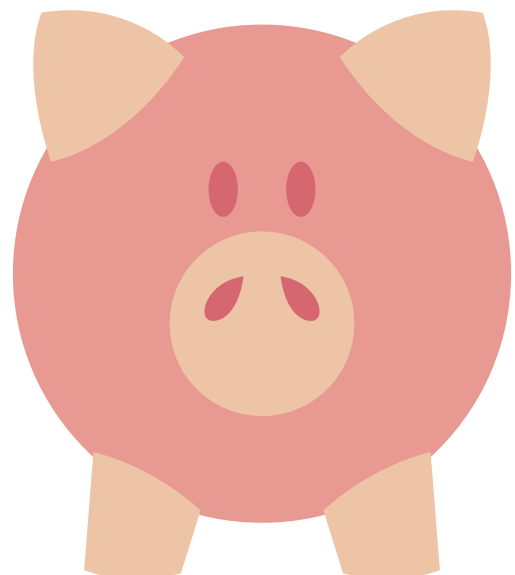
- As a limited company, you pay corporation tax, rather than PAYE income tax.
- With the main rate of corporation tax at 20%, compared to 40% for the higher rate of income tax, this can make a considerable difference to your income.

Your business is separate from your personal wealth

- Your business finance and your personal earnings are looked at separately, so what you're earning through the business doesn't impact your personal allowance
- Your liability as a director is reduced (that's why it's a 'limited' company). So your personal wealth is less likely to be affected by any changes to the business.

You're more tax efficient

- You're paying tax through the corporation tax system, rather than self-assessment.
- There's more opportunity to claim tax relief and to use tax planning to minimise your tax costs.



You can claim more in expenses

- Instead of just being able to claim basic travel and subsistence costs, there are a whole range of expenses that are exempt from tax.
- So you can claim more and spend less on unnecessary tax.

You're your own boss!

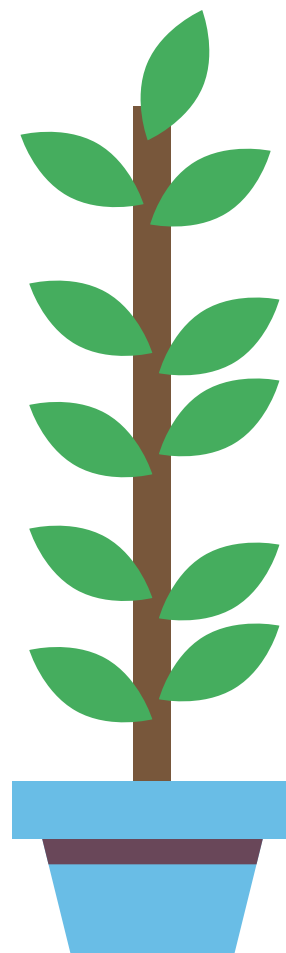
- Remember what we said about freedom? As the director of your own limited company, you really are the boss.

You're set to grow the business (if you ever want to)

- As a limited company, you've got the best possible foundation for growing your business, taking on other employees and expanding your whole operation – if that's something you're considering in the future.

So, if you're serious about a long-term career as a contractor or freelancer, or if you can see a time when you may want to expand your business, becoming a limited company is definitely the way to go.

And that's something a good accountant (us again) will be only too happy to help you set up.





Whatever HMRC may tell you in its ads, tax CAN be very taxing.

A big part of managing your finances well as a contractor is making sure you pay the right amount of tax at the right time – and that you also make the most of any available tax benefits when you can.

Keeping on top of your tax

To meet your tax obligations, you need to do a number of things:

- Make sure your bookkeeping is up to date.
- Record all your receipts, expenses and paperwork.
- Understand which taxes apply to you.
- Know when you need to pay.

Dealing with HMRC

To actually file your tax return, you'll have to contact HMRC and make sure you're set up properly on their system.

