



## CUK Guide to Contracting

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The information contained in this guide serves as an introduction to Contracting, more information can be found on [www.contractoruk.com](http://www.contractoruk.com)

# CUK Guide to Contracting

## Introduction

This guide has been written by CUK and is aimed at anyone thinking, about or interested in, contracting. It explains the procedures you will have to go through to set up a freelancing business, how to go about obtaining work and, finally, how to maintain a viable business. Because the circumstances of every small business differ, we strongly advise you to take professional advice before acting on any information contained in this guide.

### **So you want to be a contractor?**

What's it all about? Being a contractor is very different from being employed. There are more risks, but there are also a great many advantages. You are a contractor if you work for somebody else for a fixed period under a fixed contract to help them complete a project. You will effectively be selling your skills and time, and will usually be paid by the hour - although contracts with a fixed price to complete a fixed project are also possible.

### **What's in it for you?**

Every contractor is an individual, but some of the most common reasons for preferring contracting to being a 'permie' are:-

- Being you own boss;
- More money (contractors are usually paid more than employees working alongside them on a project. Taking professional advice can also greatly reduce the amount of tax you pay);
- Freedom (contractors can choose when and where to work);
- Variety (by moving from contract to contract and company to company, contractors usually develop very varied experience and an impressive CV).

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### **What's in it for your client?**

There are several reasons why companies like to use contractors.

- They are usually more flexible than permanent staff;
- They are easier to hire and fire - and are not a long term commitment;
- They provide skills the in-house team may not have.

The other major reason companies like contractors is that they save money. If a company employs you they have to pay sick pay, holiday pay, redundancy pay and employer's national insurance. But if they use you as a contractor they don't have to pay any of this - so they can usually afford to pay you more per hour and still spend less money!

### **The pitfalls**

Of course, there is always the flip side of the coin. Some skills are not suitable for contracting (e.g. where the employer needs a stable workforce and the customer expects to deal with the same member of staff each time).

And even if your skills and experience are suitable for contracting, it may not be right for you. Only you can weigh up the pros and the cons.

Some of the disadvantages you will need to consider include:-

- Less security - contractors are not protected in the same way as employees;
- Uncertainty - there are usually no guarantees of another contract when your current contract ends;
- Hassle - because you will be running your own business, there will be forms to fill in, rules to obey and accounts to keep.

You will be on your own - being your own boss means, for example, that nobody will pay you when you take a holiday or are ill.

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### **What makes a successful contractor?**

- 1 Has the ability to go from site to site, adapting to the different conditions, the different tools, the different culture, and the different ways of working. Those that can't do this will struggle.
- 2 Has the ability to get on with other people and make new friends easily, or at least the ability to make new working relationships easily.
- 3 Has a willingness to help other people without criticising their mistakes. Contractors have a wealth of knowledge of how things are done at different sites, and it can be very useful for both permanent management and permanent employees to be able to tap into this reservoir of knowledge.
- 4 Has the ability to know when his advice is wanted and when it is not. Sometimes, or at some sites, they'll want your advice about how to do things and sometimes they won't. A successful contractor will be sensitive to this, and not try to force unwanted advice on an unwilling audience. If it is clear that they don't want your advice, just get on with your job or go elsewhere.
- 5 Is always aware of a potential business at a client's site. Any problem that the client has is potential new business for the alert contractor. The successful contractor may even have bid successfully to win pieces of work at various sites, e.g. to run part or all of a project, or to maintain an area of the system.
- 6 Looks for his own work rather than just lets agencies look for him or her. That way he has the opportunity to tout for new business without having a restrictive agency clause in his contract which prevents him approaching the client for new work.
- 7 Will have taken his or her opportunities to pick up extra bits of work for multiple clients over the years, and, therefore will be as far outside IR35 as you can get.
- 8 Will have a database of potential clients, with those he or she has worked for before near the top of the list. He or she will have permission to contact those potential clients every so often, say three months or so, and will do so.
- 9 Will keep potential clients up to date with contact information when it changes, e.g. address, phone number and email address, so that there is never a situation when the client is desperately seeking him for work in an area of the system where he has knowledge, without being able to find him.
- 10 Is willing to brush up on existing skills (and train in new ones) to adapt to an ever changing and fragmented market place.
- 11 The successful contractor will have such a good reputation for his or her work, and have such a good rapport with his clients that his various contracts are renewed whenever the client is able, or is contacted again when clients need to have work done on an area of the system where the contractor has expertise

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### **Current Market**

The industry has seen some changes over the years. The IT industry is an increasingly cyclical business. The first real downturn which affected IT jobs badly was the downturn of 1990/92. During the dot.com boom and the run up to Y2K contractors were able to demand very high rates before an economic downturn kicked in.

In 2004, those that held the purse strings decided that investing in technology to be the first in 'buzzword compliance' wasn't actually providing much real business value. Added to that there was the highly publicised trend for outsourcing IT functions offshore to reduce overheads. Companies are starting to argue that the benefits of keeping skillsets and intellectual property knowledge within the firm, coupled with what they perceive as improved quality and customer service, far outweigh any slight reduction in overheads.

