



## **The Ultimate Guide to Contracting**

**Accountants  
Experts for Experts**



# The Ultimate Guide to Contracting

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# The Ultimate Guide to Contracting

## About us

### Introduction

Churchill Knight & Associates Ltd is not like any other contractor accountant and payroll provider. The business was started in 1998 by John Payne and his wife Louise. John was an IT contractor who decided to start a specialist contractor accountancy and umbrella service because there were no contractor focused providers available. Since the first day of operation, John and Louise have remained partners and owners of Churchill Knight, making us a family run business created by a contractor, specifically for contractors.

The number of contractors using our services is continuing to grow and this is largely down to positive word of mouth. We work with contractors in a variety of sectors including accountancy, architecture, construction, design, financial services, IT, legal, consultancy, marketing and social work.

Providing you with a great experience is our number one priority.

### A growing company

Since 1998, Churchill Knight has helped over 20,000 contractors legally maximise their take home pay – in full compliance with HM Revenue & Customs (HMRC) and United Kingdom (UK) tax legislation. The number of contractors using our services is continuing to grow and positive word of mouth is a huge contributing factor. Our clients are more than happy to recommend us to their friends and colleagues who are interested in a career as a contractor or freelancer.

## DID YOU KNOW?

**As well as being a leading contractor accountant and umbrella company, Churchill Knight also provide CIS services for limited company contractors and sole traders, and accountancy for small and medium businesses.**





# The Ultimate Guide to Contracting

## Welcome to contracting

Moving from permanent employment to contracting is a big decision. Becoming a contractor has its risks but these usually far outweigh the threats, providing you have carried out your research and have appropriately prepared for your new type of work. Hopefully, contracting will help you expand your skills and help you gain exciting professional experiences. If you are considering becoming a contractor, this guide has been written to help you make your final decision with complete peace of mind. We'll talk you through each step of the process, from the benefits of contracting to how to find your first contract role. We will also provide you with useful information to ensure your transition to contracting is as straightforward as possible.

We wish you the best of luck!

## The benefits of contracting

When you become a contractor, you will open up many exciting and prosperous opportunities. As an independent professional, you'll join a growing workforce of over 3.8 million contractors and freelancers in the UK today (The Office for National Statistics).

You may have your own reasons for wanting to move to contracting or you may like the reasons stated in our top five benefits of contracting.

01

**Increased Income** - One of the most common reasons to become a contractor is the increased take home pay. Not only does your experience and expertise command a higher fee, but you will also be able to maximise that income through tax efficient methods of payment.

02

**Flexibility** - You'll have more freedom and flexibility in choosing how, where and when you work. As long as the job is completed within the time frame agreed, the rest is up to you.

03

**Skills and Knowledge** - As you expand your contracting career, you'll find a wide range of work becomes available to you. You can use your transferable skills to acquire experience within new sectors and industries. It allows you to discover new projects and expand your knowledge for your next contract role.

04

**Choice** - There's a wider range of choice when running a contractor business. You are your own boss and therefore own each of your choices.

05

**Balance** - When you step away from the office and the office politics, it allows you to focus on your work. You have greater freedom and flexibility, combined with increased choice, meaning you can enjoy free time between contracts and fit the work around your life.



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## How to find your first contract

Generally speaking, there are three avenues to finding contracts: through recruitment agencies, directly with the client or via jobs boards online.

### Recruitment Agencies

This is the most common way to find a contractor role. Registering with a number of agencies increases your chance of finding the types of roles and salaries that your specialist skills deserve.

We recommend that you register with as many agencies as possible. This way you will build a relationship with plenty of recruitment consultants. In addition, it is best to select recruitment agencies that specialise in contract roles and in your field of expertise. This way you can be sure that they understand what you do, what your skills are and what you need to get out of the role.

### Directly with the client

The benefit of approaching the client directly is that you can be more selective over the roles and companies that you choose to work with. However, this method can be more of a challenge. You will need to be extremely proactive and have a large network of clients that you can contact to provide you with roles. This is a less common method due to the challenges it presents, but as you become more experienced and your network grows, it becomes increasingly rewarding.

### Jobs Boards

This can often be the quickest method for searching for jobs. By registering with several jobs boards and setting your search preferences, you can receive many relevant roles direct to your inbox each day. Many jobs boards allow you to save your CV and cover letter for one-click applications to jobs you are interested in.

*"I am happy with Churchill Knight & Associates Ltd and do recommend the company to my friends as they have done well by me and I feel comfortable that all the advice and assistance is legal and safe."*

**Chandni, contractor**



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### Limited vs umbrella

Contractors are typically paid via two methods; via their own limited company (often referred to as a personal service company) or via an umbrella company. Each of these payroll methods have advantages and disadvantages, depending on your type of work and your own personal preferences.