Then you'll have to:

- Make sure you've got all the records, data and paperwork HMRC need.
- Fill out the relevant tax return.
- Liaise with HMRC to pay any tax that's due (or in some circumstances, what they need to pay you!).

Coping with tax regulations like IR35

IR35 is tax legislation that's based on whether you are, or aren't, fully self-employed.

- You're either outside IR35 (you can prove you're self-employed).
- Or you're inside IR35 (you're not fully self-employed in your current contract).
- If you're seen as inside IR35 this can have a big impact on your earnings.
- So you need to be very careful about the terms of any contracts.

Coping with the responsibilities and the admin

Being able to manage all these elements of accounting, tax and regulatory requirements can get complex.

And, as with any financial management, it's going to take up time – time that could be used more profitably on other areas of your business.

But there's one very simple solution...

Get yourself a good accountant!



As you can see, running your contractor finances single-handed is a big job. It's complex, time-consuming and you need the best possible understanding of the tax regulations to get the most from your business.

But there's a way to make the whole thing a LOT easier...get yourself a really good accountant (that's us again).

Here are just a few of the ways we can help you get more out of your contracting work...

Set you up with FreeAgent

- FreeAgent is cloud accounting software designed specifically for freelancers, contractors and small business owners.
- It's the simplest, easiest and most comprehensive way to keep on top of your finances.
- We can set you up on all your devices (laptop, tablet and smartphone) and get your accounts up and running instantly.

Show you how easy bookkeeping can be

- We'll show you just how simple bookkeeping can be with a cloud system.
- Snap photos of your receipts, invoices and expenses straight into FreeAgent and never lose all your important paperwork.

Save you lots of time (and stress)

- We'll show you the most efficient ways to manage your money.
- Raise invoices online, forget about posting paper copies and get paid faster.
- See all your business information and know exactly what cash is coming in and out of the company.



Sort your tax return in a jiffy

- FreeAgent is designed to make filing your return as easy as possible.
- Pull all the required data from the cloud and use the self-assessment or corporation tax template to file your return.

Advice you on how to make more money

- We'll give you the business advice you need to make more of your earnings.
- We'll advise you on how to achieve better profits, how to keep on top of your cash flow and how to manage your outstanding debts effectively.

Give you sound business guidance

- Running a successful business is about having good information, great strategy and excellent planning.
- We'll give you regular updates on the health of your business.
- We'll help you put together a long-term business plan.
- We'll provide the strategic know-how and commercial experience you need to make your contractor business a success story!

Give you back your time!

- In short, we'll take all the complex stuff off your to-do list and give you back the time you need to work and run your business.



A brighter future with Bright Ideas Accountancy

We specialise solely on helping and advising contractors and freelancers. That's all we do – and we know the contracting business inside out.

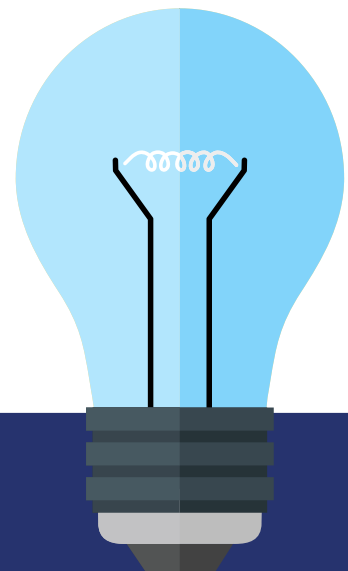
With our experience and hands-on knowledge of the contracting sector, you get the best possible guidance and insights on how to get more from your business.

More information on Bright Ideas

There's loads more information about our services and fixed-fee, monthly packages on our website at www.biaccountancy.com

We've even got a short video explaining [why Bright Ideas are the right accountant for you.](#)

May your contracting future be bright!



Get in touch

If you'd like to find out more about a brighter future as a contractor, please do get in touch for a chat. We'd love to hear from you.

You can email us at info@biaccountancy.com or give us a call on 0161 669 4221

www.biaccountancy.com