

Guide to Freelancing and Professional Contracting





Guide to Freelancing and Professional Contracting

"I can't tell you how much admiration I have for people who leave the comfort of a regular wage and strike out on their own. It takes a lot of courage, and without that courage this country would be a much poorer place"

The Prime Minister

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1.0 About this Guide

“Success is an act of exploration, learning and doing. The first thing you have to find is the unknown.”

The team at Orange Genie are dedicated to improving the lives and opportunities available to contractors; our business is built on supporting you, giving you the best advice, and making your lives as stress free as possible. This guide should be the first step in developing a long term relationship with us and its aim is to help those new to Freelance and Professional Contracting (contractors) to find out about the risks and opportunities quickly, concisely and accurately.

The principle drivers in becoming a successful contractor are: (1) the desire to take control of developing your own career, (2) the determination to increase your earning capacity and (3) the wish to make your own lifestyle choices, getting a better work/life balance. Make no mistake for the right person freelancing and professional contracting can be a hugely rewarding business but before you get started you really need to understand the marketplace and the legislation. It's one thing to earn more money but it's quite another to make sure you keep hold of it without having to spend your time buried in administration, paperwork or fighting the taxman.

Most of you know contractors you will have come into contact with throughout your life and they may well be operating in your business – maybe an IT contractor or engineer; a business consultant or professional advisor; a construction worker or agency driver; they may be working in the public sector as supply teachers or healthcare workers; – but generally you know they get paid more than you and they can work hours that suit them. So if you can get paid more and work the hours you want why not have a go?

We know some 60% of permanent employees' dream of working for themselves, of taking control of their own destiny. Many don't like their jobs, usually they don't like the work, or they don't like the people, or they're not being developed, or they're not being paid enough, sometimes it's all four. Whatever the reason most don't take the plunge because of fear of the unknown – you need a push. Redundancy is, of course, a great motivator and some 43% of contractors start their careers in contracting because they can't find a permanent job but it's much better to be executing a well-researched career development plan. Remember the difference between a dreamer and an entrepreneur is in the execution of the plan!



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2.0 The Contracting Market

There are an estimated 1.56 million freelance workers in the UK, 1.35 million working in freelancing as a main job and the remainder working freelance in second jobs. This figure indicates a growth of 12% since 2008, when the worst economic downturn in modern history hit the economy. This growth trend will continue as work practices change significantly from the lessons learnt. It was first spotted by management guru Charles Handy in the 1980's when he invented the term, "the shamrock organisation", and defined it as a core of essential executives and workers supported by outside contractors and part-time help. This structure permits the buying-in of services as needed, with consequent reductions in overhead costs. Rest assured contractors will play an increasingly pivotal role in the economy in the future and are being recognised as key drivers of wealth creation to the UK economy.

'Contractor' is a broad term describing many different ways of working independently and different terms are used including Freelancer, Contractor, Consultant, Advisor, Interim, Self-Employed, Agency and Business Owner. Some work through agencies (recruiters), others directly with their clients. Contractors can charge by the hour, by the day, or by a fixed fee project charge. What unifies the market is that contractors work on time limited assignments and are not in the employment of the end client, so they have no certainty over future work.

The size of the contracting market is virtually impossible to estimate but here are some indicators: agencies reported an annual turnover from placing temporary workers with clients in excess of £20bn; freelancer-owned businesses are thought to collectively generate a turnover of approximately £100bn, approximately 5 per cent of business turnover; and a speculative estimate of the economic contribution freelance workers make to the UK economy in 2010 was estimated at £202 billion. In summary these estimates, however speculative, tell us that the market for contractors is substantial and the opportunities are present in every sector (private, public and voluntary) of the economy and in every industrial classification.



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3.0 Is Contracting Right for You?

