



123 Contracting

Accountants for Freelance Contractors

Welcome to The 123 Way



Two main sections to The 123 Way - Ltd Company Guide

The 123 Way is our mission to make freelancing and contracting easy and stress-free for you.

This guide to contracting and freelancing is a great reference for you to keep returning to when you have any questions. It is only intended to provide a brief explanation of what is involved in running a Limited Company and freelance contracting in general. It aims to deal with the main issues involved, if you need more detailed advice do contact us by email or phone.

123 Contracting & The 123 Way

Information on The 123 Way and the services we have designed especially for you. Read about our referral programme and 123 Extra services.

The 123 Contracting Guide to Running a Limited Company

A complete guide to contracting and freelancing through your own Limited Company. Written in plain English it contains advice ranging from what expenses you can claim, to invoicing clients, and ensuring your compliant with HMRC and Companies House legislation.

Take some time to read the whole guide and ensure you understand it. Being a company director can be fantastic but it brings with it a number of responsibilities that you must understand.

Questions about what is in this guide? call or email us – that's what we're here for,

0845 834 0269

info@123contracting.co.uk

Enough said, time to dive in!

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123 Contracting & The 123 Way



The 123 Way explained



The 123 Way - Ltd Company

The 123 Way is an all encompassing service for freelance contractors and consultants. It takes care of your accountancy needs and requirements and provides you with the support to make freelancing & contracting stress-free and financially successful.

The 123 Way - Ltd Company includes:

- Full initial review—what is best for your personal circumstances
- Your accountant, speak to the same person every time (no call centres here)
- If Ltd Company is the route for you then we will incorporate and register your company
- Assistance with setting up a company bank account
- Year end statutory accounts, prepared and submitted to Companies House & HMRC
- Corporation tax return & computations prepared and submitted to HMRC
- Payroll registration (if required)
- Running your company's monthly payroll and year end filing of P35, P60 forms
- Dividend administration
- Personal and company tax planning at the outset and ongoing throughout the year
- VAT registration (if required)
- Completion of VAT returns and submission to HMRC
- Completion of Annual Return and submission to Companies House
- Bookkeeping software – so you know exactly what money is coming in and out of your business
- Ongoing help & advice from 123 Contracting through out the year
- No sign-up fees, no contract and no tie-ins, just 100% client focused service!

The 123 Client Service Standard



The 123 Client Service Standard

Our client service standard is not some long drawn out piece of literature that no one at 123 Contracting has the time or energy to read - it is simply our mission statement and is on the desk of every member of our team.

To provide the highest levels of service to each and every client, to ensure the experience of contracting and freelancing is as stress-free as possible and to give clients peace of mind because they are in the best of hands - we help people take control of their working lives.

This is what 123 Contracting stands for.

The 123 Contracting Referral Programme



The 123 Contracting Referral Programme

We think our service speaks for itself but we also like to thank our clients for referring their colleagues and friends to us – enter The 123 Contracting Referral Programme.

This is incredibly simple – if you have friends who are contractors or freelancers and you think they would benefit from joining The 123 Way, simply tell them about us.

When they sign up we will ask them specifically how they found us, and if anyone referred them to us?

Then to say thank you we will give you £123.00 + vat off your membership to The 123 Way.

There is no limit to the number of people you can refer to The 123 Way so if you have 7 people who you think would like to join, your monthly fee would be reduced to £0.00

All of your accountancy and tax advice for free isn't bad!

123 Extra - going the extra mile



123 Extra is our partnership programme.

We have developed relationships with like-minded businesses so we can offer our clients the extra services they need often at discounted rates and with the ability to fast track their applications.

We looked at expanding into these markets ourselves but decided both we and our clients would be better served by specialists in each area, allowing 123 Contracting to focus on what we do best - accountancy, taxation and helping people become freelancers and contractors.

Each of the companies we work with has been chosen for their products, their business ethos and their customer service. We want our clients to receive the same high levels of client service that we provide them with, from everyone of our partners.

123 Extra Services are provided by specialists in the contractor and freelancer field

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Business Banking

We advise our clients to look at the different high street banks and compare their offers. The vast majority of the time they are very similar and there is little to choose between them.

We then advise that if you are happy with the service that your current personal bank provides and if their business bank account offer is the same or similar to all other banks on the high street then this is the obvious choice.

Service that you know is good is the most important element in choosing a business bank account.

If however you are not happy with your personal bank then we are happy to talk you through our experiences with each of the main banks so you can make an informed decision.



Professional Insurance

What insurance do I need as a contractor?

Kingsbridge Contractor Insurance have developed a single policy to cover freelance contractors against a wide range of issue. They believe that cover is a key priority when contracting and therefore provide high levels of indemnity.

What Kingsbridge Contractor Insurance provides:



Professional Indemnity

will protect you against the cost of defending claims where it is alleged that a client has suffered financial loss as a result of your error, omission or negligence.

Public & Employers Liability

will indemnify you for your legal liability for injury or death to third parties and damage to third party property as a result of negligent acts by you or your employees.

Director & Officer Liability

Directors and Officers Liability Insurance provides financial protection for you as the director of your company in the event you are sued in conjunction with the performance of your duties as they relate to the company.

Personal Accident Weekly Benefit

To provide weekly financial benefit in the event that you are unable to work following an occupation related accident. In addition the cover will provide lump sum payments for Death or permanent disability as a result of an occupational accident.

Personal Accident Death Benefit

To provide lump sum payments for Death or permanent disability as a result of an occupational accident.

To make life easier, Kingsbridge has designed two simple packages - to view the full details and purchase, please visit: www.123.kingsbridge.co.uk



Professional Insurance - continued

What insurance do I need as a contractor?

Qdos Contractor offer a full range of individual policies so you can pick and choose exactly what you want.



Professional Indemnity

will protect you against the cost of defending claims where it is alleged that a client has suffered financial loss as a result of your error, omission or negligence.

Public & Employers Liability

will indemnify you for your legal liability for injury or death to third parties and damage to third party property as a result of negligent acts by you or your employees.

Freelancer Tax Protection

The bulk of IR35 enquiries start with a PAYE compliance visit or an enquiry from a tax return and could possibly end up at a Commissioners' Hearing. For this reason Freelancer Tax Protection is available for all freelancers, affording total peace of mind in the event of a PAYE compliance visit or enquiry.

Contract Review

Under IR35, freelancers need to have shown that they have undertaken 'reasonable steps' to ascertain that their status lies outside of IR35. One way is to have a contract review performed by one of our independent tax experts.

Freelancer Legal Protection

Being a freelancer or contractor brings with it great freedom, but also carries some risks. This is why there is Freelancer Legal Protection, which will provide comprehensive cover in respect of legal-related risks.

