

# Guide to Contracting



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# THINGS TO CONSIDER

You are a contractor if you work for a defined period of time, under contract, to help a client complete a project or provide a service. You will effectively be selling your skills and time and will usually be paid by the day. Often you will be contracted to an agency that will in turn have a contract with the end client and your company (Limited Company or Umbrella Company) will provide those services through the agency into the end client.

## BE YOUR OWN BOSS

Being a contractor means being your own boss and the freedom this brings has many advantages. Contractors are usually paid more than permanent employees working alongside them on a project, but there are reasons for this. For roles out-with IR35, you may also be able to restructure the tax you pay compared to your permanent counterparts, but this is all dependent on working practices and contracts and we recommend taking advice from a qualified accountant.

## FLEXIBILITY

Choosing to contract also affords you a certain amount of flexibility and freedom. Successful contractors can choose when and where to work, and you may choose to spend time indulging your pastimes and hobbies between roles.

## VAST ARRAY OF EXPERIENCES

The element of variety, in terms of role, client and environment, that contracting can bring is seen by many as a real benefit. By successfully completing multiple Contracts within different organisations over time over time, a contractor can gain valuable and varied experience, not to mention an impressive CV.

## RISKS VS REWARDS

In the majority of instances, being a contractor is very different from being employed. There are many risks associated but there are also many advantages. Perceived disadvantages to contracting may include the fact that inherently there is less security; you will not be protected in the same way as an employee. There is an element of uncertainty - there are, after all, no guarantees of another contract when your current one



ends, and client requirements may change at a moments' notice leaving you without a role. Additionally, because you will be running your own business, there will be forms to fill in, rules to obey, insurances to have in place and accounts to keep. Perhaps the biggest consideration is around being your own boss. There is nobody else who will pay you when you take a holiday or have any days off sick.

## VARIETY

A successful contractor has the ability to go from one client to another, adapting to the different conditions, different technology,

different cultures, and different ways of working. This can be appealing to some, usually those individuals who are flexible, thrive on variety and those who no longer want a part in the politics or reviews that often come with working for an organisation as an employee, including appraisals.



## WHY DO COMPANIES USE CONTRACTORS?

Contractors will often have a niche set of skills that have been developed in many different companies & environments. They can be in essence 'hired guns' or 'subject matter experts' and are ideally suited for specific pieces of work to then be released once the work is delivered.

Companies often require increased resource capability and capacity to deal with timebound projects – work out with and in addition to the normal BAU operations of the organisation, such as Change or Transformation related projects. Short-term projects often do not require full time employees, and contractors do not represent a long-term financial commitment to a client in the way that permanent employees do.

Companies can often save money utilising Contract Resource correctly. Companies have to pay employees sick pay, holiday pay, redundancy pay, pension contributions and employer's national insurance. Not to mention the additional expenses incurred by training and development and additional employee benefits. By engaging Contractors for appropriate roles, they don't have to pay any of this and are also able to keep a level of flexibility in terms of resource capability that they wouldn't be able to by just engaging with permanent employees.



# HOW TO POSITION YOURSELF

Before setting out, be sure that there is a market for your skills as a contractor. We advise talking to your network and to recruitment agencies in your industry to see what kind of contracts might be available, whether you are suitable, and what the market rates suggest you would be able to earn. This is the first step in thinking like a business – research your market and find out if there is a demand for your skill set.

Under normal circumstances you should be willing to look at working in different locations and be prepared to look at roles that are further away from home than you might normally consider as an employee. Whilst we have seen a recent surge in remote working, there is no guarantee that this will remain to be the case and we are beginning to see a requirement for candidates to be willing to work part time onsite with clients. You will need to evolve your mindset to start thinking like a contractor, and to stop thinking of your end customer as your 'employer'.

Talk to other contractors and colleagues to gain a better

understanding of the current market. All forms of networking (agencies, contractors, ex-employers, colleagues) will help you build a clearer picture to enable you to work out which parts of your CV are strongest in terms of in-demand skills and experience, and how to market your services.

You need to be clear on what your strengths are before positioning them with an agency and ultimately to your potential end client at interview. A good agent will take the time to get to know you! You may need to invest in your development and retrain to supply those skills that you find are in demand, and you may need to accept a lower rate in the short term if a contract offers you additional (valuable) experience that you can eventually justify charging a higher rate for elsewhere.