If you're thinking about taking your first step into the world of contracting the first thing you need to consider is *'what's in it for you?'*

There are a lot of benefits to contracting. You make the decisions, you drive your career – ultimately you have total control over where you go, what you do, how you work and who you work with. There's also a financial incentive, contractors usually take home more pay than their permanently employed equivalents. The freedom of contracting is also not to be overlooked, with the right skills and the right sort of drive, you can work anywhere in the world. Variety of work can also be enjoyed by contractors as assignments are usually short so you will be able to move from job to job on a regular basis adding to your CV, knowledge and earnings capacity. In addition you have the opportunity to plan your finances in a way that can significantly reduce your taxes and taking the right advice from Orange Genie's professionals will allow you to maximize your earnings in a way that conventional employees simply can't.

That's the good news so **'what are the downsides?'** There are a few downsides to be aware of. There is limited support available – you're on your own and you will need to have the drive and ambition to shape your own success. There is significantly less job security – if you don't stay at the top of your game; you will find yourself without work. People talk a lot about 'brand me' well it's important in contracting as agencies and clients will always give priority to 'good' contractors – those that keep their word, are always reliable, know their subject, communicate effectively and deliver on time. You will have to sell yourself and your services – you won't get much support so if you're uncomfortable with selling, but good at your job, you will find working through an agency is the best bet. On any given day in the UK recruiters place 1.1 million people into temporary work assignments so there are plenty of opportunities. On top of this, you'll have to handle the administrative side of your assignment, if you don't like paperwork working through Genie Umbrella will be the best bet as they take care of the administrative burdens, you just have to complete timesheets and expenses claims. Finally you must take control of your own professional development, training will not be organised by the client and it is vital that you keep up-to-date with new developments and emerging best practice.

In summary 'is contracting right for you?' If you have the drive, ambition, tenacity and are comfortable with change you can make a lot of money out of contracting. You'll need to relish the task of adapting to new projects and new people and have good communication skills. You'll need the ambition to keep chasing the right roles and have the organisational skills to keep track of your progress.



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4.0 The Basics

As you learn more about the contracting market you will begin to understand that the rules, regulations and legislation that drive the market's operation are complex. In the 1980's the most common way of operating as a contractor was as a self-employed individual. This changed overnight when HMRC made recruitment companies liable for unpaid tax if they failed to deduct full PAYE prior to payment to the contractor. The same rules applied to any end client who engaged contractors directly. Almost overnight every recruiter and end client refused to deal with self-employed contractors. Contractors were pushed into setting up their own limited companies as the recruiter and end client did not hold any liability for unpaid taxes where they dealt with a limited company.

Unfortunately for HMRC they found that too many contractors were using the limited company structure to better plan, manage and reduce their tax liabilities. As tax revenues fell new rules were introduced to reduce the tax leakage and we saw the growth of the umbrella company, a limited company, which could better administer the temporary workforce and remove any tax liability for the recruiter and end client. To give you a feel of the fundamental drivers I have briefly summarised the following:

(1) Conduct of Employment Agencies Regulations

These regulations made the agency (intermediary) responsible for ensuring that any contractor placed by them with an end client was paying the correct tax and NI contributions. The agency was not responsible if the contractor worked for a limited company (i.e. a personal service company or an umbrella company). With the exception of construction workers, covered by separate regulations (CIS), agencies are understandably reluctant to place assignments with self-employed workers.

(2) IR35

Introduced in 2000 this legislation seeks to determine whether or not you are a disguised employee of the end client, in other words an assessment of your employment status. At its most basic, it means if you provide your services to an end client through a limited company (an intermediary) then you have to consider IR35 for each and every assignment you undertake.

IR35 is complex and contentious mainly because the way employment status is assessed is based on case law precedents which often contradict previous rulings. Unfortunately the final judgements are down to you, the company director, and at a time when HMRC are stepping up enforcement activity too many contractors are relying on the hope they won't get caught. The courts look at both the contract between the parties AND the actual working practices, but beware there is no such thing as an "IR35 friendly" contract.

The regulation seeks to make a worker who is "not genuinely in business" pay taxes and NI contributions as if they were employed. The regulations are complex and rely on case law which is at best confusing, and each assignment has to be assessed.

