Dear Contractor Doctor,

I have an offer on a permanent job for £3,500 per month gross but also an alternative offer of £4,000 per month on a contract basis.

What would my tax be as a permie and is going contracting a better deal for me?

Thanks,

Amy

Hi Amy,

We are assuming here that the gross figure for permie is the amount the employer will pay you via PAYE, and thus their employers NI obligation has been paid. This in effect means it costs them £4013 to hire you. They pay £513 Employers NI, leaving £3,500 for you. This is probably why they offered £4k via contract. They are offering to spend the same on you, but offer you no benefits in return for you potentially being in a better tax position.

Here’s the numbers crunched for you assuming a tax code of 522L, and making some assumptions about possible expenses you can claim as a contractor. [A tax code of 522L means the first £5225 of taxable income is not taxed.]

<table>
<thead>
<tr>
<th></th>
<th>Permanent (£3,500 per month)</th>
<th>Contract (£200 per day for 48 weeks (£48k per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income per month</td>
<td>£2,538</td>
<td>£3,065</td>
</tr>
<tr>
<td>Net (outside IR35)</td>
<td>£3,065</td>
<td>£2,336</td>
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Many contractors use a limited company when they contract, because they can pay themselves a low salary and the rest as dividends, thus avoiding high levels of NI. Further tax is payable on dividends if your taxable income reaches the higher tax bracket. Your income of £200 per day just takes you over. Note however, that a limited company isn’t an option in the short term due to the practicalities of setting one up and then closing it down.

As a contractor, if you are caught by the dreaded IR35 tax legislation you are treated as a ‘disguised employee’ and are forced to take all your income as salary under PAYE. When this happens having a limited company ceases to be a tax efficient route, and if you want to remain as a contractor you are better off using an umbrella company. With an umbrella company you get paid via PAYE and you can also claim some contractor expenses tax free which you cannot do as a permie. It’s cheaper than running your own company. In your case if you went via an umbrella company your net income is similar to a permie, but an accurate figure will depend on your level of expenses, so it’s worth chatting to an umbrella firm to get some personalised example figures. There are other reasons when deciding between limited company and umbrella which you can explore in our article ‘Limited Company or Umbrella - deciding on a payment structure’.

Therefore, if you are potentially caught by IR35 then income makes little difference, although you are swapping employment rights for the ability to claim expenses.

If you are not caught by IR35 then you can increase your net income per month, but again you lose all employment rights.

If you fancy going for the extra cash and aren’t worried about employment rights then your next step is to establish your potential IR35 position if you go contracting with them. The role sounds like it is more of a employment role, rather than project based for a fixed term. If this is the case then you’ll probably be caught by IR35, in which case going permie might be better. Saying that, you need to discuss this with your client and also take legal advice if you plan on being outside IR35.

Hope that helps.

Kind regards

Contractor Doctor

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Here's the numbers crunched for you assuming a tax code of 522L, and making some assumptions about possible expenses you can claim as a contractor.

- **Permie**: £3,500 per month [£42k per annum]
  - Net income per month: £2,538

- **Contractor**: £200 per day for 48 weeks [£48k per year]
  - Net (outside IR35): £3,065
  - Net (inside IR35): £2,336

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