

## Starting contracting - steps to becoming a contractor

The contracting sector is evolving as more professionals realise the benefits of flexible working. With the value of the contingent workforce gaining greater recognition, and many sectors expecting to increase their reliance on contingent staff over the next few years, there has never been a better time to become a contractor.

Beyond having more freedom over the work they decide to take on and the time they choose to take off, contractors also often earn significantly better rates of pay than their permanent counterparts.

If you've made the decision to leave the permanent workforce behind and make the leap into contracting, here is your six-step guide to setting up as a contractor.

### Step 1 - Quitting your job

Contractors are typically highly proficient in their chosen field of expertise, so securing your first contract shouldn't take too long. Similarly, the nature of contracting means available roles come and go pretty fast.

The large majority of contracts will require you to interview immediately or within the following couple of days. Should you win the contract, you will be asked to start within at most the next couple of weeks. Some contracts state that they will wait four weeks for the right candidate, but this is because these roles are particularly hard to fill.

So entering the contract market doesn't require a great deal of foresight. Wait until at most four weeks before you become available before you begin looking for contracts.

### Step 2 - Securing a contract

Contractors typically secure contracts via one of two ways. They either approach the client directly or they go via a recruitment agency. Most clients prefer to deal through an agency. As a result, the majority of contracts in most sectors are only available through agencies.

In addition to this, unless you have a good network of contacts within the industry, sourcing a direct contract will be very time consuming. Even if you are successful, the likelihood is that the client will put you through an agency anyway, in order to maintain the arms-length relationship that ensures you cannot later claim employment rights.

The most effective means of identifying and applying for contracts is via online job boards. As well as the major job boards that focus on virtually every sector, there are also an increasing amount of specialist sites dedicated to particular sectors. It's also a good idea to upload and register your details on CV databases, where agencies search to find matches for vacant positions.

Social media sites are also frequently targeted by agencies who will use them to advertise vacant contracts. Ensure your LinkedIn and other relevant profiles are consistent with your CV, and keep an eye out for available opportunities.

### Step 3 - Considering the IR35 status of the contract

Having a contract within **IR35** can decrease your net income by up to 25% so it's essential to clarify your status before you agree to anything. You can choose to do this yourself, or seek expert advice from a qualified lawyer. But be warned, IR35 is not a black and white decision.

Full IR35 understanding requires knowledge of employment case law, and so you are best advised to seek professional advice. Certain accountants have learnt the legal basics of IR35 and provide status reviews, whilst other larger accountancy firms have qualified in-house lawyers who carry out reviews – although it's worth enquiring about the qualifications of the reviewer.

Having certain contra-indicators in place - such as having the right of substitution and a lack of mutuality of obligation - would suggest that the contract is outside IR35, but it's always best to be sure. **HMRC also offers a contract review service**, but you are better off seeking an expert adviser who prioritises only your interests.

### Step 4 - Deciding on a payment structure

When **deciding on a payment structure**, there are two options. You can incorporate and become the director and shareholder of your own one person limited company, or you can work via an umbrella company.

Since the introduction of the Managed Service Company Legislation in 2007, umbrella companies are obliged to deduct Pay As You Earn (PAYE) Income Tax from their contractors – the equivalent of carrying out a contract within IR35.

As such, if your contract is outside IR35, the limited company route will leave you far better off financially. However, if your contract is inside IR35, your net income will be little affected whichever trading vehicle you take. The main difference in this case will be the additional administrative duties you would have to carry out as the director of your company.

That is why, whilst limited company contractors typically earn more, many contractors still choose to work under umbrellas to avoid the hassle of running a business.

## Step 5 - Choosing an accountant or umbrella company

One additional expense that limited company contractors incur comes in the form of accountancy fees. Some contractors might decide to do their own accounts, although [the benefits of hiring an accountant](#) most often far outweigh the costs.

Whilst most qualified high street accountants will be able to provide you with a service, specialist accountants are far more knowledgeable in areas that concern you, such as IR35. There are numerous accountancy firms that are specific to the contract sector who typically offer a package service consisting of preparation of accounts, corporation tax return, payroll matters, statutory affairs and telephone support.

If you decide to contract via an umbrella, you won't have to worry about taxation or company accounts, but [it pays to pick the right umbrella](#). Most agencies will recommend an umbrella company, often based on the quality of service offered to both the agency and the contractor. Good quality umbrella companies will come highly recommended, will process payments promptly and will cost in the region of £25-£30 per week.

## Step 6 - Signing the contracts

If you decide to go down the limited company route you will first need to send your limited company details to your agency before signing the agency contract for the agreed rate as company director.

Make sure your contract is a contract for services and not a contract of service. The former is an arm's length business-to-business arrangement whilst the latter is an employment contract. Also ensure that your duties are carefully described in the contract and don't agree to perform vague or general work.

As an umbrella contractor, you will need to sign the umbrella company provider's contract for services. You will then need to advise your umbrella company of the details of your agency and contract for services before advising your agency of the details of your umbrella company provider.

The umbrella company and agency will then liaise to sign a contract for your services, working through the umbrella company. Some agencies will require you to countersign the contract, following its signature by a director of the umbrella company.

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