CONTRACTOR HANDBOOK

Meades Contractors

THE CONTRACTOR'S ACCOUNTANT: MAKING CONTRACTING MORE PROFITABLE

Managing your business as a contractor or freelancer can be frustrating, time-consuming, expensive and full of complex rules and deadlines ready to trip you up.

Those were certainly not the reasons you decided to 'go it alone' and 'be your own boss'. You wanted the freedom, the opportunity, the rich financial benefits and the chance to create your own work/life balance.

Our contractor accountancy services are built around our proven process, that helps you to manage your business, finances and investments and gain maximum financial reward from contracting.

Keep reading to learn what this will look like for you.

Have another question? Ask the team:
01923 729517
experts@meadescontractors.co.uk

The Meades' proven process for gaining maximum financial reward from contracting

The Meades' proven process, step by step

Step 1: Your personal finances

- Calculate your cost of living
- Build your personal finance plan
- Organise your personal banking
- Allow for regular savings.

Step 2: Your income

- Calculate your remuneration plan
- Calculate your personal tax bills
- Organise your savings plan
- Keep your personal and business affairs separate

Step 3: Your business performance

- Review your profit and loss account monthly
- Compare business performance v budget
- Are post-tax profits covering dividends?

Step 4: Maximise and protect your money

- Claim everything you are entitled to
- Don't claim for anything that is not allowable
- Pay yourself in the most tax-efficient way
- Review your investments, protection and insurance

Step 5: Sleep soundly

- Accounts filed within 3 months of year-end
- Personal tax return submitted before 31 July
- Remuneration plan updated annually
- Be confident that you at not at risk with HMRC

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Why choose Meades?

No surprise bills

All fees for our services are agreed in advance so you need never commit to anything without first knowing the cost and will never receive a surprise bill from us, guaranteed.

One call to do it all

Our clients have a single point of contact for everything to do with their business and personal finances. So, whether it's about personal tax, Corporation Tax, VAT, bookkeeping, payroll, budgeting or anything else, you just call your client manager who will be able to give you the support you need.

Response times

All communications are responded to within 24 hours, so whether it's a phone call, email, or text message you will always be able to get hold of us easily.

Our Core Values underpin everything we do

Fun

Fun establishes a friendly work environment where people like to be. We enjoy our work and don't take ourselves too seriously even when the work is.

Excellence

Excellence comes as standard. We continually invest in ourselves, our team, our systems and our processes so we can do what we do best.

Communication

Communication builds trust. Our communication, internally and externally, establishes a reputation as a trusted adviser that is priceless.

Certainty

Certainty provides peace of mind. We always do WHAT we say we are going to do, WHEN we say we are going to do it.

Team Player

Team players contribute. We support each other to get the job done, always treat each other with respect and are committed to the success of the team.

Find more resources on our website:
www.meadescontractors.co.uk

Remuneration planning for company directors

Each tax-year, I provide straightforward guidance on tax-efficient remuneration for company directors. I will share with you on this page my top recommendation.

Tax rates are liable to change, so put this in your diary now to update your figures every April.

By following our proven process, you will know what you need to earn to cover your cost of living, regular savings and your tax bill. You can then consider how much you want to take home in excess of this for holidays, a new car, school fees for your kids or whatever else you want to spend your hard-earned cash on.

Assuming your limited company has sufficient income to support your financial needs you must to consider the most tax efficient way to remunerate yourself.

Compare tax rates each year for PAYE earning vs. Dividend tax. Remember, there is a personal allowance where you pay no tax at all.

You must also consider National Insurance contributions and Corporation Tax rates.

There are also some other danger zones you need to be aware of. For example, parents lose child tax credits when their income exceeds certain levels (again this threshold is liable to change so make sure you check it each year), and for those earning in the higher rate or additional rate tax bands are likely to lose some of their personal allowance too.

Remuneration planning should always be personal - your client manager will be able to walk you through the steps to understand what is most tax efficient for you given your personal circumstances.

