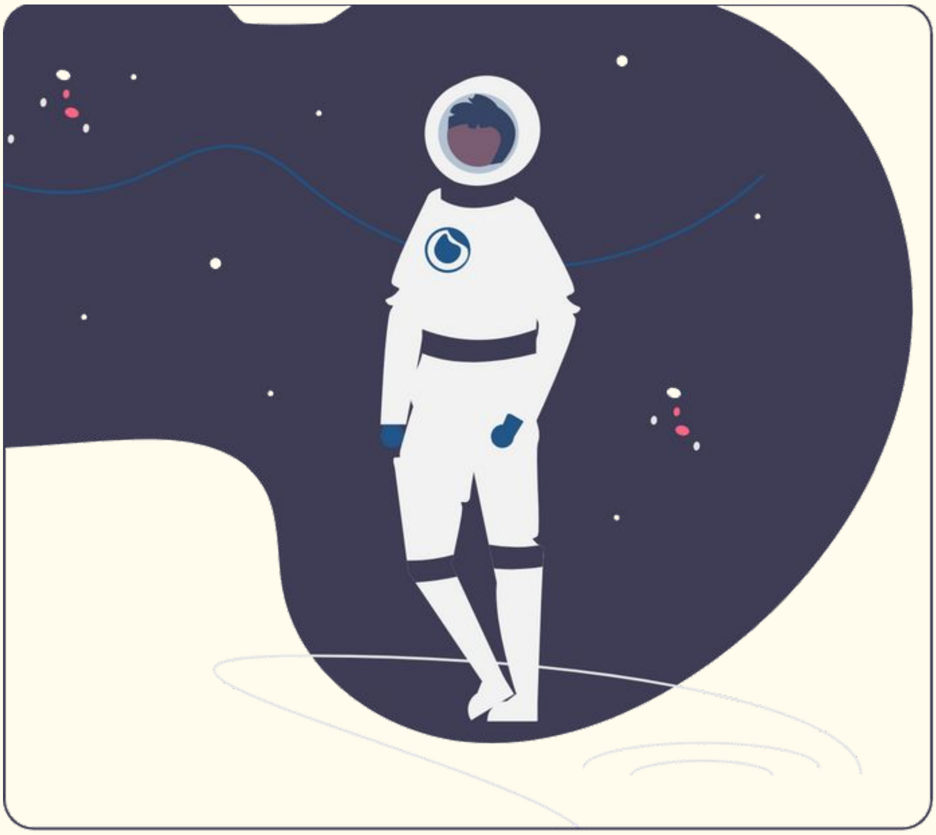
GETTING STARTED AS A CONTRACTOR.



Starting a business should be easy. Here is getting started as a contractor explained!

Contents.

What is a contractor?

Contractors are self-employed individuals who provide services to a business. They're highly skilled and are typically hired for projects requiring specialist skills or bolstering a team during busy periods.

Contractors are hired to perform a wide range of services. These include:

- Marketing
- IT maintenance and support
- Graphic design
- Recruitment
- Business development
- Catering
- Construction work

Is contracting right for me?

These questions can help you decide if working for yourself is right for you:

- What are my motivations for starting out on my own? Is it due to frustration with my current company or boss, or do I have a passion for the work I do and have a well-thought-out plan in place?
- Do I have the business skills needed?
- Do I have transferable skills that are currently in demand?
- Do I have a network of contacts or agencies to find contract work opportunities?
- Should I be a contractor or consultant?
- Do I have a financial cushion in place?

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What business structure should I choose?

As a contractor, you can trade as a sole trader, limited company, or work through an umbrella company.

1. Sole trader

As a sole trader, you run and control your company as an individual and are considered a self-employed person. You are personally responsible for the decisions and profits or losses of the business.

2. Limited company

A limited company is a type of business structure with its own legal identity. The assets and liabilities of the company are separate from the personal finances of its owner.

As a director and shareholder, you cannot withdraw money out of your business as and when you want to, and profits made belong to the company. Even if an individual is the only shareholder and director, the company is still a separate legal entity.

3. Umbrella company

An umbrella company acts as an intermediary between a contractor or freelancer and their agency or client. This means that the agency or end client engages with the umbrella company, rather than directly with the contractor or freelancer.

If you decide to work through an umbrella company, you will be considered an employee. You will not be in charge of managing your payroll, and will instead submit a timesheet and expenses information to the umbrella company on a monthly basis.

The company will also handle your tax, pension and National Insurance contributions, and you will be entitled to statutory employment benefits, such as holiday pay and sick pay.