2005 and 2006 saw demand for contractors jump again, with recruitment reports regularly citing surges in demand and a survey of contractors in 2006 saying that 72% of IT contractors expected their earnings to increase during 2006, putting confidence in the IT sector at its highest level since the dot com boom.

2007 saw contractors being urged to acquire more management experience as lower level support roles and similar were sourced overseas. Despite steady demand, CUK market reports noted stagnating rates for contractors during the first half of the year, with first rate rises being reported during early Summer.

2008 has seen mixed reports as the highly publicised credit crunch takes hold; reports of fewer senior IT roles being advertised for non-revenue generating projects and rate cuts imposed on contractors, coupled with companies planning cuts to their workforce during the remainder of year suggest a big shakeout in the jobs market. Specific details on skill demand and rates can be found on CUK's Market Stats page.

The continuing outsourcing trend means that you will need to think and act as a business to remain competitive and to create opportunities in an ever-changing market. There is a call for IT contractors to develop a wide-range of skills, including those involving business and project management to remain competitive.

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### **Researching your market**

If contracting is still attractive to you, and you believe you can cope with the disadvantages, the next step is to do some research.

Don't give up your job until you are sure that there is a market for your skills as a contractor. At the very least you will need to talk to the specialist contract agencies in your industry to see what kind of contracts might be available, whether you are suitable for them, and how much you could earn. This is the first step in thinking like a business: research your market, find out if there is a demand for your skillset and where that demand is. You may need to be flexible on location, or you could use it as an opportunity to base yourself elsewhere (within the UK or abroad).

Talk to other contractors – CUK forum and Contractor Alliance are good starting points – to gain a better understanding of the current market. All forms of networking (agents / contractors / ex-employers / colleagues) will help you build a clearer picture to enable you to start planning how to differentiate and market your offering.

You need to be clear on what your strengths are yourself before selling that in to an agent. A good agent will take the time to get to know you to ascertain this, the more mediocre may not understand the market as well as you do – your CV (and the impact it has to make) may need to compensate for that. You may need to retrain to supply those skills you find out are in demand. You may need to take a lower rate in the short term if a contract offers you additional (valuable) experience you can eventually justify charging a higher rate elsewhere for.

Regular Business 'MOTs' should help you further define your strengths – customer questionnaires at the end of (or even mid) contract should help you identify and rectify weaknesses.

Essentially you need to think strategically and tactically to keep your skills in demand in an ever-changing marketplace.

### **Job Hunting**

#### **Resources**

As you probably know, job searching is hard work. There are many resources to find new work. We recommend that you put together a plan of action that includes as many of these avenues as possible to maximise your opportunities:

- searching online job boards
- searching corporate site job listings
- Contractor Alliance
- personal networking
- headhunters and placement agencies
- career fairs
- online newsgroups and chat forums
- career publications/sites
- direct contact with desired employers
- local newspaper classifieds

You will need to be dedicated, organized, and professional in your approach. You need to create a rock-solid marketing package of a 'core' professional CV/business profile, cover letter, and reference page in preparation for your professional job search. (We will cover adapting your CV later.)

Applying for a job through email is becoming more common across all industries but recruiters are requesting that we don't forget the traditional job hunting etiquette rules of the covering letter and the post interview thank you note. That covering letter also gives you a further chance to highlight core skills relevant to that job. To give yourself the advantage open an e-mail dialogue with employers before and after the interview to help build rapport.

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### **Marketing yourself**

#### **Online Business Profile**

Another search effort is establishing your own website. This especially makes sense if you are currently on the bench and can be an easy way to let recruiters, hiring managers, and networking contacts have quick access to your business profile and experience (make sure you put that URL on every piece of correspondence/your business card etc.).

#### **Networking**

Your sources for networking are many. Contractor Alliance is a networking resource for UK IT Contractors ([www.contractoralliance.co.uk](http://www.contractoralliance.co.uk)). You can find co-workers, subbies and client introductions by fully utilising the network. It has been devised to help put contractors back in the driving seat if you choose to increase your business prospects by actively finding your own work direct with clients and through over contractors. On the back of this you'll benefit from discounted offers on insurance, contract reviews and debt collection to name a few.

Also notify family and friends, friends of family, families of friends, extended family. Inform them that you are searching for a professional position and that you would appreciate any advice they may have, or any referrals to other people they think might be helpful.

Search for networking contacts at company, industry and association web sites. Again recent research stated that a mere 13 per cent of job seekers did this, yet of those who went on to contact an individual online, no fewer than 83 per cent reported the contact had provided advice that helped with a job search.

If you keep a record of potential clients, ex clients, old colleagues and other contacts from the industry make sure that you keep them up to date with your contact details and make a point of keeping in touch once in while – these people will know your value better than anyone else. Make sure you comply with the Data Protection Act.

#### **Data Protection Act**

If you use a computer to store information about any living individuals then you may be required to register under the Data Protection Act. Non-registration is a criminal offence for which fines plus costs may be imposed in the Magistrates Courts. Further details can be obtained from the Data Protection Registrar.

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### **Email Marketing**

If you undertake email marketing campaigns you also need to adhere to new rules which came into force in 2003 and form part of the Privacy and Electronic Communications Regulations.

