

## **CONSIDERATIONS BEFORE GOING INTO CONTRACTING**

### **Am I the right person to be considering contracting?**

Are you resourceful? Organized? Independent? Confident? Knowledgeable? Flexible? Do you like project-based work? These are some of the key personality traits you may well need.

You will consider job security but just how “permanent” is permanent employment? – particularly in the current market conditions? Not very! The best way forward may be by forging contacts to operate as an independent specialist that organizations can use when they want the work carried out. Outsourcing for specialists is on the rise as opposed to employing them “inhouse”. Job insecurity is becoming an increasing feature for many employed people today.

Are you willing to investigate the market to see where the openings are for you to make a living? For instance you may decide to trawl job boards, recruitment agencies and jobsites online or speak to friends and colleagues for knowledge.

You may also ask an accountant for advice, including the best business vehicle for your circumstances eg Sole Tradership? Limited Company? A good accountant can help and advise and action all steps needed to start up your business, including setting up a business bank account and registering for VAT.

To run your business properly you will need to keep records and your accountant will advise you what is necessary.

### **How do I secure work?**

It is advisable to secure a contract (contract for services) when you commence trading through your own business. In order to sell your skills to potential clients, you will need to prepare a succinct CV which outlines your knowledge, qualifications, specialist skills and achievements. This is an important document which should be carefully put together – it is your selling tool to encourage a client to appoint you.

You should also know the importance of networking to keep abreast of developments. Social networking is becoming increasingly important and sites such as *linkedin* are specialist business networking groups.

Before negotiating contracts you should have a clear idea how you will be paid ie how to record the work you carry out and how to issue invoices to the client and stipulate a payment date.

### **What about my pension?**

It is best to speak to a Financial Adviser to get the best advice applying to your circumstances. It may be tax beneficial to set up a scheme whereby your business makes direct contributions into your own stakeholder scheme for instance. An IFA can also advise you on life assurance, health insurance and personal investments.

### **What about my mortgage?**

As a self-employed person, you will be in a different position to an employee when it comes to organising a mortgage but there are Financial Advisers who specialise in arranging mortgages for self-employed people and will be happy to help you out.

### **How much am I likely to earn?**

You can ask your contacts and Agencies about typical hourly rates but remember that this rate should be higher than an employee would earn as you have to incorporate an amount to cover holidays, time spent in between contracts, sick leave and general risk.

There is a potential for greater earnings and greater freedom compared to being in employment but you may consider it more risky due to the uncertainty of securing future contracts.

An average working year may be 10 months with two months set aside for holidays and “in between contract” time.

### **What taxes will I need to pay?**

In reality, there are really only four areas you need to be concerned with and two of these will already be familiar to you as an employee and member of the public. One important note – when we say HMRC, this is the current term for what used to be called The Inland revenue.

*PAYE (or Pay As You Earn).* This is the tax a Limited company pays over to HMRC for the tax and national insurance on a salary.

*VAT (or Value Added Tax).* It is a legal requirement for all business with an annual turnover of more than £70,000 to register for VAT. The current rate for VAT is 20% in the United Kingdom – a figure which puts us in line with most of Europe. Once registered, you will be required to add 20% onto all of your sales invoices. This extra 20% is then paid over to the VAT office once every quarter. You would be right in questioning the validity of VAT – especially as you receive it from your client and then pay it to HMRC. You also have to remember the client claims this VAT back

from HMRC after being charged by you. In effect – the VAT money just goes around in a circle and is not really a tax at all.

*Corporation Tax.* Put very simply – this is likely to be the single largest tax your company will pay. It is payable 9 months and 1 day after your year end and is only paid once per annum. The current rate for corporation tax is 20% of your net taxable profit.

*Personal Tax (also known as your self assessment).* Whereas the first three taxes are all directly related to your Limited company, personal tax is actually related to you as an individual. Basically – it is a list of your personal income from 6th April in one year to 5th April of the next. You can think of it as a summing up of all your personal income and then a figure provided for what you owe HMRC personally. The return is filed once per annum.

There are so many different aspects to a personal tax return, it would be impossible to list them all in this introduction. However, the typical self assessment return will include salary, dividends and personal bank interest received. Every company director needs to complete a personal tax return and your Accountant should do this for you.