	Limited Company	Umbrella Company
<b>Take Home Pay</b>	Most tax efficient way to maximise your pay. You can take home 70-80% of your contractor rate or more.	You pay tax, Employer's National Insurance and Employee's National Insurance Contributions at the same rate as permanent employees. You can expect to take home 60 - 65% of your contractor rate.
<b>Liability and Insurances</b>	Contractors will have limited liability and insurances are available at additional cost.	Employers' Liability Insurance, Public Liability Insurance and Professional Indemnity Insurance included.
<b>Administration</b>	An accountant can help reduce any hassle associated with running your own business.	Minimal administration, simply submit timesheets and await payment.
<b>Ease of Setup</b>	Fast set up. Simply pick a company name and your accountant will usually set up the company for you.	Register with your preferred umbrella company and you can start working as a contractor.
<b>Credibility</b>	Not only will you enjoy the professional kudos of running our own business but you may find that clients prefer to work with a limited company.	When you use an umbrella company, you are in fact operating via another company. Therefore it doesn't add much credibility to your reputation as a contractor.



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## Limited Company

The definition of a limited company is a private company whose owner is responsible for its debts only to the extent of the amount of capital they invested, which can be as little as £1.

It is the most tax efficient method to legally maximise your take home pay. By choosing this option, you can become the shareholder of your own company making the decisions that work for you, but it is a separate legal entity from its director(s) and shareholder(s).

If you decide to choose this option for your contractor accountancy, you'll probably be the sole company shareholder. Therefore, when the company generates a profit, it belongs to the company and you may decide to take your income from this profit via a combination of dividends as a shareholder and salary as an employee. This is the most tax efficient way of paying yourself as a contractor and, thereby, the best way to maximise your income.

### The essential breakdown

#### Step 1

Any profits made by your company are subject to Corporation Tax (19% in 2017/18 tax year).

#### Step 2

As the company's director, you should pay yourself and any additional employees a salary. That salary is subject to National Insurance and tax.

#### Step 3

As the company's shareholder, you can receive £5,000 in tax free dividends each year before tax is applied. However, this will change to £2,000 from April 2018.

#### Step 4

You can claim for a variety of expenses associated with running your business and you can claim back the VAT on them, further increasing your take home pay.



**CLICK HERE**

to find out how much money you would take home as director of your own limited company.





# The Ultimate Guide to Contracting

## Setting up a limited company

### Step 1: Company name

Choose a name that is simple, clear and easy to understand. A good company name should represent your industry or skills and it should demonstrate your expertise instantly.

Here are some rules you need to adhere to when it comes to registering your company at Companies House:

- It must include either 'Limited' or 'Ltd' in the name.
- It must not be similar to, or imply a connection with, government, either central or local.
- It must not be offensive.
- It must not contain certain words or expressions that have been excluded by Companies House.

### Step 2: Let's get incorporated

You've chosen your company name and now you'll need to incorporate your company. You can do this yourself, or employ the service of an accountant to do so on your behalf. There are several accountants that charge separately for this, so it's wise to choose an accountant who offers this free of charge and doesn't take longer than 24 hours to set up. An incorporated company requires a director who is responsible for the proper running of the company and at least one shareholder who owns the company; both of these roles can be held by you. Appointing yourself as the shareholder and sole employee of your limited company is the best way to maximise your take home pay.

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## Setting up a limited company (continued)

### Step 3: VAT Registered and Corporation Tax

There are now four important registrations to apply for. Some of these are optional while others are compulsory, read on to find out more.

#### **VAT Registration (optional):**

Registering for VAT means you will need to charge 20% on all invoices for the services you provide. One of the main benefits of registering for VAT is that you can claim back the input VAT you pay on work related expenses.

#### **Register for Pay As You Earn (PAYE) (not optional):**

Every limited company needs to register for PAYE; this is your payroll system which deducts Income Tax and National Insurance Contributions from your salary. Your accountant will register you for PAYE. You will need to give your limited company accountant a copy of form P45 (or P46 if you do not have a P45) in order to ensure that your tax and National Insurance Contributions are calculated correctly. Each month your accountant will be able to supply you with a payslip detailing your gross and net pay, plus any Income Tax and National Insurance Contribution deductions.

If your salary does not meet the minimum threshold, you'll still need to inform HMRC that there is 'nil' tax due. A good accountant will take care of that for you. At the end of each year, your accountant will be able to complete and supply form P60 to HMRC; this form details how much salary has been paid and how much tax has been deducted in the tax year.