Should I become a sole trader?

Our recommendation: Becoming a sole trader is a good option if you're working on small projects outside of a traditional PAYE role.

Advantages:

- Simple set up
- Able to claim a limited number of tax-deductible expenses

Drawbacks:

- Need to keep track of income to report to HMRC
- Annual Self Assessment Tax Return filings each year
- Not accepted for any moderately sized company or contractor project roles

Should I work through an umbrella company?

Our recommendation: This option is for contractors who want to keep things simple and earn a regular PAYE income.

Advantages:

- All paperwork and filing requirements are taken care of
- May include personal indemnity insurance

Drawbacks:

- National Insurance and PAYE are deducted before you get paid
- Admin fees may range from a percentage to a fixed cost
- There are many lousy umbrella companies out there, so you'll need to conduct thorough research before working with one

Should I start a limited company?

Our recommendation: This option is best for contractors working on projects outside of IR35 and invoicing multiple clients easily and for tax efficiency.

Advantages:

- Professional image
- Ability to take on multiple clients
- Tax efficiency due to tax-deductible expenses and payment through dividends
- Limited liability

Drawbacks:

- Filing and reporting requirements, particularly with VAT registration
- Reduced privacy. Others can easily find details about you and your company on Companies House.

Understanding IR35.

What is IR35?

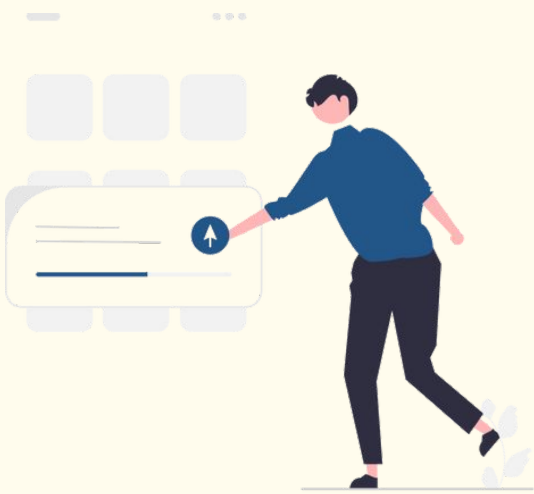
IR35 is a piece of legislation that allows HMRC to treat private contractors as if they were employees. It was introduced to combat the problem of "disguised employment", where employees offer their services via limited companies to pay less tax and National Insurance.

Inside IR35 = you are paid the same as a regular employee.

Outside IR35 = you pay yourself how you like.

How do I figure out if IR35 applies to a contract?

There are three case laws used that are widely recognised as the defining factors for determining whether IR35 applies to a contract. We'll explain these in the following pages.



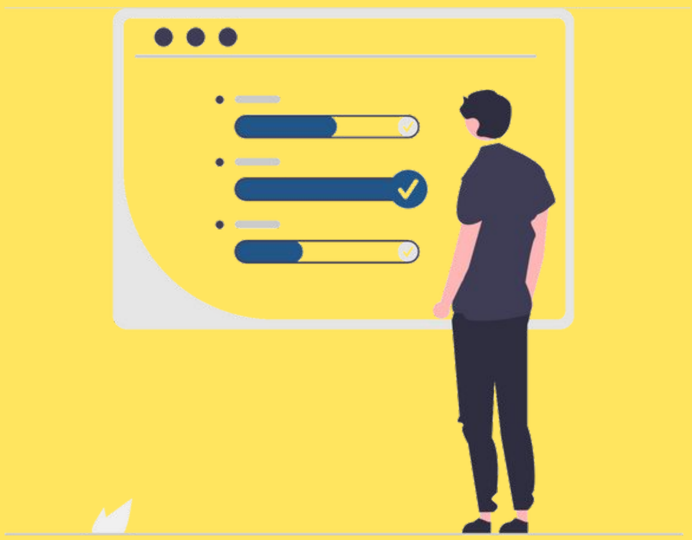
1. Control:

Control used to be the defining factor for determining whether someone was an employee or genuinely in business on their account. Even today, most other factors in your contract will be interpreted through the lens of control.

Suppose the only controls that your client can exercise over you are that the work must be completed by a specific deadline and to a sufficient standard. In that case, you will likely be classified as an independent contractor.

It can also help you to be classified as falling outside of IR35 if you are:

- responsible for your training and expenses
- free to do your work wherever and whenever you want
- able to decide for yourself how the work is to be completed



2. Mutuality of obligation:

This is a crucial test, but case law has shown that HMRC is prone to misinterpretation or misunderstanding of what is involved. As such, it is not worth making this factor a central part of your argument.