To purchase any of the above you simply need to go to www.123.qdoscontractor.com/insurance

123 Extra



Contractor Mortgages, Pensions & more...

As part of our 123 Extra partnerships we researched the market place to find the best provider of mortgages, pensions and independent financial advice specifically for contractors.

Our partnership team of Independent Financial Advisors is focused exclusively on meeting the needs of the UK's freelancer community. As IFAs they are uniquely specialist in their field, to date having helped over 22,000 individual contractor clients to achieve their financial goals.

Our IFA's aim is to show you how to make the most of your freelance contracting whilst helping you guard against some of the pitfalls that exist now that you are outside of a large employer safety net.

Their friendly team of professionals treat every new client as an individual. A dedicated adviser will be on hand to help secure you a mortgage based simply on a multiple of your contract rate, save you tax using a flexible contractor pension or protect your income and lifestyle via their tailored suite of insurance products.

And because of our close working relationship 123 Contracting can incorporate your contractor pension or mortgage into your accounts and tax planning to ensure you are still trading in the most tax efficient manner - just another part of The 123 Way.

123 Contracting have managed to negotiate discounted rates and special packages for you therefore please contact 123 Contracting directly if you wish to purchase any Products.

The value of investments may fall as well as rise and past performance is not a guide to future returns.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Financial advice is given by a firm of IFA, which is regulated and authorised by the Financial Conduct Authority.



Contractor Pensions

Pension planning represents a means to reduce both personal and company taxation. By exploiting tax breaks today the net result can be financial security in the future.

Personal Contributions - Contractors can now personally invest (i.e. direct from your private bank account) up to 100% of salary into a pension and still benefit from income tax relief at your highest marginal rate (i.e. the government could be paying £4 for every £6 that you contribute).

Company Contributions - Business Owners may choose to draw a tax efficiently low salary which will limit the scope for personal investment but this need not limit your ability to reduce company and personal tax bills by making a pension contribution if we get the company to fund the scheme on your behalf. 'Employer' contributions can be as much as your annual pension allowance representing a very tax efficient method of transferring money from company into personal hands. In good trading years a hefty corporation tax bill could potentially be reduced to nothing.

To discuss pension planning further with one of the experts please email:

chris@123contracting.co.uk or call the 123 Contracting office on 0845 834 0269

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Contractor Mortgages

As a contractor it can be tough to secure a mortgage because many of the High Street lenders simply don't understand your unique working status. Our specialist mortgage brokers understand the needs of contractors and have a proven track record in finding and securing competitive and suitable mortgages for your needs. Their experience and in-depth knowledge of the market has enabled them to build strong relationships with lenders, ensuring that your mortgage is processed quickly and with minimum fuss.

Our mortgage brokers have also negotiated specific income criteria with lenders. This may enable you to borrow based on an annualised multiple of your contract rate alone. Thanks to their experience in the field, they have been able to secure special terms for our clients that allow you to gain mortgages with little deposit and their selective lender criteria mean that the whole process is much quicker with most mortgages agreed within days of your first contact.

Unlike many brokers, our specialists will not charge you for their services as they rely solely on an introducer's fee from which ever lender you decide upon.

To speak to our mortgage brokers, please email chris@123contracting.co.uk or call Chris on 0845 834 0269.

*Your home may be repossessed if you do not keep up repayments on your mortgage
Financial advice is given by a firm of IFAs, which is regulated and authorised by the Financial Conduct Authority. We advise all clients to contact at least three independent mortgage advisers so they get the best possible advice for their specific needs.*



Contractor Income Protection

As a Contractor you will be enjoying many of the perks of being your own boss, but it is important to avoid the pitfalls that come from leaving full time employment. If you are unable to work for whatever reason then there is little by way of employee sick pay to rely on. Income protection (also known as Permanent health insurance or PHI) can bridge the gap and help to cover your expenses until you are back on your feet again.

Our team of Independent Financial Advisors offer income protection plans that are tailored to your needs as a contractor. A typical plan will pay a tax free monthly income following a certain period of illness such as 3 months and will pay until you recover or reach your retirement age.

If you don't have access to any savings to bridge the gap between falling ill and a policy paying out, then you can opt for a one day waiting period so you benefit from the peace of mind that you can maintain your lifestyle and protect your family should you be unable to work.

For more information on the policies available to suit your circumstances please contact us by email at chris@123contracting.co.uk or call Chris on 0845 834 0269

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Contractor Life Insurance

It's not a subject that we like to think about but it is important to protect any dependents in the event of the worst. As a Contractor you miss out on the life cover offered by a large employer so it is vital that you put a plan into place to secure your families future should you die.

Term cover - offers an inexpensive protection policy that lasts for a given period and will end when the agreed term is finished.

Whole of Life - If you want to cover yourself for death at any age then a Whole of Life policy could be the answer. Despite being slightly more expensive than a Term cover policy, it is often popular with contractors because of the long-term cover that it provides.

123 Contracting clients can fund life insurance through their businesses with no income tax or benefit in kind considerations of any kind thanks to a change in legislation that means smaller companies now have the chance to tax-efficiently provide death in service benefits for their employees.

This cover does not affect your lifetime or annual pension allowances, so those freelancers with a large pension pot are still able to benefit from the lucrative tax relief on pensions contributions.

If you decide to hang up your contracting hat and return to permanent employment, you can still benefit from the tax savings by simply transferring your policy to your new employer. Your cover is kept in trust and this not only keeps the money safe from any liabilities that the company has but also makes the plan easier to transfer.

To find out more contact the us by email at chris@123contracting.co.uk or call Chris on 0845 834 0269.

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Contractor Critical Illness Cover

Whilst it is hard to avoid common illnesses such as heart attack, stroke and cancer, there is an easy way to protect yourself financially. Our Independent Financial Advisers can help you to arrange critical illness cover that will protect you from the financial consequences of falling ill, so that you can concentrate on getting better. This cover can do more than just settle debts or an outstanding mortgage; it will pay out a lump sum on diagnosis of a range of illnesses rather than on death to help you to pay for medical bills, adjustments to your home to help you cope with the illness, or simply a holiday to recharge your batteries.

Critical illness is best used in conjunction with Income Protection which will give you a monthly income if you become too ill to work and will continue to pay until you return. With Critical illness cover you will receive a single pay out on diagnosis which is non-refundable, even if you return to good health.

Like life cover, you can arrange your critical illness policy to cover you for a fixed term such as up to retirement, or for the whole of your life. You also have the option of decreasing term assurance (DTA) when the amount of cover decreases over time or level term assurance (LTA) when the cover stays the same for the life of the policy.