To stay in control of your personal finances and income the following is my top recommendation. It applies to company directors and their spouses/partners if they are employed by the company.

The key figures to review each year are:

1. **Monthly Salary**: This is the amount processed through your company's payroll.

2. **Monthly Dividend**: Payable when there are sufficient profits in your business.

3. **Personal Tax Bill**: The amount to set aside to cover your tax liability, assuming you've paid the full monthly salary and dividend.

When you have these figures, you can plan ahead, ensuring you save your tax payments as you go so there are no nasty surprises!

If your accountant hasn't provided personal remuneration planning, get in touch. Our team will be happy to help.

What is IR35?

IR35 was the number of the press release issued by HMRC following the March 1999 budget. The correct name is Intermediaries Legislation (IR35) but it is mostly referred to as IR35.

What is the purpose of IR35?

The purpose of IR35 is to prevent contractors, consultants and freelancers from trading via their own limited company in order to pay less tax and national insurance contributions (NIC) than if they were employed directly by their end client or agency.

What is the effect of IR35?

The overall effect is to substantially increase the amount of tax and NIC collected by HMRC. This is achieved by removing the option of distributing company profits via dividends, rather than being paid as salaries under PAYE. Salaries incur the cost of NIC contributions, whereas dividends do not. Furthermore, additional tax is payable under PAYE in situations where a company is unable to restrict the amount of dividends distributed, or are paid to more than one shareholder.

When did IR35 legislation come into effect?

The rules came into effect on 6 April 2000.

Who is affected by IR35?

Anyone supplying their services through an intermediary such as a limited company sometimes referred to as a personal service company.

How do I decide if IR35 applies to me?

In 2017 HMRC changed which entity is responsible for determining IR35 contract status in the public sector, in 2021 the private sector followed suit.

In the majority of cases, it is the end client who determines if a contract is inside or outside of IR35. If you provide services to smaller businesses the responsibility can fall to you, the contractor.

Find more resources on our website:
www.meadescontractors.co.uk

What is IR35?
continued...

How do I determine if my contract is caught by IR35?

The IR35 legislation is based on established case law going back to the Ready Mix Concrete case of 1968.

In order for a contract to be caught by IR35, it must include all of the following:

- A requirement for personal service
- Control by the agency or client over how the services are provided
- A mutuality of obligation between both parties

These 3 points can each be explained further as thus:

1. Personal Service

The first factor in determining if a contract is caught by IR35 legislation is personal service. If a contract stipulates or infers that a specific individual is required to carry out the work under that contract, then this is a requirement for 'personal service'. In other words, a requirement for personal service would mean that a substitute worker could not be provided by the contracting company. It is also important to note that it does not mean that a substitute worker has to be provided during a contract but that the contracting company retains the right to provide a substitute if they wish.

2. Control

The second factor in determining if a contract is caught by IR35 legislation is control over how the work is actually performed. If a contract stipulates how the work is actually performed by the contractor, then this would signify that the level of control exercised under the contract is more in line with a master servant relationship, and would point towards a contract of employment rather than a contract for services.

3. Mutuality of Obligation (MOO)

The third factor in determining if a contract is caught by IR35 legislation is if there exists a mutuality of obligation between the parties to the contract. That is to say that the agency is obligated to provide

What is IR35?

continued...

work for your limited company, and that your limited company, is obligated to accept and perform that work. Without these obligations, a contract cannot be considered a contract of service.

What other factors should I consider?

As stated on the previous page, only the three fundamental status factors of personal service, control and mutuality of obligation can be used to determine whether or not a contract is caught by IR35 legislation. Contracts often contain other factors that are not sufficient on their own to decide IR35 status but do demonstrate that you are in business in your own right and not an employee. Such factors include, but are not limited to, use of your own equipment, insurance requirements, requirement to invoice, immediate termination, bearing financial risk etc.

What contracts will HMRC look at?

HMRC will look at all relevant contracts and associated documents. This will include any contracts between clients, agencies and your limited company.