**Continues on page 10**

*"Friendly, helpful staff. Easy set up including bank. Simple to use documentation. Nothing against recommending Churchill Knight to others."*

**Brian Joyce, Contractor**



## HAVE ANY QUESTIONS?

Click here to arrange a free chat with one of our highly trained accountants, at a time convenient for you.





# The Ultimate Guide to Contracting

## Setting up a limited company (continued)

### Register for Corporation Tax (not optional):

A limited company must register for Corporation Tax in order to declare a trading start date. The current rate for Corporation Tax is set at 19% (2017/18), regardless of the amount of profit.

This means, if you invoice your client for £100,000 in a year (excluding VAT) and take a salary of £10,000 and have tax-deductible expenses of £10,000, you would be required to pay Corporation Tax on £80,000. This would result in a Corporation Tax liability of £15,200. This would mean your company has a net profit of £64,800 for the year.

A Corporation Tax period can only last for a maximum for 12 months. However, in the first year of trading, a limited company may have multiple Corporation Tax accounting periods. For example:

If a limited company is incorporated on 02/06/2017 and starts trading on 08/06/2017, the Corporation Tax accounting periods will be:

1. 02/06/2017 – 07/06/2017
2. 08/06/2017 – 07/06/2018
3. 08/06/2018 – 30/06/2018

Your accountant can register you for Corporation Tax and provide you with advice each month on how much money you should retain in your business bank account for making Corporation Tax payments to HMRC.

### Step 4: Business Insurance

When contracting through a limited company, Employer's Liability insurance is a legal requirement whilst other insurances are optional. Your client or recruitment agency may only offer you a contract if you have specific cover.

Public Liability insurance is normally included by insurance companies alongside Employer's Liability insurance, but this is not a legal requirement. Most contractors are hired for their expertise and they are often required to provide support and consultative advice. By holding Professional Indemnity cover, you'll be insured against any legal costs and compensation that you might incur as a result of your negligence. There are also additional types of insurance available and your accountant can refer you to their affiliate partner for this.

With all this done, you're almost set up and ready to start contracting via your own limited company. At this stage, you can ask your accountant for more information about any of the processes you are unsure about or if you need any clarification. And if you're happy with the set up this far, then continue on and you'll be good to go in no time.



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## IR35

If you've decided that a limited company is the right option for your contractor accountancy and payroll service, then you'll need to consider IR35 for every contract.

### What is it?

Inland Revenue 35, commonly referred to as IR35, is the UK tax legislation that is designed to tax 'disguised employment'.

HM Revenue & Customs (HMRC) defines this tax status as either 'inside' or 'outside' IR35. Put simply, this means:

1. Inside IR35 defines you as 'temporarily employed'. No option to pay dividends.
2. Outside IR35 defines you as 'self-employed'

### How does it affect me?

You will be affected by IR35 in that if you are inside IR35, your National Insurance Contributions will be higher. Given that inside IR35 means you would generally be considered to be under the "direction, supervision and control" of your employer.

You can choose to have your tax status checked by a tax status specialist. They can also provide support in amending contracts. They may be able to negotiate the terms of your contract with your client so that you can benefit from being a genuinely self-employed contractor and not worry about being caught by IR35. You can then decide whether you operate inside or outside IR35.

### Your options regarding IR35

If you conclude your contract to be inside IR35, you'll need to pay tax and Employer's National Insurance Contribution and Employee's National Insurance Contribution as a permanent employee would. Your contractor rate and income would need to be treated as salary; reducing the benefits of running a limited company.

It's worth keeping in mind that while one contract may put you inside IR35, future ones may not, so it could be worth maintaining the running of your limited company for the next project.



**In order to ensure your IR35 status is correctly determined, we suggest you have every contract you are involved with professionally reviewed.**





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## Using a contractor accountant

A majority of contractors who decide to operate through their own limited company will choose to do so with the assistance of a dedicated contractor accountant. This way, you can reduce your administration and have the support you need to ensure documentation is filed correctly to HMRC and on time. Most importantly, a contractor accountancy can help you pay the correct levels of tax and national insurance so that you do not face any unexpected fines from HMRC in the future. This will help you legally maximise your take home pay.

## Three levels of service

When you join Churchill Knight & Associates Ltd, you will be able to choose from three specialist accountancy packages - to ensure you only pay for what you require.