Our Independent Financials Advisers are regulated by the FCA so they are able to search the whole of the market to find the best cover for your needs. They only work with insurers that have a history of paying claims and offer an affordable cover for contractors for the duration of the policy.

For detailed information on the policies available to suit your circumstances please email chris@123contracting.co.uk or call Chris on 0845 834 0269.

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Private Medical Insurance

Avoid NHS waiting lists and make a speedy recovery with Private Medical Insurance.

As a Contractor you are reliant on being able to work for your income so an unexpected illness can really set you back. With private medical insurance you can avoid the hassle of waiting for the NHS, with high quality treatment when you need it you can get back to freelancing as quickly as possible.

To receive a personalised illustration and speak to one of our Independent Financial Advisers please email chris@123contracting.co.uk or call Chris on 0845 834 0269

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Contractor ISAs

One of the most popular investment routes amongst Contractors is an Individual Savings Account (ISA) because of its significant tax breaks and flexibility.

Our IFAs will search thousands of investment funds to find the right solutions for you.

- ISAs offer a flexible investment option that is suitable for medium and long term investments with most you can draw out your savings at any time.
- You can deposit a maximum of 100% of the annual allowance in a cash based ISA or 100% in an equity (stock market) based ISA or a mixture of both.

Investing in an equity ISA is one of the most popular options and stock market based investments historically offer the best returns as long as you can accept that your funds may fluctuate in value

For investors with a low risk tolerance or those that need to have access to their savings in the short term, a cash ISA would probably be more suitable as savings can be accessed instantly. You should benefit from a higher interest rate than you would gain in a High Street savings account.

To find out more contact the us by email at chris@123contracting.co.uk or call Chris on 0845 834 0269.

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Money Transfer Services

If you've come over to the UK to work as a freelance contractor then more likely than not you're going to want to send some of the money you earn back home. Or you may find yourself working for businesses based in Europe or even further a field and you need to be able to receive payment in the most cost effective way. Your business current account is usually not the most cost effective way as they will normally charge you a range of fees and a commission percentage.

This is where a Money Transfer Service comes in.

123 Contracting has partnered with an award winning FX company to offer our clients fast and efficient money transfers at market leading rates.

Our FX partner is one of the market leaders in money transfers, they charge No Transaction fees and No Commission. They can do this because of the efficient systems they have in place to operate at a very high volume of transactions.

123 Contracting will assist in your application for an FX Account so that it is handled in a fast track manner; you will then be able to log into our FX partner's website and transfer money in under 5 minutes. It's safe, secure and exactly like using your internet banking.

If you have any questions regarding the Money Transfer Service or if you would like to open an account, call us on 0845 834 0269 or email Chris at chris@123contracting.co.uk

The 123 Contracting Guide To Running a Limited Company



The 123 Guide



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Running a Limited Company

Limited Company – quick points

When you create a new company it is said to be “incorporated” from the date you created it. This incorporation date will appear on the Certificate of Incorporation.

Your company’s first year end will be the end of the month that you incorporated on - one year later. For example if you created a company on 12 May 2017, your first year end would fall on 31 May 2018.

Company’s can request to extend their financial years or even to shorten them, however there is no advantage to contractors or freelancers in doing this.

You have to keep Company Statutory books at the registered office of the company. This will include your incorporation certificate, Memorandums and Articles of Association, all company board minutes and forms filed with Companies House. We will provide you with electronic versions of these.

Official forms

HMRC or, Companies House will send you forms to fill in, when you receive one of these forms you should immediately scan it and email it directly to us. The most common forms you are likely to receive are:

- Annual Return
- Corporation Tax Return
- New Company Enquiry Form
- Personal Self Assessment Statement
- PAYE Coding Notice
- Agent authorization codes – these allow us to talk to HMRC about your personal and company’s tax affairs.
- All other letters from HMRC

Remember, each time you receive one of these forms, scan it and email it directly to us.



Running a Limited Company - continued

Director's Responsibilities

Directors have to act in the interests of their company and not in the interests of any other parties (including shareholders). This is true for sole director/shareholder companies as well and you must ensure that you put the interests of your company above your own.

These rules are very broad and were written with all companies in mind, from the 1 man contractor to the 5,000 staff national business.

The Companies Act 2006 outlines seven new statutory directors' duties, as detailed below.

Duty to act within their power

You must act in accordance with the company's constitution

Duty to promote the success of the company

This is about putting the company first - above the interest of anybody else. You must act in a way that is most likely to make the company succeed. When doing this you must also consider:

- The long-term picture of any decision you make now
- How what you do impacts on the environment
- If you employ people you must take into account how they will be affected
- How your decision will effect relationships with suppliers and customers
- Your decisions must ensure high standards of business conduct
- To act in a fair way for all members of the company.



Running a Limited Company - continued

Duty to exercise independent judgement

You have an obligation to exercise independent judgment. Again, don't let your own personal interests suppress those of the company.

Duty to exercise reasonable care, skill and diligence

You must exercise reasonable care, skill and diligence and have the general knowledge needed to hold the position of a director. Your responsibilities should not be taken lightly.

Duty to avoid conflicts of interest

Again the interests of the company must come above your personal interests and you should not have any interest that is a direct or indirect conflict of the interests of your company.

Duty not to accept benefits from third parties

You may not make a secret profit from a result of being a director of your company - you may not accept any benefits from a third party which have been offered to you because you are a director or because you have or have not taken a particular action.

Duty to declare interest in a proposed transaction of arrangement

Following on from the duty to avoid conflicts of interest, this states that you must declare any conflicts of interest to the directors of a company and state the "nature and extent" of those interests.



Running a Limited Company - continued

Enforcement and penalties

There are no penalties in the Companies Act 2006 for failing to undertake the above duties correctly.

Enforcement is via an action against the director for breaching his or her duties. Such an action can only be brought by:

- The company itself (i.e. the Board or the members in general meeting) deciding to commence proceedings; or
- A liquidator when the company is in liquidation.

As most Contractors are sole directors - these are unlikely to happen.

However the Act has introduced new legislation so individual shareholders can take action against a director for breach of duty. This can be taken for any act of omission (involving negligence), default or breach of duty or trust.

If you are the sole shareholder then this is also unlikely.

The 123 Guide



Company Bank Account

If you're setting up a Limited Company then one of the first things you need to do is open a Company bank account. As a Limited Company is a separate legal entity to you, you can not use your own personal current account to pay in money from clients.

Along with your business current account for every day trading we also advise that you should set up a business savings account.

This allows you to transfer the amount of money you will need to pay to the tax man each month for safe keeping – it means you have the money to pay your tax liability when it becomes due – less stress than having to find it at short notice. It also means you can earn interest on your tax money for the entire time before it needs to be paid to HMRC.

