



# GUIDE TO LIMITED COMPANY CONTRACTING



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**So, you're considering becoming a limited company contractor. That's great news. Here we explain what's involved.**

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# INTRODUCTION

Working as a contractor can be highly rewarding, with greater freedom over when you work and the roles you undertake.

In addition, contracting can sometimes be more lucrative, as many organisations are willing to pay higher rates to temporary workers whose skills plug gaps in their employed workforce.

Despite this, you may have been put off becoming a contractor because of the rules and regulations which govern flexible working. There's the issue of IR35 to deal with, and then there's tax. How do you work out how much you have to pay, by when and how?

There's certainly a lot to think about which is why our team of specialist contractor accountants is on hand to help you navigate your way through the complexity.

**In this guide, we look at what's involved in being a contractor through your own limited company, so you can start to think about whether it's the right choice for you.**



We are available to answer any questions you may have about being a contractor.

**0800 25 26 40**

# BENEFITS OF LIMITED COMPANY CONTRACTING

Working through your own limited company gives you complete control over your finances, and is usually the most tax efficient way to work.

In addition, some contractors find that a limited company gives them enhanced status and a more professional image, so they are able to win more lucrative work or command higher fees.

These are great reasons to choose limited company contracting, but before you decide, it's important to bear in mind two important considerations.

**IR35.** IR35 is designed to stop tax avoidance by anyone who supplies their services via an intermediary (such as a limited company or a recruitment agency). It will be important to make sure you can operate 'outside' IR35 before deciding if limited company contracting is right for you, as it will affect the amount of tax you have to pay.

**Admin.** Running your own limited company comes with a level of paperwork, explained below. It's important to make sure you're comfortable with administering your company properly before proceeding.

# SETTING UP YOUR COMPANY

Once you've decided that limited company contracting is right for you, the first step is to form your limited company.

## Company Formation

## Your Responsibilities



You'll need a unique company name which isn't registered by anyone else.

From there, the rest of the procedure is straight-forward – it usually takes less than two hours to complete.

Company formation is something we do every day for contractors so we can handle the process from start to finish on your behalf.

We can also complete your VAT registration, if applicable, and help you set up a company bank account.

When you set up a limited company for contracting, you'll be appointed as a Company Director. This means you will have legal duties to undertake.

You'll need to ensure your limited company is properly administered.

In the next section we explain more about what's involved, though we are always here for personal advice and support to help ensure you do things correctly.

# RUNNING YOUR COMPANY

It's important to understand how to run your limited company so that you work compliantly and achieve the best take-home pay.

In this section we will take a closer look at business expenses, travelling for work and administration tasks.

# BUSINESS EXPENSES

As a limited company contractor, you will be able to claim tax relief on a range of business-related expenses.

- Accountancy fees** This includes the costs associated with setting up your limited company as well as ongoing accountancy costs.
- Accommodation costs** You can claim tax relief on the cost of accommodation when you travel to a temporary business-related location, though this cost must be considered 'reasonable'.
- Entertainment** You cannot claim tax relief on business entertainment or gifts though you can claim for a Christmas party or staff event for employees. Employees may invite a partner but the expenditure must not exceed £150 inc VAT per person.
- Equipment** You can claim tax relief on the cost of equipment you need to perform your work including computers, phones and furniture such as desks and chairs. As long as personal need is 'insignificant' HMRC will not treat it as Benefit in Kind which has different tax implications.
- Stationery** Postage, printer ink, paper and pens can all be claimed.

# BUSINESS EXPENSES

## **Food & drink**

You can claim for food and drink when out and about on business. HMRC's rules state that lunch can be claimed if you're out for 5 hours or more, and dinner if you're out for 10 hours or more. If you have to stay overnight for work purposes, you can claim for hotel rooms and meals.

## **Eyesight tests**

You can claim for eyesight tests as long as you can prove it's necessary for the use of visual display equipment for your work.

## **Medical insurance**

The cost of medical insurance would be considered as a Benefit in Kind and subject to different tax rules. Your company can, however, claim tax relief on medical insurance for an employee working abroad and for an annual check-up.

## **Salaries & National Insurance**

Salaries paid to employees or Directors are allowable expenses, as are National Insurance Contributions. Again though, these can be challenged if unreasonable – which would normally mean uncommercial.

# BUSINESS EXPENSES

## **Home office**

You can claim £4 a week for using your home office if you can prove that you regularly spend time doing your work at home.

## **Subscriptions**

You can claim tax relief on membership of HMRC-approved professional bodies as long as they are relevant to your work. The list of which organisations are approved changes regularly, so check with us for the current list.

## **Phone & broadband**

As long as your mobile phone and landline phone contracts are between your company and the service provider, you can claim tax relief. It gets a little more complicated if your company pays your entire personal phone bill, in which case the Benefit in Kind rules become applicable. You can claim for business calls made from your personal phone, though you need to be able to prove that the call was for business purposes.

