Advantages and disadvantages of contracting

Contracting can deliver skilled knowledge workers a huge range of benefits, which makes becoming a contractor such an attractive option compared to being employed. Higher pay, improved professional satisfaction and greater flexibility are just some of the benefits of contracting.

However, contracting does not suit every worker, as there are some challenges associated with starting and running your own contractor business. But, with the right support, none of these challenges are insurmountable and you will find that finding new work, keeping your skills fresh and taking care of business administration become commonplace.

Advantages of becoming a contractor

**Increased earnings:** you should find that you benefit from increased earnings in two ways: you are paid more per hour/day than an equivalent employee, and your tax status enables you to take home more net pay than an employee.

**Great variety and interest:** Most contractors list variety as the number one benefit of contracting. You choose your assignments and clients, so you can choose only to work on projects that interest you.

**Flexibility:** Employees typically must turn up to work between set hours five days a week, with limited time off. Contractors can choose when to work and when not to, and many have greater control over working hours and locations.

**Holidays:** When you are between contracts, you can choose to take as much or as little time off as you like. Plus, because you are earning more, you have to work less to make the same amount of money as when you were employed.

**Training:** You choose which skills to develop and what training you take. Most contractors find they gain much greater satisfaction, and return on financial investment, when they are in control of their own skills development.

**No more office politics:** Contractors are independent from their clients, and unless in an interim management role, do not become line managers. You no longer have to schmooze your boss for that promotion/pay rise/week off/training course/flexitime — you are your own boss! There is no pressure for you to put in excessive hours (you get paid by the hour/day), work weekends (unless paid) or strive for promotions to secure wage increases (if you want more money, you can choose a better paid contract).

**Improved work/life balance:** It is amazing how much better many people feel when they have control over their own destiny. As a contractor, that’s what you will have. If you plan to use your increased earnings to subsidise taking the school holidays off with your kids, or learning to sail, that’s your choice. If work is everything to you, then you can spend all 52 weeks of the year in contract, which is your choice.

For many workers, contracting is the answer to their work and lifestyle prayers. You can continue to perform a role that you love, train and develop your skills at your own pace, and choose when and where you work.

But contracting does not suit everyone. You must acquire a whole set of expertise, which we call ‘contracting skills’, to ensure that you stay in contract, earn the highest rates, keep your skills fresh and run your contracting business compliantly and efficiently.

Challenges associated with contracting

**Staying in contract:** You need to find and secure an ongoing stream of contracts to ensure you continue to earn enough to make a living. This may require you to engage with recruitment agencies and learn the skills they require, or you may need to invest in sales and marketing direct to clients.

**Downtime between contracts:** If you are not working then you don’t get paid. But by learning contracting skills and keeping your technical skills up-to-date, downtime should be minimised.

**Skills and development:** As a contractor, you no longer have a human resources department or talent management team on hand to ensure you are properly trained and qualified to fulfil the roles you deliver. Some contractors find this liberating, others a chore.

**Safety net:** You no longer have an employer who will continue to pay you if you are ill, or offer benefits such as death in service life assurance, medical insurance or a pension. You must take responsibility for each of these aspects of your physical and financial wellbeing.

**Holidays:** Contracting is not like employment, when you receive paid holidays. If you don’t work, you don’t earn. What you should find, though, is that you are earning so much more that you can afford to take time off.

**Time spent running your business:** There are two main models of contracting: running a limited company or using an umbrella company. Each of these requires a degree of time spent on administration. On balance, though, admin time is being constantly reduced as contracting service providers develop new tools allowing you to minimise the time you spend running your business.

**IR35:** This is a limited-company-contractor-focused piece of tax legislation that will crop up whenever you search around contracting online, or delve into contractor forums. Falling foul of the legislation can remove many of the financial benefits of contracting. But, by adopting some simple measures and IR35 best practice, you should be able avoid handing over more of your cash to the taxman than you need to.
Still thinking of making the leap into contracting? If you have not done so yet, check out our online interactive tax and financial calculators, which will provide you with the financial facts you need to decide.

Published: Wednesday, March 27, 2013

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