Our bookkeeping spreadsheet tells you exactly how much Corporation Tax and VAT you will owe for each month, so at the end of the month you know how much to transfer to your business savings account.

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Payroll

To pay yourself a monthly salary, you need to first set-up a payroll scheme with HMRC. This is known as a PAYE scheme. You'll be happy to know that this registration is included in The 123 Way.

Registering your payroll

Once we have sent off the registration forms, HMRC will provide you with two reference numbers. You need to send these to us as soon as they arrive.

Once your PAYE payroll is set up, as a director you have three main responsibilities:

1. Calculate how much Income Tax and National Insurance is due on each salary payment.
2. To tell HMRC about any benefits and expenses that have been paid to any employee or director during the year. This is known as the P11D form.
3. At the end of each financial year file an employers Annual Return with HMRC.

All of the above are included in The 123 Way.

PAYE/National Insurance Contributions (NIC)

There are three main types of tax; Income Tax, Employees National Insurance and Employers National Insurance.

Tax free allowance is currently £11,850, income up to this point is not taxed, if you exceed £100,000 then your tax free allowance decreases.

Above £11,850 the next £34,500 of salary is taxed at 20% known as the "basic rate". Above this is the "higher rate" taxed at 40% up to £150,000. Above this is the "additional rate" taxed at 45%.

The NIC free allowance is £8,424 therefore NIC is not payable on the first £8,424 of earnings just like the tax free allowance but slightly lower.

Above this threshold salary has NIC deducted at 12%. Until you earn above £46,350 which has NIC deducted at 2%.

Your company also has to pay employers NIC at the rate of 13.8% of any salary above £8,424

The 123 Guide



Salary

Setting your salary level is completely up-to you as a director. You have three main options to choose from:

- 1 The NIC free allowance**
- 2 The National Living Wage (NLW)**
- 3 A commercial salary rate**

The NIC free allowance, currently set at £8,424 would mean you pay no income tax or national insurance. This is obviously very tax efficient, but if you make large personal pension contributions you would not be able to do this.

The NLW is set at £7.83 per hour, so based on a typical 37.5 hour week, this would equate to an annual salary of £15,268. Paying an extra £6,844 as salary above the NIC free allowance would mean that you will pay income tax of £684, employees NIC of £821, and employers NIC of £944 makes an extra £2,449 payable to HMRC.

By paying a salary set at the NLW you would receive Corporation tax relief of £1,300, as salary is a business expense, the net extra taxes payable would be £1,149 (£684+£821+£944-£1,300).

HMRC have stated that although the NLW applies to all employees over the age of 25, they will not seek to enforce it against directors of companies. Therefore as long as you do not have a written contract of employment with your company there appears to be a way of setting your salary at £8,424 below the NIC threshold.

The third option would be to pay yourself a commercial salary - i.e. the rate you would get for doing the job you do if you were working for someone else. Depending on the salary level this would result in a higher tax and NIC liability.

As a member of The 123 Way, you can choose which ever level of salary you wish. There are obvious tax saving advantages to some but you must also consider the level of pension contributions that you may wish to make and if you are applying for a high street mortgage, this may be an issue. For specialist advice on pensions and mortgages for contractors and freelancers, read the 123 Extra pages from page 8 onwards.

The 123 Guide



Salary - continued

Salary in Practice

When you have decided on the level of salary you wish to pay yourself, we will prepare your payroll for you each month and send you a payslip. This will show you how much to transfer from your company bank account to your personal account and how much income tax and NIC to put into your business savings account to pay your PAYE & NIC liability which is liable either each month or each quarter - we'll advise which.

You will need to enter this on your bookkeeping spreadsheet each month, which is very easy to do.

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Dividends

Once a company has worked out it's profit and the amount of Corporation Tax that is due, what ever is left can be paid out as a dividend. Dividends are paid to shareholders of Limited Companies.

Before you can declare a dividend the company must ensure that there are sufficient post tax profits available. If you make a dividend payment and there is not enough post tax profit in the company (even if there is enough cash in the bank) then the dividend is illegal. In the summary pages of your Bookkeeping Spreadsheet it will tell you how much profit is available to pay out as a dividend, this takes into account all expenses and Corporation Tax.

Note: You must keep your spreadsheet up-to-date with all income and expenses for this calculation to be correct.

How to declare a dividend:

Once you are satisfied there is sufficient post tax profit, you need to declare the dividend by filling in a Company Board Minute and creating a Dividend Tax Certificate - templates are included with your Bookkeeping Spreadsheet when you sign up-to The 123 Way.

The Board Minute must be printed, signed and filed with your Company's Statutory Books. The Dividend Certificate should be printed, signed and filed with your personal tax documents for your Personal Tax Return.

There are no limits to how many dividends that a company can declare; however in reality one a month is usually sufficient. You must complete a Company Board Minute and Tax Certificate for every dividend payment.



Dividends - continued

Taxation of Dividends

The first £2,000 of dividends that a tax payer receives are covered by the Dividend Tax Allowance. Above this and until you reach the higher rate tax band tax is payable at 7.5% of the dividend.

If the shareholder is a higher rate tax payer, there will be tax due at 32.5% on dividend payments above the higher rate threshold.

On dividends that exceed the additional rate band - currently set at over £150,000 you would pay tax at 38.1%

This liability will be due when you file your personal tax return – see the Personal Tax Return pages for more information on your self-assessment tax return.

Remember to enter the amount of dividend you pay on your Bookkeeping Spreadsheet in the banking section of the month you make the payment.

The 123 Guide



Corporation Tax

You have to register your company for Corporation Tax with HMRC. To do this you will need to file the correct form, you will be sent an example and a copy for you to fill out when you sign up-to The 123 Way. Simply fill it out and return it to us and we will ensure your company is registered for Corporation Tax.

Corporation Tax Responsibilities

1. You have to submit a Corporation Tax return each year. This is due 12 months after your company's year end. So if your first company year end is 31 May 2017 then it will be due before 31 May 2018.
2. You also have to pay your Corporation Tax. This is due within 9 months and 1 day of your year end. Using the example above you would need to pay this by 1 March 2018.

Corporation Tax is very important there are a number of fines and penalties if you make any mistakes.

Your return is included in The 123 Way.

Corporation Tax Rates

Corporation Tax is currently 19%.

The 123 Guide



VAT

VAT is a tax that you have to pay on many expenses and you have to charge to your clients on top of your fee rate (if your company is VAT registered). The current rate of VAT is set at 20%.

For example, if you charge a client £1,000 you will have to add VAT on top of this at 20% this would be £200 making your total invoice £1,200.

VAT Responsibilities

You have to register for VAT if the annual turnover of your company will exceed £85,000. There are however many advantages to being VAT registered so we would recommend that you register, even if your turnover will not reach this threshold.

