



# Graduate Guide to Contracting

## What is **contracting**?

As a self-employed person you can either be called a contractor, freelancer or sole trader. You are a contractor if you work for somebody else for a fixed period under a fixed contract to complete a task or project. You're effectively selling your skills and time, and will usually be paid by the hour or on a daily rate – although it is also possible to come across contracts with a fixed price to complete a fixed project. The good news for graduates is that you can start contracting whenever you want and even set up your own company straight out of University

## Why do organisations use **contractors**?

There are a number of reasons why companies use contractors, for example:

Contractors can be easily brought in for any length of time and are not a long term commitment, ideal for less common tasks and one-off projects.

Contractors are usually more flexible over their hours than permanent staff.

Contractors can provide them with specialist skills that the in-house team may not have – as a graduate you will have studied specific skills in depth such as web development, programming or content writing which may be attractive to companies.

Contractors are often cheaper than hiring permanent staff as they are not required to pay contractors any sick pay, holiday pay, redundancy pay or employer's national insurance.

Contractors will usually be paid more than permanent staff working on the same project, and pay less tax.

Contractors can choose when and where to work, when to take holidays and how long for.

Contractors get to be their own boss.

Contractors gain a very varied experience and an impressive CV from working on different projects with different companies – this is particularly beneficial for graduates who can gain a wealth of excellent work experience to add their CV in only a short space of time.

## What are the advantages of contracting

Every contractor has their own reasons for enjoying the contracting lifestyle.

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## What are the downsides of contracting

Of course, if contracting was a completely easy and safe way to earn a living then everyone would be doing it! There are some pitfalls to contracting that you will need to consider.

Contractors have less security as they are not protected in the same way as permanent staff.

Contractors are not guaranteed another contract after their current contract ends.

Contractors work alone and don't have a team around them for support.

Contractors will not get paid when they are on holiday or are ill.

Contractors must take responsibility for the paperwork and finances involved with running their own business.

# What do I need to do before I become a **contractor**?

If you have weighed up the advantages and disadvantages of contracting, and you are still keen to become a contractor, there are a few more things you will need to do before you can get going.

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## Do your **research**

If you have decided that contracting is something you would like to do, then you will need to do some research into your market. You need to make sure that there is a demand for your skillset as a contractor, for example by checking jobsites or talking to contractor recruitment agencies in your industry to see what kind of contracts are available, whether you are suitable for them and how much you could earn. You will also need to find out where the demand for your skillset is, which means you may need to be flexible on the location of your contracts.

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## Build up your **network**

During your degree, and indeed once you have completed it, you should bear in mind that building up a network of contacts in the industry will be extremely beneficial when it comes to contracting. For example keeping in touch with companies you worked with on placement, or with other students on your course that are graduating ahead of you, could well come in handy throughout your contracting career. Networking in all forms will help you gain a better understanding of the current market and enable you to work out which of your skills and experience are relevant and how to position these on your contractor CV. A good place to start networking is the ContractorUK forum where you can talk to and learn from other contractors.

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## Perfect your **CV**

As a contractor having an up-to-date CV that really sells your capabilities and achievements is absolutely essential. Your CV is your own personal marketing tool, and recruiters will often only scan over CVs quickly so it is vital that the key information is included and presented in the most effective way possible. You need to remember that clients are looking to buy your skills and industry knowledge, on a short-term basis, and therefore your main priority is to highlight the skills you have early on in the document. For more advice and tips on how to perfect your contractor CV, take a look at our CV writing guides.



# How do I set up my **contractor** company?

Having decided that you want to become a contractor, and you are comfortable that there are opportunities for you to do so, the next step is to decide how to set up your new contracting business. In essence you have the choice between setting up a limited company or operating under an umbrella company, and there are pros and cons to each.

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## LTD

### Limited Company

Setting up a limited company, where you become a director and shareholder, is the most tax efficient way of contracting. Running your own limited company means that you will benefit from being able to claim back a wider range of expenses, and will have access to the flat rate VAT scheme which allows you to keep some of the VAT you receive. Perhaps most importantly you will have complete control over your financial affairs. You must also keep in mind though that there are legal obligations and paperwork to be kept on top when running a limited company, however a good contractor accountant will be able to assist you with this and minimise the amount of time you need to spend on it. Another important point is to separate yourself from the business, for instance with money; the business bank account belongs to the business not the individual. Running a limited company is most suited to long-term contractors; if you are only looking to contract in the short-term then you may consider working under an umbrella company.