## HOW TO FIND YOUR NEXT CONTRACT ROLE...

The majority of contractors use internet job boards (such as Job-Serve and Jobsite) and LinkedIn to find contract vacancies posted by recruitment agencies. The internet really is the perfect medium for job hunting – the first stop for many will be online job boards, with a wide number of search engines providing you with access to many of the contract vacancies on offer at any given time. Search for the type of work you are looking for and the location, then scan the results for roles you are interested in.

There are a couple of things to be aware of when searching for jobs online – many clients will have a number of 'preferred suppliers' (agencies acting on their behalf), so you are more than likely to see the same job posted several times on the major job boards with different reference numbers. Keep a spreadsheet of any roles you have applied for, the end client, reference number and any Agency involved.

Widen your role search by looking at the job listings on an agency's website and by keeping your ear to the ground on forums, newsgroups, and using social networking sites (particularly LinkedIn).

Search for networking contacts with your previous customers, and on company, industry and association web sites. A significant proportion of contractors say that contacts within previous clients had given advice that helped with a job search and your network is one of the most powerful tools you will have as a Contractor – use it.

Keep a record of potential clients, ex-clients, old colleagues and other contacts from the industry. Make sure that you keep them up to date with your contact details and make a point of keeping in touch once in while – these people will know your value better than anyone else.



# WORKING WITH AGENCIES

## WHEN APPLYING FOR ROLES

A good agent should understand the market as well as you do, if not better, and will be able to advise on how best to market your services & skillset, and recommend any changes or additions to your CV.

It is important from the outset to establish a good relationship with recruitment consultants, and advisable to follow up a CV submission with a phone call to discuss a vacancy.

As a contractor, you need to take responsibility for your own career, and establishing a strong relationship with a recruitment company you trust will reap rewards.

With your recruitment consultant you will agree three things fundamental to you:

- which positions you will be submitted for
- where you ultimately work
- the rate you will be paid

Typically, recruitment agencies will be working with a range of different clients at a given time, and many candidates applying for roles with these clients. It is therefore important to distinguish yourself from other candidates and gain 'buy-in' and establish a relationship with your recruitment consultant, leading them to work proactively on your behalf.

## TYPICAL QUESTIONS FROM RECRUITMENT CONSULTANT

- Determining If you are right. Often we only have 48 hours' to search for and source suitable candidates for a position so the questions we ask will be direct and enable us to determine your suitability for a role, skills match, culture fit, lifestyle match for you as the consultant, availability to start etc.
- Discussion around your rate. The rate that you and your consultant agree to submit your CV at will be decided by the end clients' rate card for a skill, location and duration of a role, and where you typically 'pitch' yourself. Most contractors will have an idea of their minimum and target rate for a given role or requirement.
- Your eligibility for the role. Many clients will stipulate that you would be required to successfully pass their pre-engagement vetting which can include references, a clear credit history (if the end client is a bank, for example), and passing a criminal records check.

# HINTS AND TIPS



RTW

- **Respond quickly** to an agency's telephone call or email as they are likely to be bound by a deadline and you may be in competition with other candidates (most of our end clients will limit CV submissions to 2 - 3 per role and require CV's within 48 hours').
- There is stiff competition for roles so make sure that your CV sells you as an obvious choice for your target roles – your **relevant experience comes across clearly** and is easily accessible within the CV.
- When applying online to an agency for a particular role, ensure that your CV echoes the relevant experience you have and **match the language featured in the advert and job description**. Keywords and phrases will be used to search candidates with the right expertise on job boards or within an agency's database.
- You should **never have to pay any money to a recruitment agency**. It is unlawful for anyone to charge you a fee or commission to get you a job. We are paid by our clients, not our candidates.
- **Apply for, and only agree to be submitted to, roles that you want**. You don't want to waste your time or others by being submitted for a role that isn't your ideal next role.
- **Keep track of roles that you apply for**, and which agencies are representing you for which positions. Be careful not to give authorisation to multiple agencies to represent you for the same role – clients and agencies alike get frustrated by duplications and it can lead to your CV not being considered at all.
- **Be honest** and make sure the content of your CV (employment dates etc.) are **accurate**. Inconsistencies that are picked up by an employer will reflect badly on the agency and they may lose trust in putting you forward for future vacancies.
- **Think beforehand about your day rate requirements** and check with your agency that these are realistic. They will have a good handle on market rates, and know what rates their client is prepared to consider.

