

## Why contractors make more money than employees

Contractors make more money than employees do. It's that simple.

That is because contractors can take home a lot more of their pay than employees are able to. Contractors have two major advantages: they pay less in [taxes](#), and they can deduct their [expenses](#).

### Compare the Employee and the Contractor

A permanent worker is paid a salary of £40,000. However, if you take into account the employers NI that is being paid by the employer, the gross earnings are £44,785. This is the gross earnings for the worker before any taxes are applied.

After the £4,474 NI tax is paid by the employer further taxes of £10,933 are paid in PAYE and employees NI, leaving the worker £29,067.

A contractor takes home £36,372 on the same payment.

### The Contractor Takes Home £7,305 More

It's that simple: the contractor takes home £7,305 pounds more per year than the employee.

Here's how it works for the contractor:

The contractor charges £44,474 for their services and takes the necessary steps to ensure they are outside [IR35](#). The cost to the company is the same.

The contractor pays themselves a small salary of £6,000 per year which incurs employers NI (£122), employees NI (£105), and PAYE (£97). The rest is company profit which is subject to corporation tax (£7287). This all leaves a distributable company profit of £31,065 which is declared as a [dividend](#) and will be subject to a further [tax on dividends](#) (£491).

“ Contractors make more money than employees do ”

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The contractors net income after taxes is £36,372, which is 82% of their earnings. This means they need a 22% return on their money if invested to get back to where they started before the government took their cut.

Suffice it to say, being a contractor and working via a [limited company](#) has significant tax advantages. And that's not all...

### And That's Not All

Everyone who works incurs expenses. You have to eat lunch. You have to take the Tube, whatever.

These expenses are “wholly and exclusively” due to the nature of your work, to cite the definition the Revenue gives for such costs—for example, watching a paid video of Russell Brand on your mobile on the way to work does not count, as you might guess.

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When the permanent employee eats lunch, it comes out of his or her own pocket. Not so the contractor.

The contractor pays for their lunch out of pre-tax expenses. This makes a considerable difference.

For example, lets assume a cost of £100 per week in expenses. This costs the permanent employee the full £100 from their net income. However, the contractor can claim these expenses resulting in only a £61 drop in their net income.

And the contractor can [claim expenses](#) for all of their work-related equipment, things like laptops, mobile phones, office equipment, broadband connections and so on.

### And that's still not all, there's VAT

For many items that include [VAT](#) the contractor can offset against their input VAT charged on their invoices, representing a further 'discount' compared to what the employee pays.

For example, a laptop costing £2000 (inc VAT) in real terms costs the contractor £1,034 – almost half price!

What about Employee Benefits—doesn't change anything

Have we forgotten, though, the benefits the employee enjoys? He gets paid holidays, sick pay, etc.

As it turns out, the benefits issue doesn't change anything.

Holidays:

The permie gets paid when they are on holiday. The contractor doesn't. Assuming the [contractors takes holidays](#) the same as the permie, this cancels out, since the company is still paying the same cost per year.

Sick pay:

Employers have to protect themselves against this, and some take out insurance to do this. This is factored into the salary they pay you and assumes an average level of risk. As a contractor you can get exactly the [same insurance](#) for a small cost and also align the risk as you see fit.

Health Insurance + Life Insurance:

This is something a contractor can purchase for a small sum. For healthy individuals, you will barely notice it as you collect your tax savings each month.

### Now You Know Why Employees Become Contractors

So it's clear that you save a lot of money on your earnings by becoming a contractor. It's that simple. You can do the maths yourself with the [calculators](#) on this site.

It actually gets even better! Contractors typically earn more than they counterparts in permanent employment. So, not only do they get paid more, they pay considerably less tax as a result.

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