As a director there are three main VAT responsibilities you should understand:

- 1** You need to complete a VAT return every three months which is done electronically, and pay whatever VAT is due.
- 2** Each VAT return is due 1 month after your quarter end, so if your quarter ends on October 31 you have to submit your return by 30 November.
- 3** When you submit your return you need to make payment for your VAT, this gives you up-to a month after your VAT quarter to make payment.



VAT - continued

VAT Choices - Standard VAT Scheme - VAT on expenses

The Standard VAT Scheme allows you to claim back any VAT you have incurred on expenses. For instance if you were to buy a computer costing £1,200 the first £1,000 of this is the fee paid to the shop for the computer with the additional £200 being the VAT that the shop will then pay to HMRC. You would then be able to claim this £200 back from HMRC when you file your VAT return.

The 123 Guide



Invoicing

By law you have to issue an invoice to your clients for the services you provide to them. This must contain certain information.

The Basics

Legally, an invoice must contain:

1. Company Name,
2. Company address
3. Company registration number
4. VAT number (if registered)
5. Invoice date (the date you create the invoice not necessarily the date you did the work)
6. Invoice number - a consecutive number, i.e. #0001 then #0002.
7. Itemised breakdown showing the fee and VAT separately and then the total invoice cost.

Expenses

Many people invoice their client for expenses incurred such as travelling to site etc. If you do this and are registered for VAT then you need to add VAT on top of what you are charging - even if the expense does not include any VAT when you pay for it i.e. a train ticket has no VAT but if you expense this to a client you must add VAT on top (only if you are VAT registered).

Self-Billing

If you work through an agency it is most likely that they run their own self-billing procedures – this will generate an invoice for you, so there is no need for you to issue one.

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Expenses

The question, “What expenses can I claim?” is the most frequently asked question by new contractors and freelancers. The answer is not a simple one as there are certain criteria an expense must cover. HMRC’s famous line is it must be “wholly & exclusively” for the purpose of the business.

The Basics

Expenses that may be claimed:

- Accountancy Fees
- Home office costs
- Subscriptions to approved professional bodies
- Salaries
- National Insurance Contributions
- Employer pension contributions
- Accommodation (when away from home on business)
- Subsistence (when working away from home)
- Business travel (including mileage and public transport)
- Company formation fees (although this does not decrease your tax liability)
- Bank charges
- Postage and stationery
- Mobile telephone costs
- Business computer equipment and software
- Broadband Internet
- Technical books and publications

This is by no means an exhaustive list of all business expenses.

The 123 Guide



Expenses - continued

This is a detailed explanation of some of the expenses that you may incur. Please read through this guide carefully and check all of the conditions for claims that you may be making – as a director it's your responsibility.

Detailed Guide To Expenses

Expenses can be quite complicated and confusing, they often come with certain conditions that have to be met for you to be able to include the expense in your accounts. Read this guide carefully and make sure you are claiming only those expenses that are wholly and exclusively for the purpose of running your business.

If you have expenses that have a non-business purpose as well, if this is only incidental to the business purpose, it may still be possible to make a claim.

Expenditure that has a dual purpose, is usually not claimable. The best example is clothing, you have to wear clothing so it can not be classed as a business expense unless it is specific items of clothing that must be worn for safety reasons – i.e. high visibility jackets, work boots with steel toe caps, these would be business expenses - a suit would not be allowed as a business expense.

The 123 Guide



Expenses - continued

Travel Costs

Travel costs are an allowable expense as long as they are for the following:

- Travelling that must be undertaken to perform your duties.
- Not journeys which, are ordinary commuting or private travel.

Travel between home and a **temporary workplace** is an allowable expense. A temporary workplace is one where you go to perform a task of limited duration or for a temporary purpose.

The rules regarding temporary workplaces are based on how long you are to be at one place or expect to be at the place. In majority of cases a temporary workplace exists where you do not, and just as importantly, do not expect to be at the place for more than 24 months.

Example

If you are new to contracting and have just signed your first contract for 12 months then you can claim the travel costs. When this contract nears the end, the client offers to extend it for another 12 months. At this point you EXPECT to be there for 24 months in total and must stop claiming travel costs. If instead you asked for a 6 month or 11 month contract extension you would expect to be there for less than 24 months in total so could continue to claim your travel expenses.

There are certain circumstances that may affect any claims:

If you incorporate a Ltd Company, work at a single client and then close your company down.

If you work at a number of sites but all in a certain location i.e. London Docklands.

If you work at more than one site on the same contract.

The 123 Guide



Expenses - continued

Mileage Allowance

If you use your own personal car, the following rates can be claimed for business journeys:

Per Tax Year	First 10,000 miles	Miles over 10,000
Cars	45p	25p
Motor Bike	24p	24p
Cycle	20p	20p

You must keep a log of the miles travelled, the purpose of each journey, date and time. This is easy to do on an excel spreadsheet and can add up to a significant tax saving.

At the end of each month you put the mileage allowance through your Bookkeeping Spreadsheet and make a bank transfer from your company bank account to your personal account.

NOTE: all petrol and car expenses should be paid for by you personally and not the business if you intend to use the mileage allowance rates.

Travelling by train, bus, plane, etc are also eligible travel expenses, always keep receipts for the journeys made. Using taxis for all or a substantial part of your travelling is not accepted by HMRC.

Should I have a company car or use my own car?

We recommend that you use your own car for business use. You can charge the Company a mileage allowance for each business mile you travel (see above). This is tax free money in your hands and tax deductible for the Company.

If you did buy a company car you would be taxed on the benefit in kind.

Company cars used to be a good way for companies to give tax free benefits to directors but HMRC cottoned onto that very quickly and they are now quite heavily taxed.

The 123 Guide



Expenses - continued

Computer Equipment

If you need a computer or a laptop to carry out your work then the purchase and maintenance along with business related software is an allowable expense.

Internet Access

The full cost of internet and broadband at home is an allowable expense as long as:

- You do not receive a detailed bill breakdown showing each connection (if you do, then only claim for the business connections);
- Private use of the internet is not substantial;
- Contract is in the company name and paid for by the company bank account. If not you can claim a proportion if you work from home in line with the home office percentage calculation on page 43.

Mobile Telephones

Mobile phone expenses on one mobile phone are an allowable expense. This includes the purchase of the telephone itself, line rental and the cost of all calls. The contract needs to be in the companies name and paid for through the company bank account.

Medical Insurance

Medical insurance (e.g. WPA, BUPA) is an allowable business expense however as it has a real value to the employees and directors it is taxed as a benefit in kind, with the company paying National Insurance Contributions of 13.8% on the cost. Ensure the policy is in the company name otherwise further tax will be due.