(3) MSC

Following the introduction of IR35 legislation a number of companies sprang up in an attempt to avoid the legislation. This avoidance scheme was designed for contractors who wanted the tax benefits of operating their own limited company but not wanting the responsibilities of being a company director, running and administering the business. These companies were known as "composite companies" and involved herding a number of contractors into a company, each owning their own class of share, with the scheme organiser running the company. Clearly contractors using composite companies were not genuinely in business in their own right. The benefit of this form of tax avoidance was removed with the introduction of the MSC legislation in 2007.



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(4) Onshore Intermediaries: false self-employment 2014

This legislation, introduced in 2014, cleared up a number of avoidance loopholes and made it absolutely clear that the correct reporting and payment of tax due from contractors working through agencies is the responsibility of the agency. It requires agencies to ensure that any self-employed workers they supply are operating compliantly and paying the correct taxes. The only exception is where the self-employed worker is not under direction, supervision or control of the client, will they remove this exposure.

As a result of this legislation we have seen the agencies move away from engaging with self-employed workers including the Construction Industry Scheme (CIS), favouring umbrella employment solutions.

The growth of legislation in the contracting market is generally focused on tax avoidance and low pay. The Government is beginning to wake up to the need for more rigorous enforcement rather than legislation and we are seeing a growing number of tax investigations and convictions.



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5.0 Getting Started

Once you've made your decision to give contracting a try you need to focus on the following subjects: Your charge out rate, your CV and the need to network.

Rate

Your starting point, before you hand in your notice, must be to work out how much you are going to get paid - your charge out rate and whether your skills are in demand. You need to research the market for the skills you've got. The easy starting point is to watch the online job boards for a few months, you will find the market fluctuates and contracting follows a different pattern to permanent employment. You can track a general site (e.g. monster.co.uk, jobsite.co.uk, fish4.co.uk, reed.co.uk or totaljobs.com) or a specialist site which focuses on your sector. A key influencer in the current market is firms not wanting to commit to hiring permanent staff. Headcount freezes that look good in quarterly reports make project managers turn to contractors even if they'd prefer staff. So in an upturn the contract market usually takes off first and faster. You also want to look at the contract ads to see how many different places use your primary skillset and your backup skills.

Once you've carried out several searches you will get an idea of the ideal job title for your role (e.g. contractor, management consultant, professional advisor, interim manager, or independent freelancer) and the approximate rate you can charge. Once you've got an initial feel you should do more in-depth research and speak to recruitment agencies that specialise in your sector, consulting companies or potential end clients. You need to get a feel for the rate you can charge, size of market, how the market works (e.g. are assignments long term or short term, direct with client or placed through agencies, do your target clients operate with a preferred supplier list) and the likely demand for your skill set.

In researching your rate there are a couple of issues you should be aware of, normally there are two rates quoted an "agency rate" and a "limited company rate". First, the limited company rate should be 13.8% higher than the agency rate to allow for the payment of employers national insurance. Secondly the limited company rate is the rate that your limited company, your own company or your umbrella company, will charge the client it is not the rate you will get paid.

CV

Once you've decided on your title and rate you need to develop your CV it is critical to your success. It's really important to remember you are not writing a CV for a permanent job, this is your brochure, your branding and your advert. This is the only document the client will see (there is an outside chance they will look at your LinkedIn profile) in deciding whether to interview you or not to grant you an interview. A favourable first impression is really important so fundamentals include: good layout and presentation, no spelling or grammatical errors, and an appropriate font. Always keep your CV up to date and restrict the length to no more than 2 pages. Have multiple versions available to focus on the key roles you will be applying for and use the language that is appropriate for the specific role. Remember don't lie on your CV it will catch up with you and damage your future prospects. In terms of information to include we recommend the following sections:

- Personal and Contact details (no need to include age)
- Executive Summary
- Career History and Professional Qualifications
- Assignments Completed
- Testimonials



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There are several companies that specialise in providing advice on CVs, they will write and format the document for you. Don't forget to ask the recruiter and prospective client for their advice when you undertake your research and always try to get feedback when you have applied whether the outcome was successful or not.

Finally, each time you send your CV for a specific role you have the opportunity to include a covering letter, use it wisely. Explain and emphasise the specific skills and relevant experience you have to complete the assignment successfully and keep it to less than 1 page.