The cost of home broadband is allowable if you work from home and your broadband contract is between your company and the service provider.

## **Training**

Training courses which are applicable to your work are an allowable business expense.

# TRAVELLING FOR WORK

**Travel expenses** Mileage, travel and subsistence (ie meals and accommodation) can only be claimed while operating from a temporary workplace.

**The 24-month rule** You can claim tax relief on the cost of travel to and from a temporary place of work. This covers train, bus and taxi fares (within 'reasonable use').

**Use of personal vehicle** When using a personal vehicle to get to a temporary workplace you can claim mileage at the rates shown in the table below. Your mileage should be recorded on your company accounts as this will help to reduce your overall Corporation Tax bill. If you drive a company car you can only claim the cost of fuel.

Vehicle	Rate per mile (on first 10,000 miles in tax year)	Rate per mile (on each mile over 10,000 miles)
Cars & vans	45p	25p
Motorbikes	24p	24p
Bicycle	20p	20p

# ADMINISTRATION

It's best to keep on top of your finances by dedicating 20 minutes or so each week to record-keeping.

## Weekly Tasks

As well as invoicing your client/recruitment agency each week or month (whatever frequency you have agreed), you'll need to check your bank statements and keep accurate records of all allowable business expenses, plus you'll need to file all your receipts for safe-keeping.

## Quarterly Tasks

Once a quarter you will need to submit a VAT return (if you are VAT registered) and because your company often acts as your employer you will need to pay both Employers' National Insurance, also known as Class 1 NI, and Employee National Insurance, also known as Class 4 NI, and PAYE, if your pay level requires it.

All of these payments go to HMRC – when we act as your accountant, we will send you reminders so that you do not miss a payment which can incur a financial penalty.

# ADMINISTRATION

## Annual Tasks . . . . .

As a Company Director you will also need to submit an Annual Report to Companies House as well as year-end accounts to HMRC.

Again, this is not a difficult process, especially if you've kept on top of your finances throughout the year. We can prepare the required submissions on your behalf, ensuring accuracy, compliance and complete peace of mind.

# PAYING YOURSELF

The right way to pay yourself will depend on your individual circumstances. Our specialist contractor accountants will provide the advice and support you need to work out what will suit you best.

# PAYING YOURSELF

Contracting through your own limited company is usually the most tax efficient way to work, leaving you with the highest level of take-home pay when compared to other working options.

This is because most limited company contractors pay themselves via a mixture of salary and dividends.

Usually, you will take your Personal Allowance (tax-free amount) as salary and receive the rest of your income as dividends.

This is a tax-efficient way to work as dividends are not subject to National Insurance and they're sourced from your company's profits which are taxed at a lower rate.

Another benefit is that you can pick when you take some of these payments (within limits), which allows you to plan to maximise the use of your annual allowances.



## Tax relief on expenses

Remember: as a limited company contractor, you can claim tax relief on a range of allowable business expenses, which reduces your company's profits and therefore the amount of Corporation Tax you have to pay.

# DIVIDENDS

Most limited company contractors will take dividends, but there are rules about how you do this.

You can only take a dividend from the profit which remains after you have paid Corporation Tax. Plus, your dividends are subject to Dividend Tax, though there is a tax-free threshold.

If this way of paying yourself is going to leave you within insufficient funds for your living expenses, you may need to consider taking a higher salary and lower dividend. While this would be less tax efficient, it would allow you to take money out of the business before it is received.

How often you take dividends is up to you. Some people take them monthly, others quarterly.

This means you can pay yourself based on future expected earnings (like payments you expect to receive from clients), unlike a dividend which can only be paid once the income has been received and the Corporation Tax deducted.

# INTRODUCING myJSA

We appreciate you will want to know how much you can take out of your business while leaving enough to cover tax and other deductions.

Managing your finances is easy with **myJSA**, our powerful online accounting tool.

**myJSA** gives you 24/7 real-time access to your company finances, making it easy to manage your expenses and invoices.

**myJSA** will automatically chase overdue payments, analyse bank statements and help you to forecast tax so you always have an accurate picture of your financial position.

# OUR SERVICES

When considering contracting through your own limited company, it's important to take specialist accountancy advice to check that this is an appropriate approach for you.

Our knowledge of limited company taxation and compliance is second-to-none. We are founder members of the Freelancer and Contractor Services Association and our accountancy practice is led by Chris James, Chair of the FCSA.

## Our services include:

- Fast, easy company formation
- Year-end accounts
- Dividend administration
- Personal taxation
- Advice on all aspects of tax planning
- Quarterly review by phone
- Corporation tax calculations
- Payroll
- VAT registration & returns
- Free book-keeping software
- Deal with HMRC on your behalf
- Available whenever you need us



Our **specialist contractor accountants** will provide the advice and support you need to get the most out of contracting through your own limited company.

**Find out more**

**[www.jsagroup.co.uk](http://www.jsagroup.co.uk)**

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