The rules apply to marketing messages sent by email and state that the sender must not conceal their identity and all emails must offer a valid 'opt-out' address.

The second rule concerns spam, or unsolicited email, and states that the sender must have the recipient's prior consent before sending email marketing messages.

There are exemptions to this rule such as if the recipient's address has already been collected through other negotiations for instance. The Privacy and Electronic Communications Regulations are enforced by The Information Commissioner.

Changes to the Companies Act 2006 mean you must include your Company Name, Registered Address, Company Registration Number and Place of Registration in all your corporate emails.

### **Making the most of your CV/Business Profile**

There is a good chance that hundreds of other highly skilled applicants are also competing for the same contract you're applying for. It is therefore essential that your CV or Business Profile works hard to sell your relevant skills and experience to get you an interview.

- Your CV should be no more than two pages long. Think quality, not quantity. On average, readers absorb 60% of the first page, 40% of the second, and the third is generally a waste - this has been proven time and time again.
- Use an effective summary on the first page and include a list of your key skills and key applications in bold. You want to make an impact on the reader.
- Employers often make up their mind from reading the initial summary and key skills. So, it is always worthwhile noting the quantity of experience you have for each key skill, e.g. Business Analysis (5 Years), Database Design (4 Years), etc.
- Put the greatest emphasis on your last few roles, and summarise older roles.
- Always begin with your most recent position - include dates and months of employment for each. Do not indicate "to present" if you are no longer contracting in the position as some employers are actively looking for only those candidates who can commence immediately.
- Your CV probably shows each contract as a 'separate employment'. Re-write your CV showing your limited company as your employer and your contracts as external consultancy assignments (as if you were a 'Big 5' Consultant). This is legally correct and will present you in a more 'suitable' light.
- Foreign Languages - as more and more contractors are considering working overseas, you should include your competence in other languages (basic, good, fluent) but you should be honest. Several of our agency contacts have sent contractors to interview on the basis of their claimed fluency in 'Dutch' for example, only to be rejected. So, if you only have 'O-Level French', then you have 'basic French'.
- Do not provide personal data such as age, marital status, graduation dates, weight, height, place of birth and items of this nature. You can include information about your interests, but keep it short. Don't enclose a picture. Remember - you are not a permie any more!
- Don't include your required rate. You cannot win - the figure will often be too high, or sometimes even too low. You can negotiate the rate after you've got the job!

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- Make sure your CV has a clear structure - include career overview, skills overview, qualifications (education/professional) and employment history
- Be positive - don't be too modest and don't lie about your experience. Positive thinking is vital in securing that next contract.
- Having produced a professional CV to effectively market yourself, don't then send it from psychokev@ieatbatsheads.com
- Ensure your CV filename includes your full name for easy reference.
- If you emailed your CV to a company it is advisable to also follow that up with a best quality printed version with covering letter in the post.

### **Online job boards**

Don't just dump your CV on a board and leave it there though. You need to constantly refresh your resume, even if you just delete a word and then resubmit it. This refreshing action gives your CV a new posting date. A CV with a more current date is likely to get more attention; recruiters and HR managers are more inclined to check out new resumes than ones posted for months. Your resume will get more hits, and more hits increases the chance of a call or interview request.

CUK has a contract search wizard accessing multiple job boards with an expert search facility to save you valuable time.

Broaden your CV for job boards. With large, broad-scale job boards, employers search on keywords that will best identify the new hire, and your hard copy CV might not have them. Consequently, your online resume here should contain all of your accomplishments, and all of the associated IT buzzwords, to maximize your hit rate. This is markedly different from the tailored CV you would send for a specific opportunity. The goal of the job board CV is to quickly grab attention so companies will contact you for more in-depth details on a certain element of job boards CV.

### **iProfile**

The iProfile is an "online CV" that has been adopted by the IT recruitment industry as a standard format for the CV.

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### **Selecting your agencies**

Some employers will only employ contractors through an agency. In this scenario it is vital that you cherry pick the right agencies for you. Choose the number of agencies you believe you can comfortably manage - 4 or 5 is a good number to aim for (any more and you may get too many calls duplicating vacancy information or questions).

A mix of large, well-established generalist agencies with one or two specialising in your field should ensure you are covering the market well.

### **Recommendations**

Word of mouth by other contractors will give you an honest opinion (either colleagues or via the CUK forum).

The Recruitment and Employment Confederation (REC) is the watchdog of the agency marketplace if wish to check the agencies you plan to approach are members.

We also recommend that you:

### **Speak to the Agency**

Do they create the right impression? If they don't impress you they won't impress employers either.

Do they understand what you're looking for?

Do they seem to understand the IT market?

Do they seem keen to work with you?

Are they willing to meet you to discuss your requirements?

Do they guarantee not to send out your CV without permission?

Do they keep you updated?

### **Get to Know Them**

Each agency will likely have many skilled applicants on their books. If you can develop a business relationship with one contact at the agency then get to know that person. Calling them regularly to keep your name at the forefront of their mind. Don't be afraid to ask what their margin is and be prepared to negotiate if you are in a strong position (some agencies are on fixed rates with their clients however).