### Umbrella Company

Umbrella companies take responsibility for invoicing, paperwork, collection of money due and payments to contractors minus tax and national insurance deductions, meaning contractors effectively become PAYE employees again. This means you do not have to get involved with any of the administrative duties associated with running a limited company which is a lot more convenient for some, especially those only looking to contract in the short-term. However, this route offers fewer benefits for contractors in terms of reducing tax liabilities and you will also be required to pay a service fee to the umbrella company.

Ultimately the choice of which kind of contractor company you want to set up will be determined by your individual needs. Before making a decision, make sure you read up on both types of business, and consult suppliers and contractor accountants who specialise in the sector to ensure you have a fuller understanding of your options and the costs involved. Visit our [umbrella company guides](#) and [limited company guides](#) for more information

# What is IR35?



IR35 affects all contractors and freelancers who do not meet the Inland Revenue's definition of 'self-employment'. The legislation was designed to stop contractors working as 'disguised employees', by taxing them at a rate similar to employment.

The reason for this is that the increased risks and responsibility of contracting, and lack of employee benefits, are why contractors benefit from tax advantages. Therefore if you are deemed to be working as a contractor without accepting the increased responsibilities you will not be entitled to these tax advantages.

In other words, if you are caught by or found to be inside IR35 this will result in an increased tax and National Insurance liability, and will prevent your contractor company from retaining profits to grow your business in the future.

Factors used to determine your IR35 status include control, financial risk, substitution, provision of equipment, right of dismissal and employee benefits.

Essentially if you have the same responsibilities, control and benefits as a permanent employee then you will more than likely be classed as inside IR35, and as such you should make sure you are paying the correct amount of tax.

Many of these factors will be detailed in your contract however you must remember that your working practices must also reflect what is in your contract as HMRC will look at both should your IR35 status be investigated.

The easiest way to find out your IR35 status is to have an IR35 contract review.

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## What kind of work can I get as a **contractor**?

Whether you are looking to go contracting because you want to get a variety of experience working with different clients or technologies, or you're using it as a stepping stone to permanent employment, there is an abundance of opportunities available to you.

The IT sector in particular has a wide range of contracting vacancies suitable for graduates, for instance IT support roles, junior developer and designer positions. From developing games, mobile apps, software or websites, to providing technical advice to users of a programme, or resolving hardware problems for a network of computers – the possibilities of starting your contracting career in IT are endless.



There are also countless contract and freelance opportunities in other fields such as article writing, blogging, translation, graphic design, accounting and social media. However it is of course essential that you research your market first to gauge exactly how much demand there is for your skillset and where the demand is.

# How do I find **contracting** work?

## Online Searching



The internet is the most popular medium used for job hunting and for many the first stop will be online job boards, where you can use their search facilities to find the work you are looking for and apply to vacancies from a variety of different clients and agencies – search engines will provide you with access to the majority of contract vacancies on offer too. You may also choose to widen your search by checking the job listings on end clients' websites, or by keeping your ear to the ground on forums, social media, newsgroups etc.

## Advertising

As well as searching for contract and freelance positions on job boards you may also consider advertising your skillset online. Websites such as FreelanceUK, E-lance and PeoplePerHour provide contractors and freelancers with an online platform to promote themselves and their businesses to clients that are actively searching for candidates who can fulfil their project needs. These types of websites are becoming an increasingly popular way of finding contract and freelance work, with many more graduates now signing up to use these services.



## Networking



The best place to start is to notify friends, family, other graduates from your course, people you worked with on placements during your course etc. that you are looking for a new contract, and actively encourage any referrals to other people they think might be helpful. You can also search for networking contacts on company, industry and association websites, as well as attending any industry networking events that are available to you. LinkedIn is a handy tool for building your network and keeping in touch – letting them know when you are available for contracts and keeping abreast of the latest contracts and news in relevant LinkedIn groups.

For any further information on becoming a contractor please visit our first timer guides.

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