### Basic

- ✓ 24/7 access to secure, mobile responsive client portal
- ✓ Unlimited email support
- ✓ Dedicated Account Manager
- ✓ Assistance with all HMRC correspondence
- ✓ Assistance with bank account set-up
- ✓ Year-end accounts

**CLICK HERE**  
and find out more  
about our specialist  
accountancy services.

### Professional

- ✓ Includes everything in the Basic package, plus:
- ✓ Payroll and RTI
- ✓ Unlimited phone support
- ✓ Bookkeeping
- ✓ Company incorporation within 24 hours
- ✓ Registration for PAYE, VAT and Corporation Tax
- ✓ Dividend documentation support
- ✓ Quarterly VAT returns
- ✓ Mortgage and visa references
- ✓ Payroll and RTI for an additional employee

### Elite

- ✓ Includes the Basic and Professional package, plus:
- ✓ Director's Personal Tax Return
- ✓ Unlimited IR35 contract reviews
- ✓ Quarterly management accounts
- ✓ Comprehensive Business Insurance Cover
- ✓ Confirmation Statement filing
- ✓ Free financial services review
- ✓ Year-end accounts completed within 3 months



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## Umbrella company

An umbrella company is a payroll solution for contractors. When using an umbrella company you would be deemed an employee of that company. Therefore tax and National Insurance will be deducted at the same rate as permanent employees.

Umbrella companies are perfect for first time contractors, contractors earning £15 per hour or below, contractors working on numerous short term assignments and contractors who do not want to operate through their own limited company.

### The essential breakdown

#### Step 1

Agree a contract with your client and advise your umbrella company of your rates of pay.

#### Step 2

At the end of each working week, submit a timesheet and expense claim form to the umbrella company.

#### Step 3

Wait for the umbrella company to process your income and expenses and pay you, generally this is done after the agency pays the umbrella company.

#### Step 4

When you have successfully registered, you will be able to benefit from Employee Benefits (Sick Pay, Annual Leave, Maternity and Paternity Pay), insurances (Employer's Liability, Professional Indemnity and Public Liability), discounts at thousands of retailers, and more!



**CLICK HERE**

for a quick, free and personalised umbrella  
take home pay calculation.





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## Which type of contractor typically uses an umbrella company?

Churchill Knight Umbrella is a suitable payroll service for any contractor. However, our service is typically used by:

- ✓ First time contractors looking to get a feel for self-employment before they consider starting their own limited company
- ✓ Contractors who are earning less than £15 per hour
- ✓ Contractors working on an assignment which is 3 months or less in length
- ✓ Contractors working in the public sector
- ✓ Contractors not looking to run their own limited company at the moment

If you are unsure whether you should use an umbrella company or set up a limited company, please give our experts a call for a free consultation.

## Joining an umbrella company

Joining an umbrella company, such as Churchill Knight Umbrella, is incredibly easy and you can be fully registered and ready to go in just 24 hours.

## How to join Churchill Knight Umbrella

To get things started, please contact Churchill Knight Umbrella by emailing [enquiry@churchill-knight.co.uk](mailto:enquiry@churchill-knight.co.uk) or by calling **01707 871622**. The registration process is incredibly straightforward and we are here to provide you with any support you need.

Once you have provided us with proof of your identity and you have made your recruitment agency aware that you have chosen Churchill Knight Umbrella to take care of your payroll, everything is set up and you are ready to start contracting!

You will be required to email us your signed timesheet and Churchill Knight Umbrella will pay you on the agreed schedule, minus tax, National Insurance and our margin.

*"I must say that for a first timer I found the process was made straightforward and simple with the help of the whole team. The back-up support on an ongoing basis has never disappointed either, Churchill Knight have remained attentive and efficient throughout."*  
**Keith, contractor**



## The Ultimate Guide to Contracting

### Contact us

Having helped over 20,000 contractors since 1998, you can be assured that you are in the safest hands when you use a payroll service provided by Churchill Knight & Associates Ltd. Whether you know how you want to proceed with your payroll, or you are unsure as to what option is most suitable for your circumstances, our experts are on hand to provide you with free and impartial guidance.

Please do not hesitate to get in contact today.



**01707 871 622**



**enquiry@churchill-knight.co.uk**



**www.churchill-knight.co.uk**



**Refer a friend or colleague to a Churchill Knight accountancy package and receive £150.\***

**Refer a friend to Churchill Knight Umbrella and you will both benefit from two weeks free.\***

\*Terms and conditions apply.



**CLICK HERE**

**to schedule a callback from one of our professionals at a time convenient for you.**







**Accountants**  
**Experts for Experts**

*"I was very impressed with the speed and simplicity of having Churchill Knight & Associates Ltd set-up my new company and get me started. Helpful staff were there to answer my queries promptly."*

**Andrew Priestley, Director, Sound IT Consulting Ltd**

Call us now on: **01707 871622**  
Email us now at: **enquiry@churchill-knight.co.uk**