### **Conduct of Employment Agencies**

Brookson on the myths and facts surrounding the legislation:

#### **Where do all these opt-out queries puzzling IT contractors originate from?**

“The Conduct of Employment Agencies and Employment Businesses Regulations 2003 govern the conduct of the private recruitment industry and establish a framework of minimum standards which both ‘work-seekers’ i.e. contractors and ‘hirers’ i.e. end clients are entitled to expect. The definition of a work-seeker specifically includes limited company contractors.”

#### **So let’s assume I want to opt in – what can I expect?**

##### Charging fees

“Under the old rules, employment agencies/businesses could not levy a fee from contractors for work-finding services, but could charge for additional services, such as CV writing or training.”

“The new rules say agencies/businesses cannot stipulate that work-seeking services will be provided subject to the work-seeker taking up one of these chargeable services.

##### Getting paid

“If you are ‘opted-in’ an employment business cannot withhold payment to a worker because it has not been paid by the hirer or end client.”

“Nor can it refuse payment because the worker has not produced an authenticated timesheet.”

“The DTI guidance says if the hirer has not signed the timesheet because it is unhappy with the standard of work, this is a contractual matter to be resolved between the hirer and the employment business. It does not affect the worker's right to be paid.”

#### **What about the devil in the detail, such as Agreement of Terms?**

“Employment agencies/businesses must agree terms with the work-seeker whether via a contract of service (i.e. a PAYE basis) or contract for services (i.e. via a limited company) before any work-finding services are provided.”

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These terms must address:

- whether the work-seeker wants temporary or permanent work;
- the type of work;
- the minimum rate of pay;
- details of entitlement to annual holidays; and
- the length of notice that will apply to assignments.

“The majority of workers will be covered by the Working Time Regulations 1998 and entitled to four weeks’ holiday pay.”

“Additionally, the employment agency/business must also establish terms with a hirer before supplying workers.”

### **What do contractors need to know about ‘temp to perm’ transfers?**

“The regulations impose limitations on terms that prevent temporary workers from taking up permanent jobs with hirers. These limitations relate to the length of time workers must wait after completing an assignment before a permanent job can be accepted with the same company, without the agency being able to charge a ‘temp to perm’ fee.”

### **Identification, Verification and References**

“Employment agencies/businesses must check the identity of work-seekers, and verify their qualifications, work experience and training.”

(If a work-seeker is to work with vulnerable people – including minors or the elderly/infirm – references should be obtained).

“Plus, once the work-seeker has been supplied to the hirer, employment agencies/businesses must notify the hirer of any information which subsequently comes to light suggesting the work-seeker is unsuitable.”

### **Are recruitment agencies legally obliged to inform all their contractors about the legislation and provide advice on opting in or opting out?**

“Our understanding is that there is no obligation on recruitment agencies to inform their contractors as to the existence of the regulations or to advise them as to the pros and cons of opting in or out of the regulations.”

### **And if I take the plunge and opt-out?**

“Such an opt-out must be made before an assignment begins and written confirmation of the decision to opt out must be provided to the employment agency/business. The opt-out will then affect all the regulations. It is not possible to choose which regulations apply to a particular assignment and which do not.”

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### **What about IR35? Are contractors free of IR35 if they choose to opt-out?**

“The IR35 status of an individual is determined on an assignment by assignment basis by a combination of the contractual conditions in place with the agency or end client and the working practices operating on the ground.”

“Depending on how an agency implements the Regulations, they may have an impact on working practices and thus on an individual's IR35 status.”

“This again stresses the importance of rigorous IR35 status assessment and management processes. Where these are operated and demonstrate the assignment clearly falls outside of IR35, opting out of the Regulations is unlikely to have an impact.”

Further advice on opting in or out can be found in our Jobs section. Advice from contractor legal specialist, Roger Sinclair of Egos, can be found [here](#).

### **Working direct**

- If you want to target specific companies or organizations, it's definitely worth taking the time to check their websites on a daily basis; jobs are often listed there that aren't posted anywhere else.
- If you can find work direct it may help your IR35 status and you may be able to negotiate a more favourable rate.
- Contractor Alliance works by other members listing companies where they have contacts, you can then request an introduction.

### **Always follow up**

The moment you begin networking and sending out CVs, start keeping a log and a set up a tracking method.

Recruitment experts suggest that every application should be followed up within 7-10 days if you have not had a personalised response. If you wish to follow up before then, e-mail them a quick note asking if they received and were able to read your CV, (or if they require a different format for their database.)

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### **CV follow up:**

- After you've sent your CV to contacts and acquaintances asking for their support during your job search.
- After you've sent cover letters and CVs to employers, regardless of whether they have a specific job opening.
- After you've had a networking meeting with someone.

### **How to follow up:**

By (short!) email:

- Put your full name and the title of the position you've applied for in the subject line.
- Write a professional note that reiterates your qualifications and interest in the job.
- Attach your resume again.
- Include your full name in the file name of your resume.
- Changes to the Companies Act 2006 mean you must include your Company Name, Registered Address, Company Registration Number and Place of Registration in all your corporate emails.

