

Contractor accounting: How to manage your company accounting

Limited company contracting has traditionally been the trading vehicle chosen by many contractors, because it provides so many benefits for the contractor in exchange for a relatively small investment of time and money.

Contractors can manage the entire process of [incorporation](#), which is [setting up their own limited company](#), as well as the company administration and contracting accounting themselves, but it is generally much more cost-efficient and less risky to [use an accountant](#).

Why should contractors incorporate a limited company?

Contractors typically choose to contract via a [limited company](#) for a number of reasons. These include:

Agencies and clients [won't offer work to sole traders](#) because of the employment rights risk, so insist contractors use a limited company

Contractors can ring-fence their personal assets from the company, reducing their risk of financial loss if things go wrong

A limited company can be used to create a distinct brand separate from the individual contractor, reducing the risk of being caught by [IR35](#)

Contractors have much more flexibility with how they develop their business; they can more easily choose to become a consultant, software developer, product company or even [employ other contractors](#) through their limited company

A limited company can be [more tax efficient](#) than some trading vehicles, and is certainly more flexible when it comes to [pensions](#) and capital purchases, like computers and professional equipment.

Starting a limited company for contracting does require investing some time and money, as does administering the company on an ongoing basis and doing correct accounting as a contractor, but with the right support it is not onerous.

How to incorporate a limited company as a contractor

Contractors can set up their own limited company [online via internet-based registration services](#) in a matter of hours, and for just a few tens of pounds, but a basic understanding of company share structures and documentation is required to do this.

Alternatively, a contractor could use a [company formation](#) agent, accountant or even solicitor to set up the company for them, and naturally the cost of such professional services will be more expensive.

However, a professional will be able to determine the contractor's individual requirements and advise on the best share structure and documentation, which can save contractors time, money and pain in the long run.

As a contractor can I do my accounting myself?

There is nothing to stop you doing contracting accounting yourself if you understand the processes involved and the HRMC requirements. Contractors don't have to use an accountant in the same way that clients don't need to use contractors. But chances are if they tried to develop software without an IT contractor, or engineer a widget without a using a contracting widget expert, they would come unstuck. It's the same with contractor accounting and tax.

A good accountant will save the contractor many, many times the cost of their fees in applying their tax expertise so that the contractor is tax efficient, claiming the right allowances and only paying the tax they need to. And for most contractors, it's more cost effective to pay their accountants than lose a couple of day's worth of fees every month to do the accounts themselves.

Choosing a contractor accountant

If you've wisely decided against doing your own contracting accounting then it's important you pick a competent accountant to take things for you.

A couple of things to keep in mind when selecting a contractor accountancy service:

It is essential that contractors who choose to use an accountant [select one that specialises in contractor accounts](#), understands [IR35](#) and can process accounts and tax-plan based on IR35 issues. This almost certainly excludes most local high street accountants. Specialist contracting accountants are essential.

When it comes to IR35, there are legal implications, too, and even an accountant specialising in contractor accounts won't have all the answers. Therefore, contractors should use a solicitor with expertise in IR35 and employment law to determine their current contract's IR35 status.

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Managing the financial and accounting obligations of a contracting limited company

Contractors who are using their own contracting limited company need to understand how to manage:

Salaries

Dividends

Tax

VAT.

Directors of limited companies also have legal responsibilities to submit certain information about their limited company at set times during the financial year, such as **accounts**, annual returns, tax returns and **VAT returns**.

A **contractor's accountant** will be able to advise on all these issues; indeed that's what the contractor is paying their accountant to do for them. Having said that, the responsibility remains with the limited company's directors. So accountants will advise and prompt, but they won't make decisions – the contractor/director must do this.

A good contractor accountant will be able to advise the contractor on the most effective and efficient way for the contractor to manage their business, according to the contractor's personal needs and priorities.

As with most things in the contracting business, you generally get what you pay for; the higher the accountancy fees the more personal and specialised will be the accountancy service you are likely to receive.

When it comes to contractor accountancy services, investing in a good accountant is likely to pay dividends.

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