

Financial considerations when deciding to take a contract

Abstract

This article discusses the financial considerations applicable when deciding whether to accept a contract offered or wait for a higher paid contract?

Introduction

Picture the scene..... times are hard, you've been out of work for the last few months, sitting with your feet up, beer in hand, watching the TV. Then one morning you wake up, smell some coffee and realise that your hard earned savings from all those previous years contracting have been used up. Well, something like that anyway!

So, you start looking for another contract. After a few weeks, and hundreds of ignored phone calls, emails, letters etc you finally get to the point where a position arises and someone thinks you can add some value for 50 pence an hour. Okay, lets make it £20 an hour for the sake of our examples to follow.

Lets assume that you were used to earning twice that rate before, and are pondering whether to accept this role or wait until another one comes along.

Well, if you don't take the contract then you will be losing the income that you would be getting by waiting for a higher paid contract to come along. The question is, how long should you wait?

Accept The Contract or Wait for a Better Paid Contract

Lets look at some figures. For the moment, let's assume you pass IR35 - we will tackle IR35 issues later.

So, £20 an hour yields a gross of around £35k a year, which leaves you with around a net income of £2100 per month.

Lets say you decide not to accept that role, and wait for another role to come along that pays more. Well, to earn the same gross after 1 weeks wait (so we are considering a 51 week year) you would need to earn £20.50 per hour.

The calculations indicate that you need to command an extra 50 pence per hour to compensate for each week you wait for a new contract. So, unless you feel you can get a fairly significant increase other than a few pounds an hour, you may as well take the contract.

The IR35 Issue

Now lets look at the IR35 issue. This is where the situation is very different. To set the scene, lets again say that you have been offered a role for £20 per hour, but the contract is not IR35 compliant.

This time, £20 per hour will yield you a net income of £1612 per month. This is £500 less than an IR35 compliant one. So, what do you do?

Well, if you want to earn the same money as a compliant contract, then you would need to raise your rate to £27 an hour. Probably a tough one to negotiate.

Alternatively, if you waited for a compliant position at the same rate, you could wait for just under 3 months and still end up with the same net annual income.

Or you could accept a compliant contract for £15 per hour and end up with as much net income per year as the £20 per hour non compliant one.

Conclusions

So, what can we conclude from these calculations?

1. It isn't worth arguing for the sake of a few pounds when considering when to take a contract.
2. If you are offered a non compliant IR35 contract, but feel you can get a compliant contract elsewhere within the space of 3 months, then you are better off waiting.

Of course, there are many other factors to consider other than solely the financial one.

All calculations were conducted using the [contractor calculators](#) on this site.

[Calculation assumptions 40 hours a week. 44 weeks worked per year (for a full year). £5k expenses. £9k salary. No dividend splits.]

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