By phone:

- Keep it short and sweet. Introduce yourself and remind the recruiter that you submitted a resume recently. Make sure you state exactly what job you're interested in. You can also ask if they received your resume and if they're still considering candidates for the position.
- Always try a few times to speak to someone if you get a recorded message at first.
- Try to strike a balance when following up – call too many times and you may achieve the opposite of your desired reaction!

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### The interview

Whilst this may be second nature to some of CUK's "veterans", we hope it may be useful for first timers.

### Beforehand

- Ask for as much information on the role and the company as you can from the agency.
- Prepare for the interview as a business sales meeting. You are selling your time and skills and it is a two way process, so be clear on your requirements.
- Research the company to gain a better understanding of their working ethos and history, market place, operation and size etc (this should be standard procedure but one company's research indicated only 31 per cent of applicants doing this).
- Research the company to see if you can come up with any fresh ideas at the interview.
- Having got this far your skills on paper are likely to fit the bill so you now need to research and then demonstrate how your experience, values and approach will fit in with the company's culture and requirements.
- Your interviewer will ask questions to determine your values, attitudes, skills, and abilities. Look back at your working history to revisit examples that could help demonstrate your answers to these questions in these areas before the interview. Answers to questions such as "tell me how you've shown initiative in solving a problem" should then be on the tip of your tongue. Remind yourself of instances where you've taken initiative, how you've overcome challenges, created opportunities, identified a way of improving procedures, dealt with difficult people or situations, or other contributions to a previous company.
- Some other typical questions you may need to be prepared for:
  - What type of decisions did you make in your last/current job?
  - How do you keep up to date with trends in your industry?
  - How do you evaluate your own performance?
  - How do you take direction?
  - Why were you out of work for so long?
  - How do you handle rejection?

And of course, the all time favourite of:

- What do you consider to be your greatest weakness? How do you/have you overcome this?

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- Answers to the interviewer's questions will be looked at from a "behavioural" point of view as well as proof of your abilities so bear this mind when selecting examples to demonstrate. So be ready to recall not only that you solved a problem, but how you solved it and what the resulting benefit of the solution was to your previous employer.
- Whilst it's impossible to predict every question you might be asked, going back through your work history and assigning such achievements under the titles of values, attitudes, skills and abilities should pull together a good repertoire to demonstrate your answers. Always be sure to have an answer ready to "Why do you want this job?" Having researched the company you will hopefully be able to bring the majority of answers directly back to how that would add value to the new role.

### **During**

- First impressions last! The old adage means that it can often be difficult to "undo" the impression you make in the first few seconds before you even speak. Dress to fit in with the environment (always over- rather than under-dress) and ensure confidence is conveyed by your body language.
- Always seek clarification on questions you don't understand. Fully understanding the expectations of the role shows both your enthusiasm on the smaller details of the job and allows you to better demonstrate with selective relevant examples of past achievements.
- Have a good few questions of your own to ask. Try to ask questions throughout the interview to communicate your interest. Many recruiters will be swayed by the ability to think on your feet and ask relevant 'killer interview questions' at the end. Your worst possible answer to 'Do you have any questions' would be 'no'.
  - How would you describe the culture of the company?
  - Does the company have plans for expansion or reduction?
  - What makes this company superior to its competitors?
  - What do most people like about working here?
  - What are the key requirements for the position?
  - What do you see as the main challenges and objectives for someone filling this contract?
  - Which of those challenges and objectives have the highest priority?
  - How do you evaluate performance?
  - Who will I be reporting to? What is their background?
  - How would you describe that person's managerial style?
  - What are the characteristics or traits of this company's top people?
  - What achievements during this contracted period would tell you I had done a good job?
  - How do my skills compare to your requirements for filling this role?
  - What overall impact on the company will this project/contract have?

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It is better to push the “what can your company do for me” type questions right to the end of the interview. Don’t be afraid to jot down any questions whilst your researching the company, you can mentally check off those covered when you consult your list during the interview. Most interviewers will be pleased to see you’ve come prepared. This will show some preparation and systematic thinking. You may like to establish when the employer expects to make the hiring decision at this stage. It is also a good time to make sure you have obtained the correct titles and names of all the people who interviewed you for the follow up letter. (Ideally, get each person’s business card.)

- If you have attended interview via an agency, most would appreciate a feedback call as soon as possible. If you have attended on your own account then make sure you are aware of the next steps before leaving the interview so that you can act accordingly. The golden rules of job hunting etiquette say a follow up thank you letter is a must too.
- Jenrick CPI have written an ‘interview checklist’ in our Jobs section for further reading.

### **Following up after interview**

Write individual thank you notes or letters to each person who interviewed you - within two business days. Each letter can be essentially the same, but try to vary each a bit in case recipients compare notes. Don’t ever fail to send a thank you - even if you are sure the job is not for you.

Follow up:

- After every informal and formal interview.
- When interviewers fail to call as promised.
- After receiving a "rejection letter" for a specific job - to let them know you might be interested in other opportunities within the organization.
- When you failed to answer a question adequately during the interview and want to send a short response in writing.
- When you want to show appreciation to someone for assisting you in your job search by: referring you to someone, providing you with information, or giving you career management advice – even after you’ve landed a job!

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### **Getting the right rate for the contract**

This will come down to your negotiating technique. It is essential therefore that you use the interview to fully understand the role and its responsibilities to ensure you are negotiating with all the facts to hand.