It's best to keep it simple - you want to ensure that you are not obliged to accept contracts and that your client is not obliged to offer them.

If work is repeatedly offered and repeatedly accepted, then HMRC may view that an employment contract has been created "by custom and habit". This is most easily offset by securing contracts from several different clients in practice.

3. Substitution:

This means you can send someone else in to do your work - at your own decision and expense.

It's best to ensure that you have a right of substitution clause included in your contract. Even better, use this right during the duration of your contract.

If there is an obligation on the employer's end to offer work and for you to accept it, the contract may be deemed to fall inside IR35.

Understanding IR35 in further detail

There are other conditions to consider - such as exclusivity, role flexibility, termination window and more - when determining your IR35 status.

Remember that IR35 is complicated and ambiguous; there isn't a simple checklist of factors that HMRC looks for when making an assessment.

To help you navigate these nuances, we've put together a comprehensive IR35 guide complete with the latest updates, FAQs from contractors and our We're building premium self recommendations for an IR35 action plan.

Developing a business strategy.

While strategic planning isn't set in stone, working out a plan is still helpful. It is a way for you to consider multiple perspectives, identify potential opportunities and pitfalls and conceptualise backup plans you could fall back on.

These questions will help guide you through the process of writing a business plan:

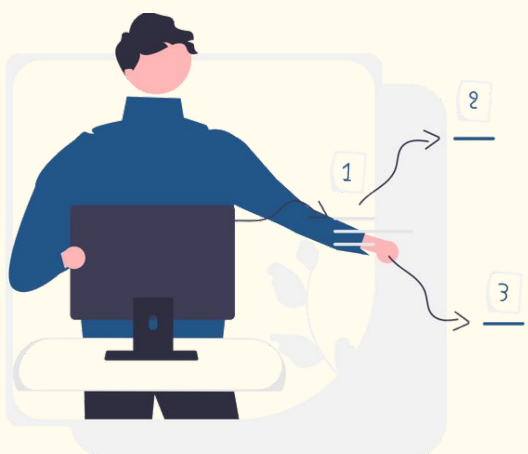
- What need are you addressing, and who is your target audience?
- How much will you charge for your services?
- How will you get the word out about your business?
- Where will you find clients and job opportunities?
- What's your process for convincing clients to hire you?
- What do you need to get started?

Setting up a business bank account.

If you're working through a **limited company**, you'll need to set up a business bank account. As your limited company is a separate legal entity, it is responsible for its financial transactions. Its finances must be separated from your personal finances.

It isn't a legal requirement to open a business bank account as a **sole trader**. But doing so will make it easier to organise your personal and business income and expenses, help you avoid miscalculations and lends credibility (invoicing with a business bank account will make you appear more professional).

If you're an **umbrella company contractor**, you're essentially considered an umbrella company employee. Opening a business bank account isn't required.



Contractor business bank accounts.

We've done extensive reviews of different bank accounts available in the UK. Our general advice is this: stay away from the large high street banks (including Metro) if you want an account set up relatively quickly.

Many new entrants to the business banking space have rapid onboarding, simplified account management, and introduced a range of banking products like overdraft facilities and loans.

1. Mettle:

NatWest and RBS launched mettle as a new challenger brand for the micro-business segment. The onboarding and account setup times aren't as fast as some other brands, but they include FreeAgent accounting software for free. Plus, we'll give you a £10/mo discount on your Forma package price if you have a Mettle, NatWest or RBS bank account.

2. Tide:

Setting up a bank account with Tide is a breeze and works well for single director companies. We can also offer £50 when you open an account with them and free transactions for a year (usually 20p per transaction).

3. Revolut:

Revolut is perfect for those who need to send money abroad or have contracts paid in euro (EUR) or USD. They also have a range of integrations with Zapier, which can help you send intelligent alerts and triggers whenever you send or receive money.

We partner with Revolut to provide their Grow Account for free for a year (worth £300 a year).

Managing your cash flow.

What is cash flow management?

Cash flow refers to money transferred in and out of your business. Cash flow management is thus the process of tracking and analysing how much money is coming into and going out of your business.

This enables you to estimate how much cash you will have at any time, create cash inflow and outflow projections and assess when a positive or negative cash flow could occur.

Why is cash flow management critical?

Cash flow is the lifeblood of any business. As a contractor, you need to ensure that cash is flowing into your bank account and that you're able to meet your short term financial obligations. Otherwise, you won't be able to meet your contractual agreements - even if you manage to land new contracts.