## UK VISAS AND IMMIGRATION: RIGHT TO WORK

As of 16th May 2014, you can no longer use a visa as right to work if it is contained within an expired passport. Instead, if you have limited right to remain, you must apply for a biometric residence card.

Alternatively if you have settlement or unlimited right to remain you can apply using the form available in the link below.

Details can be found at this website: [www.gov.uk/biometric-residence-permits/replace-visa-brp](http://www.gov.uk/biometric-residence-permits/replace-visa-brp)

# COMPANY STRUCTURES

In order to fulfil a contract position you must have a legal entity which you can use to provide your services through Head Resourcing to the end client.

The two most common options are:

Limited company



Umbrella company



Following the introduction of the Off-payroll worker rules in April 2021, end clients are now responsible for evaluating the IR35 status of a role ahead of any individual or company being awarded a contract (see IR35 section below).

This has led to many roles being released as PAYE only where candidates need to be on the payroll of the agency directly or engage an Umbrella company to act as their temporary employer.

There are still roles being released that have been evaluated as Outside IR35 or roles with small companies who are exempt from the new legislation and therefore Limited companies are still being engaged for Contracts, just on a far smaller scale than they were prior to the rules change.

## WORKING THROUGH A LIMITED COMPANY

Under this option, you set up and run your own company, including being responsible for any taxation, accounting and legal requirements of the company. Your company is there to provide specific services to end clients that you may supply as the representative of your company.

Many contractors will appoint an accountant to help them with the running of their business and use a lawyer for any legal issues. You would normally be the Managing Director and majority shareholder of the company.

## WORKING THROUGH A PAYE COMPANY

Using this method, you become a temporary employee of the umbrella company for the duration of the contract, who will invoice your agency on your behalf, for the services that you have provided.

You will be paid your salary, less normal tax and NI deductions (both employee and employers) as well as the umbrella company's fee.

Listed below are some of the advantages and disadvantages of each option. Head Resourcing would always recommend that a new contractor should procure the advice from suitable advisor.







# LIMITED COMPANY ADVANTAGES AND DISADVANTAGES

## Advantages

- + For most contractors, potentially the most tax efficient way of working, normally expecting a higher net return than umbrella companies
- + Opportunity to claim a wider range of expenses than with an umbrella company
- + You, as a director, have control and responsibility for all financial decisions
- + Can use the Flat Rate VAT scheme
- + Potentially more options around tax / pension planning

## Disadvantages

- Monthly or annual accountant's fees, which could include company start-up or close-down fees, checking the company name is available, registration with Companies House as well as setting up business bank account, VAT registration, securing company insurances.
- Returns required by law - Quarterly, Annual, VAT, Corporation Tax
- Fewer roles currently allow the use of a PSC (personal Service Company / Ltd Company) following the IR35 rules changes in 2021
- Probably not the best financial solution if you only contract for a short period

# PAYE UMBRELLA COMPANY ADVANTAGES AND DISADVANTAGES

## Advantages

- + Less paperwork/administration, easy to use - submit timesheet, umbrella company will invoice Head Resourcing
- + Can provide convenient short-term solution, especially for new contractors.
- + Full employment status, statutory deductions handled at source
- + All insurances provided
- + No IR35 issues
- + Don't need business bank account

## Disadvantages

- Normally there is an admin fee involved, on top of the standard PAYE taxes and both Employee and Employer NI deductions. Admin fees can be fixed amounts or a percentage of the invoiced amount
- Salary is subject to full tax and NI, in the same way as a permanent employee salary
- Umbrella Company must invoice the agency and you are unlikely to receive payment before umbrella company is paid
- Normally lower net income compared with the Limited Company option

IF YOU CHOOSE TO GO DOWN THE 'LIMITED COMPANY' CONTRACTOR ROUTE YOU WILL NEED TO CONSIDER INSURANCES.



## INSURANCES

### PROFESSIONAL INDEMNITY

This policy provides cover in the event that your client suffers a loss as a result of an alleged negligent act, error or omission arising from the provision of professional service.

### EMPLOYER'S LIABILITY INSURANCE

This policy covers any injuries to employees of the business as a result of the company's negligence. As a limited company employing yourself or any other person, it is a legal requirement that you have Employer's liability insurance.

### PUBLIC LIABILITY INSURANCE

This policy covers you against any claims relating to injury or death to members of the public or damage to property that occurs as a result of your business activities.



### IR35

If you would like to find out more about IR35 you will find our dedicated IR35 brochure online here, or speak to someone in our team who would be happy to send you a copy.

