



## Guide to Contracting

### 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 hour or day. More often than not you will be contracted to an agency that will in turn have a contract with the end client and your 'company' will provide a service through the agency into the end client.

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. With professional advice you may also be able lower the tax you pay compared to your permanent counterpart, but this is all dependent on working practices and contracts. Choosing to contract also affords you freedom. Successful contractors can choose when and where to work, and you may choose to spend time indulging your pastimes and hobbies between roles. Finally, the element of variety that contracting brings is seen by many 'interims' as a real benefit. By moving from contract to contract and company to company over time, a contractor can gain varied experience and an impressive CV.

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 contract ends! Additionally, because you will be running your own business, there will be forms to fill in, rules to obey 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.

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.

### Why do companies use contractors?

- Short-term projects often do not require full time employees, and contractors do not represent a long term commitment to a client.
- 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 would ideally be used for a specific piece of work then released after the contract period ends.
- The other major reason companies like contractors is that they can save money. If a company 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 day, versus your permanent counterpart, and still save money.



## How to sell yourself

Be sure that there is a market for your skills as a contractor. To start, you will need to talk to your network and to recruitment agencies in your industry to see what kind of contracts might be available, whether you are suitable, and how much you could charge per day. 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.

Especially at first, you may need to be flexible on location, and be prepared to look at roles that are further away from home than you might normally consider as an employee. 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 skills and experience, and how to market your offering.

You need to be clear on what your strengths are yourself before selling that to an agent, 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 retrain to supply those skills that you find are in demand, and you may need to take a lower rate in the short term if a contract offers you additional (valuable) experience you can eventually justify charging a higher rate elsewhere for.

## How to find your next contract role

The majority of contractors use internet job boards (such as Jobserve and Jobsite) 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 the majority of 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.

You can also 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).

After you have contracted a few times, and established yourself as a credible contractor, you can also 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.

If you 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 yourself, 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 have a number of clients that they are working with 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.

### **When discussing vacancies with a recruitment consultant you will be asked a number of questions which will most likely be around:**

- Determining your suitability for a role, in terms of skills match, lifestyle match for you as the consultant, availability to start etc.
- Negotiation 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 at (most contractors will typically have an idea of their minimum and target rate requirement).
- Your eligibility for the role. Many clients will stipulate that you would successfully pass their pre engagement vetting which can include referenceability, a clear credit history (if the end client is a bank, for example), and passing a criminal records check.

### **Here is some advice that may be useful when dealing with recruitment agencies and individual recruitment consultants:**

- 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 per role)
- Make sure that your CV sells you as an obvious choice for your target roles.
- When applying online to an agency for a particular role, ensure that your CV includes lots of appropriate keywords such as those featuring in the advert and job description. These keywords will be used to select candidates with the right expertise from the database



- You should never have to part with 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. It is a waste of time for everyone concerned if you are put forward for a role that you never have any intention of accepting.
- 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 the 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 the 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. Details can be found at this website: [www.gov.uk/government/publications/application-to-transfer-visa-to-biometric-residence-permit-form-toc](http://www.gov.uk/government/publications/application-to-transfer-visa-to-biometric-residence-permit-form-toc)

Alternatively if you have settlement or unlimited right to remain you can apply using the form here: [www.gov.uk/government/publications/application-to-transfer-indefinite-leave-to-remain-in-uk-form-ntl](http://www.gov.uk/government/publications/application-to-transfer-indefinite-leave-to-remain-in-uk-form-ntl)

## **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 through your own limited company or through an Umbrella Company.

### **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.

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 Umbrella Company**

Using this method, you become an employee of the umbrella company, who will invoice Head Resourcing 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. You can normally claim for certain types of expenses relating to the contract.

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	Disadvantages
<ul style="list-style-type: none"> <li>+ For most contractors, potentially the most tax efficient way of working, normally expecting a higher net return than umbrella companies</li> <li>+ Opportunity to claim a wider range of expenses than with an umbrella company</li> <li>+ You, as a director, have control and responsibility for all financial decisions</li> <li>+ Can use the Flat Rate VAT scheme</li> <li>+ Potentially more options around tax/pension planning</li> </ul>	<ul style="list-style-type: none"> <li>- 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.</li> <li>- Returns required by law – Quarterly, Annual, VAT, Corporation Tax</li> <li>- Risk of IR35 investigation</li> <li>- Probably not the best financial solution if you only contract for a short period</li> </ul>

