

An Introduction to
Contracting

***“Going freelance
doesn’t mean
going it alone”***

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Dear Contractor

We are pleased to provide the attached brief guide covering many of the points, which need to be considered when setting up a company.

Lowson Ward has been handling contractor's affairs for many years and has a considerable amount of expertise to help both the 'first timer' and the more experienced contractor. We are confident that you will find that our service is professional and efficient whilst also being friendly and personal. It is this latter item, which many established contractors find so refreshing. Taken together they ensure the smooth running of your financial affairs enabling you to concentrate on your business.

We would welcome the opportunity of an initial meeting where this is possible. Such a meeting is free of charge, without obligation and can be held outside of office hours. Alternatively, telephone meetings can be held. Day to day contact is by telephone, fax or e-mail.

In many cases a company will be required quickly. We can provide companies by return of post. There is no charge to our clients for the provision of a limited company where we produce the first year's accounts.

We look forward to hearing from you.

Yours sincerely

Lowson Ward

Contents

Considering Contracting?	4
The Options	5
Our Services	6
About Lawson Ward	7 - 8
Final Thoughts	9

Appendix:

Tax Deductible Expenses	10
Taking Money out of the Company	11
IR35	12
Section 660	13

Considering Contracting?

Basics:

Many workers have been in environments where there are contractors. They already know many of the differences between employees and contractors. They know for example, that there are big differences in pay rates and that the contractors are not permanent.

Contractors usually come to assist in a particular project for an agreed period and may be “extended” if further work is required. In effect contractors are selling their skills in the market place to the highest bidder.

Benefits to the client:

There are several reasons why organisations like to use contractors:

For example:

- They are not a long term commitment;
- They provide skills the in-house team may not have; and
- They are usually more flexible over hours etc. than permanent staff.

The other major reason organisations like contractors is that they save money. If an organisation employs you they have to pay sick pay, holiday pay, redundancy pay and employer’s national insurance. But if they use you as a contractor they don’t have to pay any of this – so they can usually afford to pay you more per hour.

Benefits to the contractor:

Every contractor has his or her own reasons for liking contracting. Some of the most common are:

- Greater independence
- More pay
- Financial flexibility
- Variety of work and environment
- Tax and national insurance savings
- Potential

Drawbacks:

No method of earning a living is free of drawbacks. You may take a contract, which entails staying away from home, there may be gaps between contracts, and you will be responsible for keeping your skills up to-date. Unless you use our umbrella or managed company service, you will also take responsibility for running the business and complying with the law.

What next?

If you think contracting may be right for you the first step is to test the market to make sure your skills are in demand. Contact a few agencies. Assuming this goes well your next step should be to seek our professional advice. Although you may have met a lot of contractors and think you know a lot already, proper advice, taken early will get you off to the right start.

The Options

There are two main ways that your business could operate. These are:

1. Your own limited company which we will help you to manage, or
2. A company we manage for you.

1. Personal service Company:

This method is very tax efficient and highly flexible for tax purposes. Not only can you claim generous expenses but you minimise your liability to PAYE and national insurance. The company will have to pay corporation tax on its profits but this is at a much lower rate. It is for these reasons that limited companies are so popular.

We have a range of solutions for contractors operating this way. This includes our “All Inclusive Service” for those wanting minimal input into the administration of the company, yet all of the extra tax savings their own limited company can bring. Clients who have been contracting for some time may wish to extend their company’s activities beyond contracting work. We have considerable experience in helping clients grow their business and achieve their goals.

2. Companies we manage for you:

Under this arrangement you work through either our umbrella company, or one of our managed companies. You are not responsible for administering the company. We do all the paperwork leaving you free to do what you do best, serving your customer.

This method of contracting is **not** as tax efficient as operating via your own personal service company.

Legislation has been introduced which effectively means that PAYE/NI is applied to all income earned by these companies.