What will happen if I fail to follow the legislation?

If HMRC discovers that IR35 has not been correctly followed, it will demand full payment of all unpaid tax and NIC including penalties and interest. Penalties may be charged up to 100% of the tax and NIC due, and interest added from the date the original payments were due.

How does HMRC enforce IR35?

Each year HMRC undertakes numerous employer compliance and business record checks. It may also target specific business sectors or individual cases. The most infamous case was that of the Dragonfly case, which was won by HMRC and ended with a £99,000 tax bill for the tax payer! Ignore IR35 at your peril!

What an ‘Umbrella’ is and why you need one

In 2017 HMRC changed which entity is responsible for determining IR35 contract status in the public sector, in 2021 the private sector followed suit. These changes mean that contractors will need an umbrella service to work alongside and in conjunction with their accountant. We looked for a solution to recommend, but all those we considered fell short of our expectations and the service levels our contractor clients deserve.

Here’s why.

With the Umbrella services we considered, we discovered contractors would not have access to a qualified accountant to advise them. This is critical if you are going to make as much money as possible through contracting.

You need to be able to switch between contracting through your umbrella or your personal service company (PSC) to make certain you’re always being as tax efficient as possible within the constraints of your chosen contract.

When we couldn’t find a service to meet our expectations, we built one.

What makes the Meades Umbrella different?

Meades Umbrella gives you:

- Access to a qualified accountant
- Flexibility to switch between Meades Umbrella and your PSC
- Peace of mind that your umbrella contracts are run professionally and affordably
- Support from a friendly and approachable team of experts.

How can Meades Contractors help?

Contact Paul in the first instance. In just 15 minutes Paul can guide you to your best next steps.

Book your free call with Paul
Visit: https://meadescontractors.co.uk/book-your-call-with-paul/

Meades Contractors

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Do you really need a qualified accountant when using an umbrella?

Yes!

Working with a qualified accountant who can take a holistic view of your remuneration will help you make more money and sleep soundly at night. An unqualified person cannot help you answer the questions that will make you wealthier. Not sure what we mean? Check out the myth busters on page 4 – and these are just a handful of queries our ACCA accredited team can help you with.

Maintaining your independence as a contractor

Contracting should always be on your terms and the Meades Umbrella will help you to retain your independence and give you the opportunity to secure more lucrative contracts.

Operating without an umbrella could leave you dependent on a specific agency. In our experience, reliance on an agency can lead to contractors taking on less desirable contracts to maintain the relationship

Maintain your employment rights

Switching between agencies would result in you losing your longevity of service and the associated benefits. Working through an umbrella your employment status is retained even when you change agencies or end-user clients. Key benefits are:

- Statutory maternity pay
- Statutory paternity pay
- Statutory adoption pay
- Statutory sick pay
- Statutory holiday pay

The Meades Umbrella takes care of all of this for you.

Continuity and security

The Meades Umbrella will give you uninterrupted payroll services, no matter who you contract with. Ask us for more information.

Umbrella Myth Busters

Working through your umbrella means you cannot claim business expenses through your PSC

FALSE

Allowable expenses depend on your specific situation and you should always consult with your accountant, but many business expenses can be legitimately claimed, even if you're currently operating a contract through an umbrella.

If you're receiving PAYE through your umbrella you should stop your salary through your PSC.

FALSE

This is not the case in some scenarios. It is essential to speak to a qualified accountant who can advise you on your personal circumstances, but in some cases continuing to draw funds from your PSC is more tax efficient.

If you're receiving PAYE through your umbrella you should stop your spouse's salary through your PSC.

FALSE

Your PSC can continue to operate and the role your spouse plays in the business can continue, so it might be beneficial to pay them but it would depend on a case by case basis so ask your accountant about it.

If you take a contract through your umbrella you should shut your company down

FALSE

It is possible with Meades Umbrella to switch to a different service level to keep your PSC running in the background while you contract through the Umbrella.