When you're offered interviews remember they will be more focused on whether you can hit the ground running than your potential to learn, and your exact fit to the job specifications rather than joining the team. You must project yourself clearly as a problem solver possessing the skills to successfully complete an assignment. The prospective client will not be interested in where you see yourself in five years' time! Often they are hiring because they lack specialist skills in-house; so, logically, they're assessing how credible you sound.

Networking

The network of people you already know is important, and you need to start building that list. Hopefully you have a LinkedIn account and you understand the theory that you can contact virtually anybody within 6 degrees; I have some 450 first degree contacts leading to some 14 million third degree contacts.

Contracting is a referral and relationship market place, and it generally proves the adage "it's not what you know it's who you know". Your network should extend to sales consultants employed by recruiters, people you worked with when you were in permanent employment and other contractors you've worked with on completed assignments.

You need to understand how your potential clients appoint contractors, do they use specific agencies? Do they use large consulting companies (who always need independent consultants)? If they go direct to market which publication or network do they use? Answers to these questions will give you direction as to how you need to build your network. You should never stop building and you should always keep in contact, never drop out of communication.

If you use an agencies to find assignments be pro-active, if the sales consultant gets an opportunity they will send the CV's of their inner circle of 'good contractors' to the client within hours. Generally the CVs will be sent before the assignment is advertised on an online job board, so if you think you can wait until the advert appears you've probably already missed the opportunity.



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6.0 Setting Up

There are a range of operating structures you can legitimately use as a contractor. The common feature across all these, with the exception of genuine self-employment, is that the contract from the agency will always be with a corporate structure and not directly with the contractor. With all these structures it can seem a daunting task to work out which one is the right one for you and there is a possibility that if you select the wrong route you can find yourself out-of-pocket, potentially at risk from HMRC enquiries and locked into a structure that just doesn't suit your needs. Orange Genie provides a best advice team who can take you through your options and advise you on the best fit for your individual needs.

One of the issues that have driven HMRC's focus towards the contracting marketplace is a belief that choosing your preferred operating structure has always been primarily based on tax as opposed to a consideration of all the factors. It is perfectly acceptable business practice to reduce your tax burden but it would be foolhardy to base your decision purely on tax savings. Some of the key drivers that you should take into consideration are: your future aspirations; your role; the rate you can command; your IR35 status, and your attitude to risk and administration.

In the simplest of terms there are four possible routes available:

Umbrella Employment – Umbrella companies are limited companies that employ contractors. There are no joining fees or leaving fees and there is no cost when you are not on an active assignment. The umbrella company takes all the legislative, commercial and employment risks of contracting providing you with insurance cover and full employment rights.

Ideal if you are new to contracting; not certain you are committed to a long term career; want security of employment and employment rights; minimal paperwork; quick and easy set up; also generally ideal if you are on a lower rate (under £24 per hour); IR35 is irrelevant as all pay is subject to PAYE deductions.

Own Limited Company – Setting up and operating through your own limited company can appear to provide the best returns and may often seem the most attractive option. However a limited company is a separate legal entity and you, as the director of the company, become responsible for meeting all the legal requirements and obligations associated with the company. These obligations have to be fulfilled even when you have no work and late filing can attract substantial fines and penalties. Clearly if you engage the services of Genie Accountancy you will receive the full support of a qualified accountant which makes life a lot easier. Ideal if you want to build a long term career in contracting; develop your own brand identity; unquestionably the most tax efficient structure when your assignments are outside IR35; prestige of running your own company; limited liability.

Self-Employed Sole Trader – Not in favour due to current legislation and you have unlimited personal liability if something goes wrong.

Agency PAYE – Many recruitment companies have the option for contractors to work through the recruiters own PAYE service. You will find that if you select this route you will be offered a lower rate. This structure is ideally suited to lower paid contractors (under £9 per hour) typically in a clerical or administrative role undertaking multiple short-term assignments; if you only intend to contract for a very short period; simple and straightforward as you only have to deal with the recruitment company. You will have no employment rights and very limited tax concessions.



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