If a contract offer has been made through an agency don't forget you are negotiating with both parties.

The agent will usually be paid a percentage of your hourly rate. How strong your position is here will be determined by your skills and your interview. Don't forget there are terms other than your hourly rate you can negotiate on – how and where you carry out the work for instance. This is a business negotiation after all.

### **Negotiating the offer**

Before you enter negotiation you need to set out some parameters in your own mind. Having established the market rate for the job you are taking on – you also need to set a lower level cut off point. You need to have a firm grasp on your living/commuting or other day to day expenses to establish this. Then there is the other end of the spectrum – the sort of rate that would make life decidedly more comfortable – don't underestimate yourself here. These figures then give you some guidelines to start working with. Assuming you can prove yourself invaluable enough to be offered contract renewals, the agreed starting rate will be the base for all other increases.

It is often a better tactic to let the recruiter name a figure rather than putting yourself at the disadvantage of naming the rate you'd expect. If you are pushed for this (and part of the recruiter's job is to negotiate) then suggest a salary range based on what you know the market value of the role to be. This leaves room for further negotiation. If you are in a strong position (and by now we know that the company wants to hire you) most recruiters would expect you to aim higher rather than lower so that they can negotiate down to an agreed figure within that. You may need to draw upon justification for that desired higher rate at this point.

You can also use perks and benefits as a further way of increasing the offer if the company has to stick to a lower salary bracket than you'd like.

### **Contracting: starting out**

Having secured your first contract, you now need to think about how you are going to operate. The options available to you are:

- Your own Limited Company
- Umbrella Company
- PAYE through the Agency

### **Setting up your Company**

Historically, the majority of IT contractors worked through their own Limited Companies. The tax advantages of working this way far outweighed any other method. With the introduction of IR35 these tax advantages may have been removed depending on whether you fall within the new IR35 "rules" or not. As a general rule, if you fall outside the IR35 rules then you will be most likely better off using a Limited Company, whereas an Umbrella Company would probably be more beneficial otherwise.

#### **1 Your own Limited Company**

The vast majority of IT contractors work through their own Limited Company. Company set-up can be done online at CUK under "Company Formation" Alternatively, you can apply for a limited company direct from Companies House.

Some contractor accountants will set up your company for free on condition that you sign up as a client. If you've found an accountant you're happy with, you may choose this option.

Once you have formed your limited company, you will need to appoint a company secretary, which fulfils a legal requirement to record company meetings and perform administrative duties. In practice, this role is minimal and should not take up much time during the company year. Many contractors appoint their partner, or a parent. You also need to consider the address of your registered office.

A limited company also offers the owners (i.e. the shareholders) protection against liability for the company's debts. So, if the company should become bankrupt, as a shareholder, you will only lose the value of your shares. As a director you will not be liable for the company debts either, unless it is proved that you have acted fraudulently or improperly under company law.

### **2 Umbrella Company**

An Umbrella Company provides a ready made invoicing vehicle for contractors whilst also removing the administrative duties normally associated with contracting in the form of a Personal Service Company. The Umbrella Company normally issues invoices on the contractor's behalf, collects payments from clients/agencies, calculates tax and N.I contributions and pays the contractor their net pay direct to their personal bank account.

Traditionally, Umbrella Companies were more expensive than running your own Limited Company, mainly because their charges included all the administration overheads, and they tended not to offer the same tax advantages.

With the introduction of IR35 the tax disadvantages of Umbrella Companies were reduced and a new breed of internet based "solution providers" emerged. Variations on umbrella company schemes included Managed Companies and Composite Companies; legislation in 2007 removed the tax advantages of working through MSCs.

Contractors will have their own reasons for going the umbrella route, perhaps they are testing the waters before deciding to contract for the longer term or perhaps they just don't want the responsibility of running their own limited company.

### **3 PAYE through the Agency**

Some agencies allow you to become "PAYE" through their own payroll service. This is the least tax beneficial option available to a contractor as you pay full tax and national insurance (NI) contributions on all your earnings. In addition this option does not allow you to claim valid business expenses which would help to reduce your tax and NI liabilities.

### **IR35**

#### **What is IR35?**

The IR35 legislation is designed to increase the NIC revenue from the service industry, which on the whole has found it more tax efficient to distribute income as dividends, usually subject to the payment of a small salary. To this end, it introduces the concept of "deemed salary" which will be taxed and subject to NIC as if it has been paid as a salary.

In order to retain some logic to this treatment it is necessary to identify the situations in which these rules are to operate. The Government's concern is that small limited companies are being used to disguise employment, so this is the test which has been applied:-

Where the employee is provided by his Company to an ultimate client on terms which would normally constitute an employment with that client, this is called a relevant engagement and the IR35 rules apply.

CUK have produced a separate Guide to IR35 which you can download from the member's section.

#### **Professional Indemnity Insurance**

Some contractors ask if this is necessary. We very strongly recommend that you take adequate insurance. Contractor Alliance currently offers members 20% off for just £25+ VAT membership, you can also choose just the products you want to cover your needs, rather than pay for bundled insurance.