IMPORTANT

To avoid potential issues with items and services that you claim as business expenses, you must ensure that any contract is taken out in the company name and not your personal one (unless claimed under the home office expense calculation). You must also ensure that the payment comes from the company bank account and not your personal account.

Remember to always keep receipts and invoices, preferably in the company name.

The 123 Guide



Expenses - continued

Accommodation

If you have to go away on business then the accommodation is an allowable expense. The invoice should be in the company name.

Training Costs

Training costs do have some conditions that have to be met for them to be allowable business expenses. Firstly they must upgrade or enhance your current skills. If the training goes further than this and teaches you completely new skills, the cost of the training will not be a business expense but instead a capital expense which still attracts tax relief but in a slightly different way.

Insurance

It is a legal obligation to take out an employer's liability insurance policy, this covers your company against any claims made by injured employees. However if the company only employs its owner and that person owns at least 50% of the shares then there is no obligation*.

Insurance that you may wish to take out include:

- **Public Liability Insurance** – will indemnify you for your legal liability for injury or death to third parties and damage to third party property as a result of negligent acts by you or your employees.
- **Professional Indemnity Insurance** – will protect you against the cost of defending claims where it is alleged that a client has suffered financial loss as a result of your error, omission or negligence.

IMPORTANT

* If you employed your spouse or relative or if you substituted another contractor or individual to undertake your contract work then you will need Employer's Liability Insurance. If you do any of the above and do not have a valid policy in place you will be liable to fines of £2,500 per day that the policy should have been in place. The cost of Employer's Liability Insurance is relatively small so if you do any of the above then ensure you take it out.

The 123 Guide



Expenses - continued

Home Office Costs

Option 1:

The easiest method is to claim the flat allowance of £208 per annum, no receipts are required and this is allowed by HMRC if you use part of your house as an office. Simply claim £17.33 on your Bookkeeping Spreadsheet each month and it will be included in your accounts.

Option 2:

If a reasonable proportion of your ***fee earning work*** (i.e. not company administration but actual fee earning work for your company) is carried out at home, you can claim the actual expenses you incur relating to the running costs of your home office. Most commonly, this cost allocation is done by apportioning the costs based on the total number of rooms in your house / flat (excluding kitchen and bathroom), and the percentage of time the room / area is available for business use.

Note: you will need to be able to show how you calculated the home office claims – i.e. you will need to keep your bills and a record of how you worked out the expense portion claim.

Example One.

John and his girlfriend live in a two bedroom flat. One of the bedrooms is dedicated to John's home office for his company. The proportion of housing costs that can be claimed as business-related expenses is 1 (the spare room) divided by 3 (two bedrooms and a lounge, kitchen and bathroom are excluded from the calculation) which gives 0.333 of all costs that can be claimed. See next page for costs allowed.

Example Two.

Katy lives in a shared 3 bedroom flat with 2 friends. Not having the luxury of a spare room for her business, she has dedicated half of her bedroom as her home office. Because all living costs are split evenly between the 3 flatmates, the proportion of housing costs that can be claimed as business-related expenses is 0.5 (half of her bedroom) divided by 1.33 (Katy's costs cover her bedroom, and shared 0.33 use of the lounge) which gives 0.375 of all costs that can be claimed.

The 123 Guide



Expenses - continued

The following home office costs can be claimed using the percentage worked out from the previous page:

Rent

If the property is rented the amount of the rent reflects the existence of the room or portion of a room that is used exclusively for business. Therefore a deduction can be permitted for a proportion of the rent paid.

Mortgage interest

If the property is owned on a mortgage the amount of the mortgage interest reflects the existence of the room or portion of a room that is used for business. Therefore a deduction can be permitted for a proportion of the mortgage interest paid. You can not include the capital as this is a personal asset you are purchasing.

Gas/Electricity

If the room is to be used for work it must be lit and heated to the extent necessary to carry out the work.

Cleaning

If the room is for work it must be kept in a fit state for the work to be carried out. Unless a cleaner is employed there is unlikely to be any significant expense exclusively incurred in cleaning the room.

Council tax/rates

A room set aside exclusively for business contributes to the value of the house. Therefore a deduction can be given for a proportion of Council Tax, or the rates in Northern Ireland.

Telephone & internet

The cost of business telephone calls made from home is deductible whether or not any part of the home is set aside exclusively for business use. The same is allowable for broadband internet.

Water charges

In general, water charges **cannot** be claimed as a business expense.

The 123 Guide



Expenses - continued

Salaries

The salary you pay to yourself is an allowable expense, this includes any tax and National Insurance Contributions.

For more detail on setting your level of salary - take a look at the Salary Choices on page 29 of this guide.

Salaries to the Company Secretary / Partner

With the abolishment of the rule that you had to have a company secretary coming into force with the Companies Act 2006, there is little point in having one. Directors used to employ their partners as the company secretary as a way of extracting a tax free salary for them equivalent to the tax free allowance. HMRC has cracked down on this and it would be very hard to justify.

To keep things simple and as The 123 Way includes many of your company secretarial duties, we advise not to have one.

If you did wish to appoint a company secretary then the going rate is around £150—£200 per year - this would be the Company Secretary's salary. (not much point).



Expenses - continued

Pension Contributions

Pension Contributions made by your company to a pension scheme used to be automatically allowable business expenses. This is no longer the case.

We would advise you to consult with your pension advisor prior to making any pension arrangements. 123 Contracting are not authorised to offer advice regarding pensions and other investment products. If you would like to speak to our pension specialists who are IFAs please do call our office on 0845 834 0269.

With regards to making personal pension contributions not from your company, these are now capped at 100% of the salary you choose.

There is not a great deal of difference in the tax benefit between contributions paid personally or by the company. Therefore if you choose to pay yourself a low salary, it may make sense to have pension contributions paid by your company.

The 123 Guide



Expenses - continued

Christmas Party/Annual Event

This is a bit of strange one for contractors and freelancers but an annual event, usually a Christmas Party, is an allowable business expense for the company as long as the following conditions are met:

- Total cost must not exceed £150 per head—not even by a penny.
- All staff must be invited
- If you invite a partner then all staff may also invite a partner, invited partners add an extra £150 per head allowance. For a sole freelancer this gives you and your partner a total of £300 to spend that is tax deductible.

Business Entertaining

Business entertaining or hospitality is **not** an allowable expense in regards to Corporation Tax. If your company pays out for entertaining a client, this expense will go through the company accounts and reduce the final profit figure. It will then be added back to the profit when the Corporation Tax is calculated so no tax relief is gained.