You've taken a contract through an umbrella so you should not draw dividends from your PSC

FALSE

Again, your PSC can continue to operate, and dividends are still available to you if the business has reserves. As with all

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Umbrella Myth Busters
continued...

remuneration planning, you need to consult with a qualified accountant to plan the best strategy for you.

You should shut down your PSC and claim Entrepreneurs Relief

FALSE

There are many considerations to make when thinking of closing your company that may outweigh the advantage of Entrepreneurs Relief. Again, advice from an accountant is needed.

You should stop your pension contributions through your PSC when contracting through your umbrella

FALSE

Pension contributions are one of the most tax-efficient ways to extract funds from your PSC for your benefit. If you have funds available, it might benefit you to continue to contribute to your pension.

Kingsbridge, Experts in Freelancer & Contractor Insurance

Specialising in comprehensive, inexpensive and compliant insurance packages tailored to meet contractor specific requirements, Kingsbridge currently provide cover to thousands of freelancers, contractors and independent professionals in the UK.

Our one complete package includes all the key insurances you would need in order to secure a business contract – professional indemnity, public liability and employers' liability; which means you'll only need one policy to cover the main exposures which could ultimately affect your business.

For further information and an instant quote please visit **meades.kingsbridge.co.uk**

Contractor Expenses FAQ

What expenses can I claim through my Limited Company?

There are so many myths and misinformation around what you can and can't claim as a contractor working outside of IR35. The following is not a definitive list, but you can rely on its accuracy and if you have any other questions about expenses – just pick up the phone and ask.

The only legal stipulation around each of the following is that the expenses incurred are 'wholly, exclusively and necessarily' for running your business:

- Travelling (subject to the 24 month rule)
- Business mileage (subject to the 24 month rule)
- Business parking and congestion charges (subject to the 24 month rule)
- Accommodation (if required to work away from home overnight)
- Subsistence (evening meals relating to the above and a flat rate to cover incidental costs)
- Mobile phone bills (if in the name of the limited company)
- Bank interest and charges (company held accounts only)
- Professional subscriptions/ memberships
- Accountancy fees
- Legal and professional fees (relating to the company only)
- Printing, postage and stationery
- Fixed assets required for business activities of the company (NB. Be aware of HMRC's "duality of purpose" argument particularly relating to home office furniture and refurbishment)
- Continuing professional development training costs (not including training costs for new skills)
- Insurance (usually a contractual requirement for limited company contractors operating outside of IR35)
- Cost of goods sold on to clients
- Computer consumables
- Business entertainment (although this is not allowable for a Corporation Tax deduction)
- Annual staff events (up to £150 per head per year, for every employee plus a guest each)
- Wages and salaries (normally a minimal salary to use up an individual's NI free allowance)
- Pension contributions made to an approved company scheme
- Books and publications related to the business of the company

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Contractor Expenses FAQ

continued...

- Use of home as office at a flat rate which you need to check each tax year. Not only is this free from income tax, it's also deductable for Corporation Tax too.
- Relevant Life insurance premiums
- Childcare (subject to specific conditions)
- Annual eye tests plus the cost of any lenses required for VDU use only (minimum requirement frames)
- Safety clothing/equipment required to comply with Health & Safety regulations
- Equipment or services provided to employees with a disability (inc. hearing aids)
- Long-service awards (with certain restrictions)
- Executive income protection
- Trivial benefits to employees (such as small gifts, seasonal gifts, a Christmas turkey, seasonal flu jabs, tea and coffee, water cooling dispenser)
- Cycle to work scheme (employers can claim capital allowances and employees can borrow the bicycle as a tax exempt benefit)
- Commercial vehicle costs (especially if you are caught by the 24 month rule).

What expenses can't I claim through my limited company?