Our Services

We have a range of services to suit all contractors. These include:

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|-----------------------------------|--|
| All Inclusive | You have your own Limited Company and we undertake the administration. This service will keep you focused on your customer. It is the best of both worlds with all the tax savings of a limited company but little of the administration. |
| Select | You have your own Limited Company and choose from a menu of services. This is for the more experienced Limited Company contractor. |
| Managed Company (Umbrella) | You have the benefit of operating within the contractor market, leaving us, as the directors, to administer your company. Your company's income will be subject to PAYE/NI. Simplicity itself. |
| Business Plus | You are entrepreneurial and may want to expand the work that you do beyond contracting. Perhaps you want to grow the business and take on staff or maybe you want to invest in properties. You will need special attention and expert advice. After discussing your needs, we will design a package specifically for you. Please call us for further details |

We offer:

- Free, no commitment, initial meeting
- Long proven expertise
- Objective, independent advice
- Limited company, available immediately
- Full range of insurance products
- Central location, easy access and free parking
- Out of hours appointments if required
- Fast friendly and efficient service
- Pre-trading expenditure advice
- Company bank account
- Tax planning advice
- Unlimited telephone and e-mail support

About Lowson Ward

You should demand a dynamic relationship from your accountancy team - one that offers the highest level of service and support for you.

Lowson Ward meet these demands through innovative and positive guidance in all aspects of your contracting work, from business structure to profit retention and protection from the Inland Revenue and Customs.

Our philosophy is simple:

We make sure that you achieve maximum earnings with the minimum of hassle. We help you to stay compliant and then safeguard your hard earned profits. This we achieve through an expert in-house team of accounting, tax and business professionals and through a team of trusted business partners all of whom have many years experience in working with contractors similar to you.

Why talk to us?

If you want to make money and be successful as a contractor we can help you because:

- We specialise in the Contractor market so we understand your specific needs.
- We will show you how to succeed – not just how to do your accounts.
- Our proven personal service makes the transition from employment to freelancing as simple as possible.
- We will guide you painlessly through the maze of business opportunities and pitfalls.
- We do listen. We will deal with you as an individual and answer the queries, which you have.
- We do not use “jargon” - so you can really understand and benefit from our advice.
- We offer a range of services. You can utilise whichever services you prefer. All are competitively priced, and provide excellent value for money.
- We offer fixed fees, agreed in advance.
- We will supply a limited company absolutely free of charge, provided we produce the company’s first year’s accounts.
- Comprehensive and generous expenses policy.
- We know that we can save you money - for most that is reason enough!

Who are we?

Lowson Ward is a Birmingham based firm of Chartered Accountants. We specialise in the provision of accounting services and tax advice to professional Contractors.

- We are an enthusiastic and successful company.
- Our professional reputation has been built on technical expertise, sound commitment and top quality service. Having handled freelance contractors' affairs for over 20 years, we have a wealth of specialist experience.
- We have a wide geographical spread of clients from the South Coast to Scotland.
- We are small enough to know you as an individual not as a number - you will know the members of our team on a first name basis.



Maximum Earnings :: Minimum Hassle

Final Thoughts

Becoming a professional contractor can seem daunting but with the right advice, it is not something to be feared. It is in fact exhilarating. Remember, many contractors have taken the same route before you. Of course, using accountants who have experience of contractors will make things easier.

If you would like to know more or would like to take advantage of a free initial meeting please contact Phil Ward on 0121 778 6278 or email: phil@lowsonward.com

The foregoing is a brief guide to some of the business considerations when starting and running your own company. This guide is not exhaustive and needs to be tailored to your specific circumstances. Accordingly, no responsibility for loss occasioned by any person acting or refraining from acting as a result of material contained in the guide can be accepted.