Strategies to better cash flow management:

1. Be rigorous about updating your cash flow:

It can be helpful to update your cash flow whenever there is new information - such as when you've made a payment or when a client informs you that a payment is coming in late. You'll need to have a system for managing your cash flow, whether a spreadsheet or cash flow management tool.

2. Carry out an in-depth analysis regularly:

Carve out a block of time each quarter to conduct an in-depth review of your cash flow. You'll want to assess your overall financial position and look ahead at your cash flow projection for the next quarter.

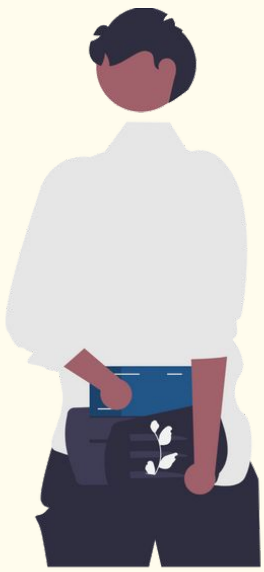
3. Implement milestone payments for extended projects:

If you're working on an extended project, consider structuring your payments by milestones - rather than receiving a single payment at the end of the project.

Invoicing.

New to invoicing? We've listed out what you need to include in an invoice, along with invoicing best practices you can implement.

- **Your information:** your name, business name, business address, contact information
- **Recipient's details:** client's company name and address, name and contact details of contact person handling your payment
- **Invoice line items:** hours worked, total fees, dates
- **Invoice number**
- **Method of payment**
- **Payment terms**



Invoicing best practices:

1. Keep it simple: Avoid complicated, cluttered invoice designs. It's best to go with a design with a clean background and simple layout, and where your company logo and contact details are prominently displayed.

2. Agree on payment terms early on: Before you finalise your work contract, inform your clients about your payment terms and ensure that they agree to these terms. Request for these terms to be included in your contact, and obtain their signature to confirm the agreement.

3. Be prompt with follow-ups: Set up an invoice reminder to ensure that you don't miss out on following up on delayed payments. If your clients aren't responding to these reminders, don't be afraid to follow up. You can send an email or call to check in about your payment and remind them about your late penalties.

Getting insured.

What is business insurance?

Business insurance is designed to protect you from the risks associated with running a business. As a contractor, the onus is on you to think about the risks you face as a business and get them covered. The protection you'll need will depend on the risks your business faces.

Why do I need business insurance?

Firstly, most businesses would be unable to afford the cost of a claim.

Secondly, you may find that other businesses or stakeholders (such as a prime contractor you subcontract for) that you interact with require that you have a certain level of business insurance as a prerequisite to working together.

Contractor business insurance

Depending on your contract agreement, you may be required to have business insurance cover. There are two types of insurance you may be asked for as a contractor:

1. **Public Liability:** A relatively standard and straightforward cover; if your business causes an injury or property damage to a member of the public, public liability insurance will cover you for the resulting legal and compensation costs.

2. **Professional Indemnity:** Covers risks associated with your professional services, such as handling client data or working with intellectual property. It's a must-have for many businesses, and whilst not a legal requirement, many clients will insist that you have this coverage as a prerequisite to working with you.

Accounting for contractors.

What is accounting?

Accounting is the process of recording, interpreting, analysing and reporting financial information. While bookkeepers are involved in the initial stages of the accounting process - which serves as the foundation of the entire accounting cycle - accountants are involved in all process steps.

Examples of accounting tasks include:

- Interpreting data to determine the financial health of the business
- Preparing financial statements
- Analysing costs of operations
- Completing income tax returns

What are vital areas an accountant can help you with when you're self-employed?

- Completing your Self Assessment tax return
- VAT payments and registration
- Tax planning
- Providing support with paperwork and correspondence with HMRC
- Reviewing your business plan
- Setting up your accounting software
- Getting the required business licence, you need
- Assist with securing a business loan

At Forma, we provide the accounting and filing support you need, combined with state-of-the-art technology to eliminate your administrative burden. Refer to our website for further details on our contractor accounting services.

How do I choose the right accountant or accounting support for my business?

Asking the following questions can help you narrow down your options of prospective accountants and select the right one for your needs:

- How do you typically communicate with clients, and how often should we be in touch? What are your estimated response times?
- Will a single person handle my account?
- How will you make sure I will never miss a deadline? What's your process for onboarding a new client?
- What are your credentials?
- What experience do you have? Have you worked with self-employed individuals or businesses of a similar size and growth stage? How can you help grow my business?