- You do not get any Corporation Tax relief for entertainment expenses and
- It reduces your company profit in your accounts which may hinder you in securing a mortgage.

If you wish to take a client out for dinner or drinks or provide them with a hospitality package then one option you have is to do this with your personal money and not charge it back to the business. This reduces the administration implications that come with entertainment expenses which produce no benefit for the company or the director.

The 123 Guide



Bookkeeping Spreadsheet

The Basics

The bookkeeping spreadsheet is the simplest form of bookkeeping but it provides you with a wealth of information so that you as a director can make informed decisions.

It tells you;

- **how much VAT you will need to pay to HMRC, (if you're registered for VAT)**
- **how much Corporation Tax will be due at the year end,**
- **how much you can pay out in dividends,**
- **how much your company is spending on each expense and where you can cut costs and make savings,**
- **how much you have invoiced your clients and how much they have actually paid you so you can see how much they still owe you.**

Use the spreadsheet every month, get to know it well and it will focus you so that working as a freelancer is a success.

You need to send your spreadsheet to us every quarter to coincide with your VAT quarter end. For example, If your VAT quarter end is December 31 then send it to us during the first week of January.

Keep your Bookkeeping Spreadsheet up-to-date every month.

The 123 Guide



Bookkeeping Spreadsheet - continued

Keeping records

You need to keep receipts for every expense you put in your bookkeeping spreadsheet (except for mileage where you need to keep a mileage log).

We recommend that you buy an A4 file for each company financial year and keep all of your receipts in plastic wallets by month – 1 wallet for each month.

Sounds very simple and that is the point. If HMRC wanted to look through your records they would look at your Bookkeeping Spreadsheet, see an expense for say a mobile phone bill from Orange, then look in your A4 file for the correct month and see the invoice from Orange.

You must keep your records for 7 years – this is a legal requirement and there are fines and penalties for not doing so.

The 123 Guide



IR35

IR35 is a piece of tax legislation that was introduced with an aim to stop what HMRC calls “disguised employment”. The idea was to stop people forming Limited Companies and trading through them when they were clearly employees of their client. If “caught” by IR35 you would pay higher tax more inline with that of an employee.

The Basics

You are “caught” by IR35 if you work for a client through your own limited company either directly or via an agency and the terms of the contract either on paper or your real world working conditions are such that in reality you are really an employee of the client.

The main issue is to figure out if you are really ‘employed’ or ‘self-employed’. As every case is so different, HMRC has not set out a statutory definition of employment, therefore they will look at both your contract and your working conditions to see if you are caught by IR35.

One of the best things to do is get your contract reviewed. This will give you a very strong idea of if your contract is caught by IR35 and the changes that need to be made so that it is not. We offer a Contract Review service that we recommend all contractors and freelancers take up.

In reality HMRC has found it very hard to enforce IR35. Many contractors are willing to take cases to court and more often that not they win. We would urge all contractors to see IR35 as something you need to learn and understand so that you can take steps such as having your contract reviewed to ensure you are not caught by it. This could save you a lot of time, hassle, stress and money in the long run.



IR35 - continued

What you need to look out for

Direction and Control

How much control and how much direction do your clients give you?

- **What work is carried out** - does your client have the right to move you from one project to another as an when they like, this would indicate employment.
- **When the work is carried out** - If your client controls the hours that you work then this is an indicator of employment
- **Where is the work carried out** - do you have to go to the client's business to carry out the work or do you have the option of working where ever you like? If you have to work at a client's premises this would indicate employment.
- **How the work is carried out** - does the client give you detailed instructions on how they want the work to be undertaken, not just a brief spec but they tell you exactly what to do? If they do then this is a big indicator of employment. They should not be telling or teaching you how to do your work.

What you could do – you need to ensure that your paper contract and your real world working conditions are as flexible and free as possible from any kind of control. If you can work from home and turn up at the client's office at 11am when all their employees must be at their desks for 9:00am sharp, and if you can decide which days you work and have complete control over the project, this will all help to ensure you are not caught by IR35.

The 123 Guide



IR35 - continued

What you need to look out for - continued

Provision of equipment

If you work for a client and provide all of your own equipment e.g. you're a graphic designer and you use your own Apple Mac and Adobe Design Suite then this is a big sign of self employment. If you go to the client's business and they provide you with their equipment, this is a sign of Employment.

What you could do – pretty simple answer here, provide your own equipment. By doing this you are showing a certain degree of investment and financial risk involved on your part - running a business.

Financial risk

If you have invested in your own equipment to satisfy the 'provision of equipment' factor then you are also going some way to dealing with the financial risk element. There is always a degree of financial risk in business and by purchasing your own assets or by taking on employees or sub-contracting work to a substitute you are showing that you are taking on financial risk.

What you could do – You can purchase your own assets, work to fixed price contracts - if something goes wrong then you bear the financial risk of fixing it, to this end you should also buy professional indemnity insurance, showing you are prudent about the financial risk.

The 123 Guide



IR35 - continued

What you need to look out for - continued

Right of Substitution

This is quite a simple one, to be employed you can usually not substitute yourself with someone else and get them to do the work for you. Therefore if you have the right to substitute, i.e. if you took on a contract with a client and could take on a contractor to do the contract for you, then you have the right to substitution—this would be strong grounds for self-employed status.

What you could do – you should have the right of substitution in all your contracts. It is also a good idea to state that the client will always be paying your company the fee and your company will be paying any substitute used.

Basis of payment

People who are self-employed usually charge a fixed rate for a project or contract where as employees get paid a fixed amount for a period of time. They may often get paid overtime as well.

What you could do – Try to charge a fixed price for a contract, however if this is not an option make sure you issue your own invoices, do not use timesheets. Also when charging expenses to the client put these on your own invoice and keep the receipts, do not give them to the client and fill out their usual expense form for their employees. You need to think and act like you are your own business, don't use words like overtime, as you're not trying to be an employee.

The 123 Guide



IR35 - continued

What you need to look out for - continued

Day to Day working

It is important that your client sees you as a contractor - a separate business to theirs. If you were to get investigated by HMRC they may ask your client how you are viewed, if they say you are basically part of their organisation this will point towards you being an employee.

What you could do – The main thing to do is not to act like an employee, you have to have the mindset of running your own business - that is what you're doing. Don't let them put you on their internal phone system or give you an internal email address - use your company email address. You should not be managing the employees of the client and as we said before, don't go to the office Christmas party for the employees, unless lots of the clients suppliers are invited as well.

Mutuality of Obligation

Does an obligation exist between you and your client? If your clients pay you for your services and no other obligations exist between you then it is possible that Mutuality of Obligation does not exist and therefore you are not employed.

What you could do – This is more difficult for very long contracts but you should ensure that each contract sets out exactly what you and your client expect from each other.