- Lunches, teas, coffees, breakfasts etc unless these are genuine business entertainment
- Gym membership (this will trigger a P11D benefit in kind charge to you and your company)
- Health Insurance (this will trigger a P11D benefit in kind charge to you and your company)
- Household bills (eg electricity, gas, water, council tax, rent etc)
- Broadband (unless it was specifically installed as a requirement of your company's business)
- Training costs for new and irrelevant qualifications/skills
- Travel to and from a permanent place of work
- Personal grooming and business dress
- Private school and university fees
- Weddings
- Flying lessons
- Massages
- Golf club membership fees
- Professional fees for the preparation of your Personal Tax Return (unless as part of a bundled package)
- Making yourself redundant

FreeAgent

FreeAgent is the contractor and freelancer's accounting best friend!

As a client of Meades Contractors, you will get a FreeAgent cloud accounting package for free to help manage your business. In truth, it will revolutionise and massively simplify the management of your business.

1. It will free up your time to earn more money
2. It will free up your mind to concentrate on the things that matter
3. It will free up your finances to work for and not against you

There are other cloud accounting solutions out there, but nothing matches FreeAgent, which has been developed specifically for contractors and freelancers.

The video here: https://meadescontractors.co.uk/freeagent/ will explain more.

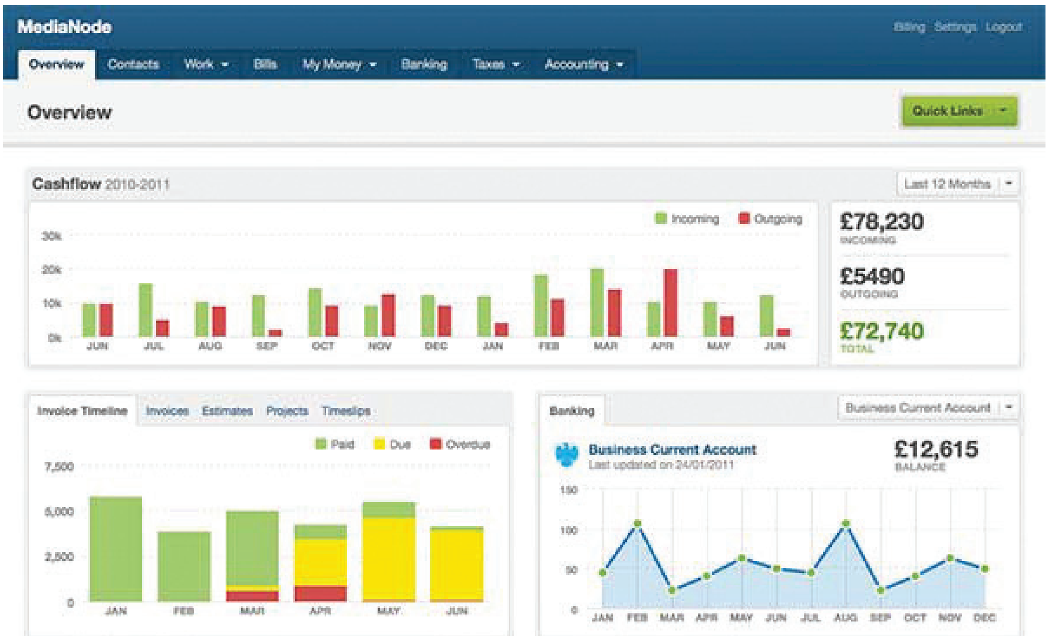
Access anywhere

FreeAgent is completely web-based, so there's nothing to download, update, or install on your computer, and you can access it from anywhere you have an internet connection. Your data is safely backed-up, and FreeAgent uses the same level of encryption to talk to your computer as banks use, they even store your data in a former nuclear bunker!

FreeAgent is also optimised for mobile so you can access your accounts when you're on the move. There's nothing to download — just log into FreeAgent on your phone or download the app to get going.

Designed for you

Designed specifically for small businesses, contractors and freelancers FreeAgent makes it simple to stay on top of your day-to-day bookkeeping. At the same time working alongside our team of qualified accountants ensures you receive the best tax planning and business advice.



