

Getting Started with your own Business

Here's a beginners guide to what you need to consider when embarking on a career as a contractor, freelancer or locum



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Congratulations! You've made one of the most difficult career decisions and opted to go freelance, or start your own business.

Whether it's been your choice, or you've been forced into this decision, giving up the security of full-time employment can often be a daunting time, so we've put together this guide to help you.

It will give you a clearer picture of how to set up your business and take full advantage of the opportunities available to you, ensuring you remain tax efficient. We also provide a little guidance on the options available to you and what you need to watch out for as you begin your freelance career. Here's what we cover:

3. Why go it alone?

- The benefits of making the move into a freelance career
- Increased responsibilities - what to plan for

4. Choosing how to operate

- Limited Company
- Umbrella Company
- Sole Trader

6. Steps to getting started

- Follow these simple steps to get yourself up and running

7. What to watch out for

- It's not all going to be plain sailing unfortunately - make sure you quickly familiarise yourself with some of these drawbacks to a freelance career.

Why go it alone?

So whether your contracting, freelancing, or creating your own startup business, the advice in this guide will help get you started.

If you're looking to escape the drudgery of 9 to 5 work and an energy sapping commute, or you've decided you want a better work / life balance, running your own business brings a wide range of benefits, some of which are below.

Everything comes down to you

Free yourself from office politics and choose the type of work to do, the hours, and the location. Best of all, work for whoever you choose.

Variety is the spice of life

No more regular commutes fighting germs on overcrowded trains, allowing you more time to spend doing what you choose.

Only you benefit when going Limited

When contracting, you, rather than a third party employer or group of shareholders, enjoy the full rewards (your profits) of your success.

Better tax planning

With the right advice, you'll be able to set income targets to make sure you remain the most tax efficient when it comes to withdrawing profit from your business.

Claiming Business Expenses

There is a wide range of expenses you can claim when running your own business that are not available to company employees.

Alternative Tax Breaks

Minimise your tax obligations by using childcare vouchers & pensions. You can even make the VAT system work better for you.

Increased Responsibilities

Unfortunately it's not all rosey! Moving from permanent to contracting also means there are tax obligations and accounting responsibilities that you are personally responsible for, which could include any of the following:



Submitting your personal tax returns



Corporation TAX, VAT & PAYE returns



Register your business & file annual accounts



You'll need to plan ahead for holidays / sickness

Choosing how to operate

One of the first decisions you'll need to make is whether to set up your own limited company, join an umbrella company or operate simply as a sole trader.

Each option has its distinct advantages and varying levels administrative responsibility. What's best for you will depend on your unique circumstances.

Limited Company - your responsibilities

When you set up a limited company you'll need to register it with HMRC for corporation tax and PAYE. The business will also need to be registered with Companies House who will require you to file your annual accounts – which will be publicly available for inspection.

As the director of the business, you will be responsible for fulfilling these obligations as well as any other general business or sector specific legislation.

If the company's annual turnover exceeds the VAT threshold, currently £81,000, you will have to register for VAT and submit quarterly VAT returns.

Other responsibilities include advising Companies House of any change in the names of directors and any change of your registered address, and formally closing the company when you no longer need it.



- Have full control of your finances
- Withdraw your income as a tax efficient salary and dividend payments
- Claim for a wide range of business expenses
- Portray a professional business image to clients
- Obtain tax relief on company pensions
- Personal assets are protected should your business fail



You become legally responsible for your company's financial obligations, including:

- Annual Filing of Company Accounts
- Quarterly & Annual Corporation Tax & VAT Returns

*This is where we
come in.*

*We can help you
with all of this!*

Working through an Umbrella Company

You have very few responsibilities when you work through an umbrella company. The umbrella company is your employer and contracts out your services to your client, raising invoices and collecting payment. You then receive a salary through the PAYE system. As well as deducting tax and national insurance, the umbrella company will retain a margin.