PAYE Umbrella Company	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>+ Less paperwork/administration, easy to use – submit timesheet, umbrella company will invoice Head Resourcing</li> <li>+ Can provide convenient short term solution, especially for new contractors.</li> <li>+ Full employment status, statutory deductions handled at source</li> <li>+ All insurances provided</li> <li>+ No IR35 issues</li> <li>+ Don't need business bank account</li> </ul>	<ul style="list-style-type: none"> <li>- Normally has an admin fee, as well as deducting all other taxes and NI deductions. Admin fee can be fixed amount or a percentage of the invoice amount</li> <li>- Salary is subject to full tax and NI, in the same way as a permanent employee salary</li> <li>- Umbrella Company must invoice the agency and you are not likely to receive payment before umbrella company is paid</li> <li>- Normally lower net income compared with other options</li> </ul>



## 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

According to HMRC, where you are the director and owner of a Personal Service Company, you will in effect be the person who must decide whether a particular engagement falls within the IR35 legislation.

Basically, IR35 looks at a contractor's status to establish if the limited company and agency were removed, would the contractor be considered an employee of the end client, and is therefore a disguised employee. If the contractor is deemed to be an employee, all income should be taxed as though it were salary.

The two main areas which identify whether your current contract assignment (and each contract assignment may be different) falls within or out-with the scope of IR35 legislation are:

- The contract in place between your limited company and Head Resourcing
- Your working practices while providing the services for the client

The main working practices and contractual conditions which would be looked at by HMRC to see if you're inside or outside IR35 would be:

- **Direction and Control:** Are you free to work under your own control?
- **Mutuality of Obligation:** At the end of the contract, there is no obligation for the Client to offer, or the contractor to accept, any further work.
- **Substitution:** Is there a substitution clause in your contract, where you can use a different person to perform the task your company has been contracted to do?

The following would also be considered:

- **Provision of equipment:** Will you be supplying and using your own equipment? This can sometimes be impractical dependent on the client requirements and allowances are made where security measures prohibit the use of, for example, using your own laptop.

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- **Right of dismissal:** Do you have a fixed notice period, like any employee? There should be provision in your contract for immediate termination should the client choose to do so.
- **Employee benefits:** Your contract should clearly state you do not get paid when you are not working and neither the agency or the client as responsible for such things as holiday pay, sick pay, pension contributions and training courses.

## 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.

The majority of contractors also can take advantage of the Flat Rate VAT scheme.

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.

According to IPSE (previously Professional Contractor Group), 'freelancers who are in business on their own account and engaged as such, whether or not they are working through a limited company, will generally be outside the scope of the regulations'. (The link to the full AWR Guide is as the end of this document).

## 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 and 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** – Front cover, inside page with passport number, and photo page – 3 pages. Original must be seen.
- **Proof of Residence** – Independent source verifying current address dated within the last 3 months – preferably bank statement or utility bill. Original must be seen. Proof of previous address also required if resident at current address for less than 1 year.
- **5yrs Address History** – This should list all addresses for the last 5 years, with NO gaps
- **1 year/2 years/3 years/5years References** (as per client requirements) – Provide dates, client, agency contact or HR contact, NI No and Employee No if permanent position. Also identify any gaps in work history of more than 1 or 3 months, depending on client requirements.
- **Personal Vetting** – 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** – Criminal records check, if required by the client
- **Company Documents**
  - 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**
- **Signed Contract**
- **Signed Opt Out form**

## Timesheets, invoicing and payments

When you start with Head Resourcing, you will be supplied with a number of paper timesheets. These should be completed on a monthly basis, authorised by your line manager and then submitted to Head



Resourcing 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. Timesheets and invoices can be faxed to 0131 625 9595 or 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.

## Links to useful information and guides

- [Business Link](#) – Government site with business support, information and advice for small businesses
- [Companies House](#) – Company registrations
- [Contractor Calculator](#) – Contractor articles and guides
- [Contractor Supermarket](#) – Information and guides, as well as comparisons of umbrella companies and limited company accountants
- [Contractor UK](#) – Opt-out guide
- [Recruitment & Employment Confederation](#) – REC Factsheets & Guides

### HMRC

- [Free payroll software and online forms](#)
- [IR35 details](#)
- [Flat Rate Scheme for VAT](#)
- [How and when to register for VAT](#)

### Professional Contractors Group (IPSE)

- [Information and guides](#)
- [AWR Guide for Freelancers](#)
- [Opt out info](#)