Tax Deductible Expenses

The expenses you incur will depend on your business activities. To be tax effective, expenses have to be incurred wholly, exclusively and necessarily in the performance of your duties. We will ensure that all allowances and expenses are maximised and claimed where appropriate. The following are typical examples of expenses claimed:

- Contractor's gross salary.
- Employers National Insurance on the contractor's salary.
- Pension contributions.
- Business travel and subsistence.
- Business subscriptions.
- Company postage and stationery.
- Computer and Internet costs.
- Business telephones including mobiles.
- Advertising and website costs.
- Company bank account charges and interest.
- Tax allowances on computer equipment, office furniture, company vehicles, etc.
- Interest on loans for business purposes.
- Accountancy fees.
- A charge for the use of the contractor's home as office, if appropriate.
- Salary of spouse (where appropriate) for work done.
- Employer's national insurance contributions, if any, on the salary of the spouse.

This list is not exhaustive.

Please Note: tax deductible expenses are restricted for contractors operating under our Managed Service/Umbrella schemes.

Pre-Trading Expenditure

Some expenditure, for example travel to agents and prospective customers before a 'normal place of work' can be ascertained, or the cost of a computer for preparing CV's may be incurred before the contract starts. Providing it is allowable trading expenditure, it may be treated as a cost of the first accounting period.

You should be keeping a note, now, of mileage's travelled, telephone calls made etc. so that you can claim these costs when the company receives its first income.

Taking Money Out of the Company

There are three common methods of taking money out of the company:

1. Reimbursement of expenses

The company can reimburse you for expenses you pay on the company's behalf (eg. travel expenses). The reimbursement of business expenses is free from tax and National Insurance. **We will help you maximise your claims wherever appropriate.**

2. Salary

We help you to decide on the optimum salary level the company will pay you. The salary will be liable to PAYE and National Insurance. We can undertake the payroll preparation for you. Please see our notes on IR35 below.

3. Dividends

The advantage of paying dividends is that they are free of National Insurance charges. They are extremely tax efficient and easy to administer. If liable to IR35 their use may be restricted.

Note: With items 2 and 3 there may be an associated tax liability. Sensible tax planning in conjunction with us will minimise this.

IR35

The government introduced legislation commonly known as 'IR35' to stop what they saw as abuse of the taxation system by individuals operating through their own limited companies.

The legislation applies where you work for a client through your company, but had you been working directly for them, you would have been treated as an employee rather than self employed.

Each contract that your company enters into has to be assessed to see if it falls within the scope of IR35. If it does, PAYE and National Insurance will be payable on the income received on these contracts, less certain allowable deductions. Your after tax income will be higher if you are not liable to IR35.

At Lowson Ward we can help you in the following ways:

- Advise on whether you currently pass or fail IR35.
- Advise on the steps to be taken to ensure you operate outside IR35.
- Even if you are liable to IR35, we can structure your affairs in the most tax efficient way to maximise your take home pay.

Section 660

For many contractors a typical scenario may be as follows:

When their company is set up, the husband and wife are issued with one share each. The husband (say) goes out to do the work and earns the income, and the wife takes care of the administration, bookkeeping etc. They may each draw a low salary for the work done with the remaining profits being distributed as dividends. Most would agree, that to operate a Company like this is a valid way to work, and not a means of tax avoidance.

The Inland Revenue have recently attacked this kind of arrangement under legislation that was introduced many decades ago (known as S660 or the settlement provisions). Why they should choose to apply this legislation now rather than historically is unknown. The Revenue's argument is that if the wife's income stems mostly from the husband's work, then if he does not pay himself a 'realistic' salary, he has given her a right to his income i.e. the dividends that she gets on her shares in the Company. They may claim that this should fall under S660 and they would seek to tax the husband on some or all of his wife's dividends. This could lead to more tax being payable as with a higher income the husband may have more higher rate taxes to pay. This equally applies where the wife is the earner and the husband provides administrative services, etc.

This legislation has been tested in the law courts (often referred to the "Artic Systems" case). Although the initial judgments were in favour of the Inland Revenue, the latest appeal judgment found in favour of the tax payer.

The saga continues.