

## New solutions for first-timer contractors

If you're just starting out in contracting, you need to look for some new solutions, says David Colom, principal with the London-based accounting firm which specialises in contractors DJ Colom & Co.

The Treasury has for its part insisted that the Government is fully committed to a flexible workforce. "Yet the Government has erected a barrier to entry into the flexible workforce," Colom insists.

The new legislation on managed service companies which was announced by the Government as part of the 2007 Budget has effectively put an end to the use of composite companies by contractors.

### Composites Were Useful

A composite company is a specially created company which has individual contractors as its members. These divide the costs of administration and expenses, and then the composite company pays the contractor a dividend and usually a small salary. Composites have existed since the early 90's when they were invented originally for the use of accounting firms. "Along the way, the concept became popular for contractors," Colom says, "not because they wished to avoid taxes, but because they wished to share administrative costs and to limit time spent on administration."

The great advantage of composites was that they made it easy for a new contractor to give flexible working a try. Joining a composite made it relatively inexpensive for the contractor to enjoy all of the benefits of this kind of work without a major financial commitment. If, six months later, the contractor decided to go back to permanent employment, the costs were insignificant," Colom explains.

Now the costs for entry are much higher. A contractor can either join an umbrella company and become subject to PAYE and national insurance deductions, or the contractor has to form a limited company. "With the first option, the new contractor won't get the full benefit of flexible working, and that may put him off," Colom points out. "New contractors should talk to professionals and take advice to make the right choices."

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David Colom - DJ Colom & Co.

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### A Difficult Choice

Or the new contractor can bite the bullet and form a limited company of his own, assuming he's outside IR35. This will mean an investment of several hundred pound in administration and fees, and, should the new contractor decide not to stick with it, a few hundred more to close it all down.

"Surely this is a level of commitment that many first-timers are not prepared to accept," Colom says. "Now you can't rent a car and try it out—you have to buy the car right from the start."

It is surely regrettable that in the course of regulating some rogue composite and umbrella companies, the Government has put undue pressure on a perfectly legitimate industry. It remains a fraught question whether or not the new law will generate the tax revenue the Government has claimed, but it will undoubtedly make it more difficult to create the flexible workforce the Government supposedly is promoting.

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David Colom qualified as a Chartered Accountant in the City of London in 1981 and is the founder and principal of D J Colom & Co Chartered Accountants established in 1989.

Started specialising in serving IT contractors in 1993 and is now one of the longest standing suppliers of accountancy services to computer contractors. [Read Full Profile...](#)

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