### VAT

As a limited company contractor, you do not have to register for VAT until the turnover of your company exceeds a certain level.

However, you may decide to do so to enable recovery of VAT on business purchases (e.g. computer equipment, accountant's fees). You (or someone on your behalf, normally your accountant) must complete a Quarterly VAT return.

Once registered, you will be asked by the company to provide a copy of your VAT certificate and all invoices submitted should show this VAT number.

### AWR

The Agency Workers Regulations (AWR) came into force in Scotland, England and Wales on 1st October 2011. The Agency Workers (Northern Ireland) Regulations 2011 came into effect on 5th December 2011.

These regulations give agency workers the right to the same basic working and employment conditions they would receive if they were engaged directly by an end client to do the same job. This is limited to conditions that relate to pay and working time.

Agency workers are also entitled to access facilities and amenities that are available to the end client's own workers and to be advised by a client of vacancies which arise in the client's business.

Use the AWR details link below for more information and details.





# OPTING IN OR OUT

You will normally be asked by your agency if you are opting out – what does this actually mean to you? You are being asked to opt out of The Agency Regulations (The Conduct of Employment Agencies and Employment Business Regulations 2003), which were introduced to make provision to secure the proper conduct of employment agencies and employment businesses and to protect the interests of persons using their services.'

For the opt out to be effective, both the individual contractor and the limited company must notify the agency to that effect in writing, and before either the introduction or the supply of services to the client. This status will remain in force for the duration of the contract, including any extensions.

Please note that an agency may not make opting out a condition of providing their services to assist in securing you a role, it is a matter of choice for the contractor.

Please see the links at the end of this document to find out more about the comments and opinions from the IPSE and Contractor UK.

# COMPLIANCE & PRE-ENGAGEMENT SCREENING

To comply with the pre-engagement screening of our clients, the following information and documents are required before starting a new role:

- ✓ Passport
- ✓ Proof of residence
- ✓ 6 years address history – This should list all addresses for the last 5 years, with no gaps (?)
- ✓ References – 1, 2, 3, or 5 years depending on client requirement – gaps may also need to be identified and potentially evidenced
- ✓ Credit check (if required by client) – Contractor must give permission to conduct this check, and confirm that, to the best of their knowledge, they do not have any outstanding County Court Judgements (CCJs, SCDs, IVAs or Bankruptcies).
- ✓ Disclosure Scotland or DBS (if required by client) – Criminal records check based on location of role
- ✓ Company Documents (if providing services via Limited Company)
  - Copy of Limited Company Certificate of Incorporation
  - Copy of VAT Certificate (if applicable)
  - Bank account details (company account) & supporting documentation
  - Copy of Professional Indemnity insurance cover
  - Copies of Employers Liability and Public Liability insurances, where applicable.
- ✓ Risk database checks, including CIFAS - if required by the client
- ✓ Signed Contract



# TIMESHEETS, INVOICING AND PAYMENTS

Head Resourcing has a timesheet portal where you will submit your time on a monthly basis to be authorised by your line manager by the 4th working day of the month. You should also submit any authorised expenses as well as a company invoice for all related services.

Payments will be made on the 15th of the month, and where this falls on a Bank Holiday or weekend, we will pay on the working day prior to the 15th. In order to receive payment by the 15th we must receive your invoice and approved timesheet by the cut-off dates in the schedule. If we receive your approved timesheet by the cut-off date, but not your invoice we will endeavour to pay your invoice once received on the next payment run after the 15th. Our non-contractor payment runs are normally processed on a Wednesday, with funds in your business account on the Friday.

If we receive your approved timesheet after the cut-off date we will endeavour to pay your invoice on a payment run after the 22nd of the month. All invoices should be for calendar months and should be supported by the appropriate authorised timesheets. Invoices can be e-mailed to [accounts@headresourcing.com](mailto:accounts@headresourcing.com) - they can also be posted or delivered by hand to Accounts Payable, 2 Manor Place, Edinburgh, EH3 7DD.



# HANDY LINKS

[Business Link](#) - Government site with business support, information and advice for small businesses

[Companies House](#) - Company registrations

[Contractor Calculator](#) - Contractor articles and guides

[Recruitment & Employment Confederation](#) - REC Factsheets & Guides

## HMRC

[Free payroll software and online forms](#)

[IR35 details](#)

[AWR details](#)

[Flat Rate Scheme for VAT](#)

[VAT Registration](#)