According to a recent report, Professional indemnity claims for IT consultants have increased by more than 40% in the last few years. Examples of recent errors by small consultants that have resulted in claims that include: accidentally wiping a client's data, supplying software that infringed someone else's intellectual property rights, failing to integrate a new system and delivering a system that did not meet the client's brief. The largest of these was for a one-man consultancy whose client initially sued for damages in excess of £3 million, though this was subsequently reduced with the insurer's intervention.

Even where the consultant is not at fault, the cost of specialist legal representation and expert evidence can run into hundreds of thousands of pounds to defend an action. CUK strongly recommends that you take out sufficient PI insurance.

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The report concludes that ‘many small consultants will only buy minimal Professional Indemnity cover and as the costs of PI claims escalate this is not sufficient. The claim and the costs of defending it can threaten their business and, often more importantly, their reputation. IT Consultants must therefore ensure they are fully protected by a specialist policy which is tailored to the unique requirements of the industry and the risks faced.’

We have teamed up with Counce O’Hara to offer competitively priced PI insurance, please refer to the First Timer’s section and complete an online enquiry form. Cover is fast and they also offer IR35 insurance and business liability cover – so you can put together a package that suits you.

### Advertisement

#### **PCG Membership**

For many freelance contractors, running a small business can be a daunting and lonely experience. PCG members get advice, support and practical help with all aspects of running a freelance business. Why struggle on your own when you can be part of a professional freelance network, with bundled insurance to give you peace of mind, and plenty of expert help and advice?

PCG is the only not-for-profit organisation run by freelancers for freelancers. It is committed to promoting its members commercially and supporting their development.

PCG's aim is to work for proper recognition of independent freelancers as a genuine and valuable sector of the economy, generating wealth and employment, providing industry with a flexible workforce.

If you value your contribution to the economy and to society as a freelancer, then join PCG today, and become part of this powerful, prestigious and professional network. For further information, see the [PCG website](#).

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### **Do I need an accountant?**

Given the large amount of administration required in running your company, you will need to find a good accountant to manage this work on your behalf.

Typical services performed by an accountant would include some or all of the following - make sure you check what is included in your monthly fee before signing up:

- Payroll administration
- Processing of PAYE / NI payments to the Inland Revenue
- Preparation of Company Year End Accounts
- Personal Taxation - completing your self assessment forms
- Completion of VAT returns
- Completion of P11D, P35, P60 and other forms on your behalf
- Tax Planning Advice (e.g. Dividend Planning)

Typically, you will expect to pay £55 - £90 per month for a reputable firm. Make sure you find out what this fee includes - beware of hidden 'extras' (such as a £15 monthly charge simply for having a company car).

Many contractors have tried several accountants over the years, before settling for one they feel comfortable with. At some stage, you may feel the need to move accountants for whatever reason - the best time to do this is after a company year end, since most outstanding paperwork should have been completed by this stage.

So, ask other contractors for advice, or take a look at the accountants advertising throughout CUK. If you have decided to trade through an Umbrella Company you would only need an accountant to prepare your Personal Tax Return at year end, and your umbrella Company should be able to recommend one to you.

### **Finances**

CUK have negotiated special offers for contractors on bank accounts, mortgages, retirement planning and any other financial services you may need. Better still join Contractor Alliance to make the most of discounted deals to save you money: [www.contractoralliance.co.uk](http://www.contractoralliance.co.uk). For more information check throughout CUK or email [info@contractoruk.com](mailto:info@contractoruk.com).

As a freelancer you will need a “buffer” – which is a cash reserve to cover you in the event of a break in your contracting work. This is usually recommended to be at least 6 months living expenses.

### Limited Company Guide

The following reference notes are intended for reference if you are trading as a limited company:

#### Value Added Tax

- VAT is administered by H.M. Customs & Excise.
- It is not necessary to register a Company for VAT until its turnover hits a certain level.
- The benefit of registering regardless however, is that this enables you to recover any VAT that you incur on things that you buy for the business (e.g. computer equipment/accountancy fees). The only downside is filling our quarterly VAT returns if you don't have an accountant that does this for you.
- VAT registration usually takes about 8 weeks, but this will not prevent you from invoicing your agency/client or reclaiming VAT on expenses. Until the Company is registered you simply raise sales invoices without adding on VAT.
- Once the Company is VAT registered you must show the registration number on your invoice and add VAT at the appropriate rate.
- You will receive a green VAT100 form on a quarterly basis which should be forwarded to your accountant for completion as soon as you receive it.
- VAT payable must be paid by the last day of the month following the VAT quarter. There are penalties for late payment.
- In order to recover VAT on things that you buy for the business you must obtain a "VAT Invoice" showing the supplier's VAT No. Always ask for a VAT invoice as they will not automatically be provided every time.

#### Dividends

- Dividends are a distribution of Company profits and do not affect the amount of corporation tax payable.
- Provided the Company is trading profitably and funds are available, dividends may be declared at any time during the Company's financial year. Under IR35 there will usually be no funds available for dividend declaration.
- It is necessary to complete a Dividend Declaration Form each time a dividend is declared.
- Dividends come to the shareholder with a "tax credit", so there is no additional tax to pay unless your total income (i.e. salary, dividends, interest etc.) exceeds the basic rate threshold.