Generally, there are fewer opportunities for claiming expenses when working through an umbrella company than there are for limited companies and sole traders.

The '2 year rule' applies to contractors working through both an umbrella or a Limited Company, so if you agree a contract that takes your total time with a single client over two years, you won't be able to claim travel and subsistence expenses.



- No administration on your part to receive your salary
- Have all your tax obligations sorted
- Good for short-terms contract work
- Low risk way of contracting



- No control over your finances
- Costs similar to going Limited
- You cannot claim expenses if in the same contract over two years

Working as a Sole Trader

You have few of the administrative burdens that come with a limited company, but you are required to keep records of all your income and expenditure, settling your taxes and National Insurance by filing an annual tax return.

The rules regarding VAT for limited companies also apply to sole traders.

You will also be required to comply with all business and sector specific regulations.



- You're in full control of your business and it's finances & retain all profit
- All your business data remains private



- You are personally liable for any losses incurred by your business
- Lack of tax planning options

5 Steps to getting set up

Once you're convinced that contracting is for you and that you're happy to take on the extra responsibilities it will bring, it's time to get started. Here's a step by step guide to getting your contractor career up and running.



1 - Find Work

Finding work calls for the same skills as when looking for permanent employment. By building a network of industry contacts, keeping your CV or portfolio up to date and updating recruitment agencies about your skills and availability, you'll be well positioned to learn about, and act upon, new business opportunities.

2 - Choose how to operate

You need to decide whether you go sole trader, umbrella or Limited Company. Each has its own advantages and disadvantages – so be careful to choose the right one for you. A major factor in this decision is whether or not your contract, or potential contract, could fall within IR35.



3 - Set up your Limited Company and a bank account

If you choose to go Limited, you'll need to incorporate your business (and have fun choosing its name!) and get a business bank account set up. Not quite sure how to do this - go to Step 4.

4 - Get an Accountant

If you're new to all of this, all of the trepidation can be avoided by employing the services of a specialist accountant. They can help set up your new business and will often deal with all the paperwork for you. They'll act as your advisors and make sure your business runs smoothly.



5 - Decide what to do about VAT

As a new business you can decide whether or not to be VAT registered. You can choose from three ways to pay VAT, depending on your cash flow and the level of expenses you think your business will incur. If your turnover reaches £81,000 you'll automatically need to register.

What to watch out for

Whilst the freelance lifestyle brings its obvious benefits, there are a series of drawbacks to this line of work which you will need to be prepared for. Here's a quick snapshot of what you need to plan for:



Getting Paid

The need to acquire a skill in persistence may be appropriate to ensure you're paid on time, and therefore keep your income steady.

Being employed full-time means you don't have to chase or hassle your employer to get paid. The opposite may apply when you start contracting - depending on the client you're working for.



No 'permie' benefits

Planning for the future will be an important attribute to add to your repertoire, particularly with regard to your finances.

Going freelance means you won't be paid when you go on holiday or if you are sick.

Also look into creating and paying into your own pension scheme (it brings tax benefits when you're Ltd!).



Lack of job security

Keep your finger on the pulse when it comes to looking for new work.

Unless you're lucky to get a lucrative long term contract, being a freelancer may mean there are periods where the work dries up.

Clients can dispense with your services quickly should they need to regardless of your performance.



IR35

Don't discount IR35 before you make your decision to go freelance, as it could have a significant impact.

If your contract is found to be inside IR35, you will be taxed as if employed permanently by your client, thus reducing your take home pay. Take guidance on your contract before you make a final decision.



Being your own boss

Whilst it may be a dream to be your own boss, unless you are organised, things may stack up against you.

Keep motivated, be proactive when looking for work, and remember to keep your discipline when it comes to getting things done to ensure you make the transition to being a successful freelancer.

Find us online



Ready to get started?

For a no obligation discussion about our service, or the best route for your freelance career, get in touch using the details below:



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