The 123 Guide



IR35 - continued

What you need to look out for - continued

In Business on Your Own Account

This is quite a simple one - do you look like you're running a business or do you look like an employee of your client? You need to think and act like you are running your own business in everything you do.

What you could do - Like many of the other issues, you should have your own assets and equipment, try to work from your own office when you can even if this is your home. Work for more than one client. Get stationery made with all your business contact details - don't go to the office Christmas party for the employees.

Length of engagement

If you have been working for the same client for a long time or if you have regular work from the same client then this may show that you are an employee—it is not conclusive but if coupled with lots of other factors pointing to employment, it could mean you're caught by IR35.

What you could do - Try to have more than one contract on the go at any one time, if you have one major contract lasting for a year or more, try to take on smaller contracts to run at the same time. Do not sign a contract that states you can not work for anyone else - this points to employed status.

The 123 Guide



IR35 - continued

If you were to get investigated, HMRC would look at all of the points above to try and prove you were caught by IR35. You need to try and make sure that as many as possible point towards self-employed status rather than employed. Many of them are quite easy to do anyway - get business cards made, a website and company email, work from home and ensure your contracts are as free as possible - get each contract reviewed!

What happens if you are caught

If you are caught by the IR35 rules, then we have to work out what is called your 'deemed salary' for this you may claim certain expenses but not as many as if you were outside IR35.

- Employers National Insurance Contributions
- Employer contributions to approved pension schemes
- Travelling
- Professional subscriptions
- Professional indemnity insurance

Practical considerations

If your contract is caught by IR35 then you have to pay HMRC the PAYE and NIC calculated on your deemed salary. HMRC have said that this can be paid at the end of the financial year with the final PAYE payment on the 19 April. You must inform us if you believe one of your contracts is caught by IR35 and your deemed salary needs to be calculated.

The 123 Guide



IR35 - continued

IR35 Contract Review

We would recommend that you have all your contracts reviewed.

Through our 123 Extra program we have set up a partnership to offer a full IR35 Contract Review Service. HMRC takes into account whether or not you had your contract reviewed when applying penalties and fines, it is a service that we recommend to all clients.

To take out a contract review, please contact 123 Contracting directly. Email, info@123contracting.co.uk or call the 123 Contracting office on 0845 834 0269.

Freelancer Tax Protection Insurance

If you want complete piece of mind that you are covered for all possible tax liabilities then you may wish to take out full Freelancer Tax Protection Insurance.

Freelancer tax protection generally includes:

- Representation and attendance in the event of a PAYE compliance review
- Insurance of fees up to £50,000 incurred representing you in defence of:
 - An IR35 dispute
 - A PAYE/NIC dispute
 - A VAT dispute
 - A HM Revenue & Customs aspect enquiry
 - A HM Revenue & Customs full enquiry
 - A Section 660A dispute
- May includes weak cases to Commissioners' Hearing if required.

For more info please email, info@123contracting.co.uk or call the 123 Contracting office on 0845 834 0269.

The 123 Guide



Personal Tax Return

Your personal finances are separate to your company's finances - you and your company are separate legal entities, therefore you as a director have to prepare a personal self-assessment tax return each year.

The Basics

Your personal tax return will give HMRC details of the amount of money you paid yourself as a salary, how much you received in dividends from your company and any other investments you may hold. You also have to declare how much interest you received on your savings and if you made any money from foreign investments or renting out any property. All of these add up to work out your personal tax liability.

There are also some reliefs which will reduce your liability. If you made pension contributions during the year or gave money to charity, these both have to be declared on your return as well.

The personal tax year runs from 6 April to 5 April which will probably be different to your company's financial year. The return is usually due at HMRC on 31 January following the end of the tax year, for example 6 April 2017 - 5 April 2018 would be due with HMRC before 31 January 2019.

You complete your tax return through the online client pages of our website. You must complete this by 31 August each year to guarantee submission in time for the January deadline.

The 123 Guide



The Importance of Information

Information means everything to you. If you want to understand why your business is doing so well or maybe not where you want it to be then the information from your bookkeeping spreadsheet is the key. There are also some important laws regarding information or data and its protection.

Use your bookkeeping spreadsheet every month to see;

- how much your company is spending on each expense and where you can cut costs and make savings,
- how much you have invoiced your clients and how much they have actually paid you so you can see how much they still owe you,
- how much you need to transfer to your business savings account for paying your Corporation Tax and VAT bills,
- how much profit you have in the business so you can make a dividend payment.

Keeping your Bookkeeping Spreadsheet up-to-date each month with your income and expenses will help you to not make any mistakes and receive fines and penalties - it is key to being a successful freelancer or contractor.

Data Protection Act

If you keep a record of client's information on your computer then you probably have to register under the Data Protection Act. If you don't register then it's a criminal offence with fines and penalties imposed by the courts. The good thing is it's cheap around £35.00 per year - for more info take a look at the Data Protection Registrar.

The 123 Guide



Timetable of Important Dates

Lots of important dates to be aware of - good to keep referring back to.

Company Accounts - a company has to file its accounts within 9 months of its year end.

Annual Return - this is prepared a year after your company was incorporated and submitted within a month.

Corporation Tax return - HMRC needs to have your annual accounts and your company's Corporation Tax return within 12 months of your company's year end.

Corporation Tax payment - you need to pay your corporation tax liability within 9 months and 1 day of your company's year end.

VAT returns & payment - these are due by the end of the month following your quarter end.

For example:

Quarter ending 31st March	Due by 30th April
Quarter ending 30th June	Due by 31st July
Quarter ending 30th September	Due by 31st October
Quarter ending 31st December	Due by 31st January

Payroll - P35 & P14's these are due with HMRC at the end of each tax year - this is not the same as your company year, the tax year is 6 April to 5 April. The forms must be with HMRC by 19 May.

Payroll - P11d & P11d(b) these detail any benefits that you have received and expenses that the company has paid you. As above these are due at the end of each tax year as well, though you have until the 6 July to file these.

Payroll - Class 1A NIC - if you have paid yourself some form of benefits, for example, health insurance or a company car, then there will be National Insurance due. This payment is due by 19th July after the end of the tax year.

Payroll - PAYE & NIC deductions If you have opted for a salary level that incurs Income Tax and National Insurance Contributions then these must be paid within 14 days of the end of each period. Most contractors are eligible to pay this quarterly at the dates below;

Quarter ending 5th April	Payment due by 19th April
Quarter ending 5th July	Payment due by 19th July
Quarter ending 5th October	Payment due by 19th October
Quarter ending 5th January	Payment due by 19th January

The 123 Way includes all of the above (though I'm afraid we won't pay your tax liability for you).