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FreeAgent *continued...*

Your finances on the go with FreeAgent Mobile

FreeAgent's mobile app makes it easy to capture expenses, get tax notifications and view cashflow directly on your phone, so you can stay up-to-date wherever you are.

The app is very easy to use and makes it easy to capture expenses and view bank balances directly on your phone, so you can stay up-to-date while commuting home or watching TV.

- Capture photos of your receipts and create expenses
- View your bank balances and explain transactions
- Get tax timeline notifications
- Keep an eye on cashflow
- Create and send invoices
- Track time on your phone and create timeslips

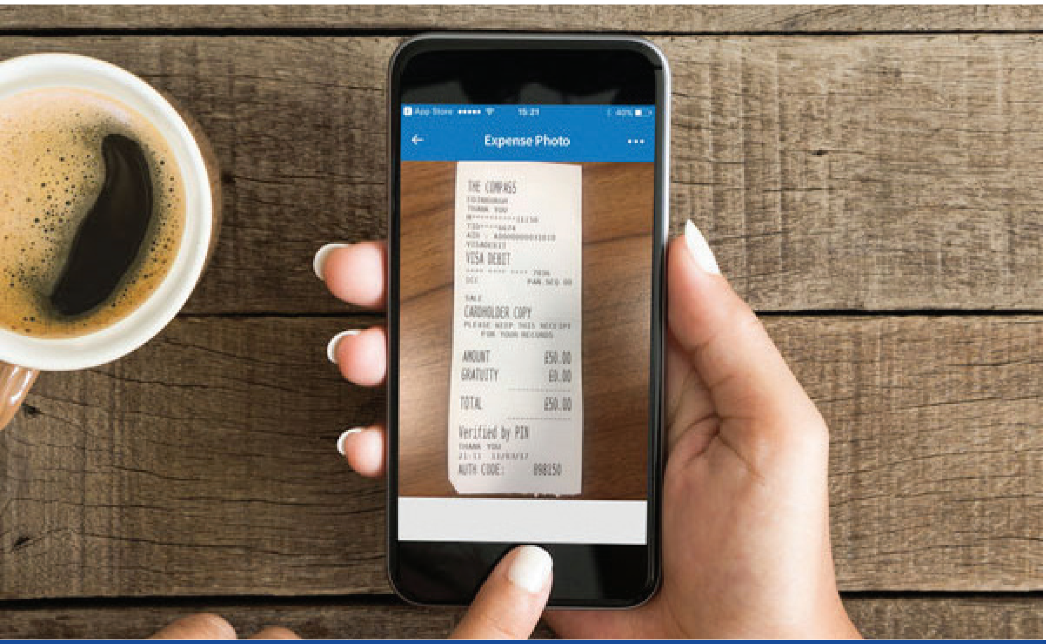
Everything you input on your phone will automatically be securely stored in the cloud and available for us both to view by logging into FreeAgent from any device.

Learn about:

- Creating your very own mission control for your business
- Sending great looking estimates
- Creating professional invoices
- Keeping on top of your cash flow & chasing payments automatically
- How to easily reconcile your bank transactions with automated bank feeds
- Effortlessly managing your expenses
- Managing projects, tracking time and generating timesheet reports
- Recording a mileage claim

Your business – in real time

FreeAgent gives you a real-time overview of your business finances making it easy for you to track your cash flow and other important financial aspects of your business in real-time.



Discover more at https://meadescontractors.co.uk/freeagent/

WE'RE HERE TO HELP

Meades
Contractors

My name is Paul Meades, and I have personally supported contractors in gaining clarity on what's working (or not) in their business and financial affairs. I've helped people, like you, to grow their personal wealth by showing them how to pay themselves more efficiently and make their finance function a tool rather than an administrative burden. And I can do this for you too.

You simply can't get a cleaner, more efficient finance function to support you in getting the most out of your business and contracting career. I'm so confident my team and I can help you, I'll guarantee it.

BOOK YOUR FREE DISCOVERY CALL NOW:
https://meadescontractors.co.uk/book-your-call-with-paul/
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