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- Dividends are paid in proportion to shareholding. It can be advantageous to allocate a share(s) to your spouse if he/she is a lower/basic rate tax payer.

### **What expenses can I put through the company?**

If your contract is caught by IR35 then the only expenses claimable before calculation of the deemed salary are:-

- 5% of net sales
- Travel and accommodation expenses
- Pension contributions
- Certain professional subscriptions

You should, however, still record all business expenses incurred so that you may see the true of cost of running your Company.

Some of the more common expenses are:-

- Company formation
- Accountancy fees
- Business travel and accommodation
- Postage for business
- Stationery for business
- Business telephone calls
- Mobile telephone and calls
- Salaries
- Employer's N.I. contributions
- Contributions to an executive pension plan
- Business entertainment
- Equipment purchased for business purposes
- Motoring expenses using fixed rate allowances
- Computer software
- Technical books and journals
- Certain professional subscriptions
- Use of home as office
- Company bank charges and interest

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### **Companies House**

Companies House is a government agency that keeps details of every single limited company in the country. For example, you will have to send Companies House the following:-

- An Annual Return - this is a standard form that will be sent to you each year to complete and send back
- You must also notify them (using standard forms) of certain changes to your company - e.g. changes in Directors, registered office and shares etc.
- You must also send them copies of any mortgages or charges the Company has given over its assets
- Unfortunately there are dozens of other forms you may have to fill in - so once again, professional advice is essential.

### **Meetings**

Your Company must hold an annual meeting of all its shareholders:-

- Within 18 months of incorporation; and
- Then at least every calendar year, at not more than 15 month intervals.

### **PAYE**

PAYE is the "pay as you earn" type of income tax that must be deducted from wages and salaries before they are paid. Your accountant will be able to register your Company for PAYE and undertake all the administration. This involves:-

- Completing a PAYE registration form;
- Keeping payroll records;
- Paying PAYE and national insurance every month

### **Corporation Tax**

Corporation tax is a tax on Company profits and is not affected by how much dividend is paid. Company profits are simply defined as net sales less net expenses.

It is payable within 9 months and 1 day after the Company's financial year end.

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### Company cars

Accountants generally recommend that, rather than having a Company car, you use your own car for business use. This way you can charge the Company a mileage allowance for each business mile you travel. This is tax free in your hands and tax deductible for the Company. The alternative is for the Company to own the car. This will mean that you will be taxed on the benefit in kind.

### What expenses can I claim?

Obviously this cannot be a comprehensive list, but it includes the most common expenses.

- Company formation expenses (tax relief not available)
- Accountancy fees
- Business travelling expenses °
- Postage for business purposes
- Stationery for business purposes
- Telephone calls for business purposes
- Purchase of mobile telephone and calls made
- Salaries paid by the Company to the contractor and Contractor's spouse for work done
- Employers N.I. Contributions °
- Contributions to an executive pension plan °
- Business entertainment (tax relief not available)
- Equipment purchased for business purposes
- Either a mileage allowance or the costs of running a car (if car owned by Company, a benefit in kind charge arises on the contractor)
- Computer software
- Technical books and journals
- Subscriptions (in most cases) °
- Use of home office
- Company bank charges and interest

*(The expenses marked ° may be claimed by contractors falling within IR35 in addition to the "round sum" 5% allowance).*

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### **What can I claim VAT on?**

Once the Company is VAT registered, it is able to claim back any VAT incurred on business expenses, although not all expenses have VAT charged on them.

Expenses on which you can usually claim VAT:-

- Computer equipment and software
- Stationery
- Accountancy fees
- Legal fees
- Telephone
- Petrol and motor repairs (if claiming a mileage allowance the VAT element is 1p per mile)
- 50% of the VAT paid on either the car lease rental payments or car contract hire payments.

Expenses on which you cannot usually claim VAT:-

- Postage
- Technical books and journals
- The purchase of a car by the company
- Road tax and insurance for a company owned vehicle
- Public transport costs
- Payments to the Registrar of Companies
- Payments of Directors' remuneration.

### **Can I claim for use of home?**

If you work from home, use is calculated as follows: add up all household running expenses, i.e. heat, light, insurances, council tax, water rates, rent (if paid), mortgage interest (but NOT mortgage). Divide this figure down by the number of main rooms in the house to give a cost of running the one room used for business purposes. This can then be claimed monthly or annually.

### **Your accounts**

Besides giving you a clear insight into your own profitability many people will be interested in your accounts. For example:-

- Your bank manager - since they will help him to decide whether to lend you money;
- Your building society - they will need to see your accounts before they will give you a new mortgage;
- The taxman - he needs to see your accounts to work out how much tax you owe;
- Your customers - new customers may look at your accounts to decide whether you are a successful and reliable Contractor;
- Your suppliers - who might use your accounts to decide whether you are a good credit risk. But most of all, you should be interested in your own accounts.

### **Types of accounts**

Just as there are several different types of accountants, there are also many different types of accounts. However, they can be grouped under two main headings:-

- Statutory accounts - also known as financial accounts;
- Management accounts.

### **Statutory accounts**

These are compulsory for companies, and must be sent every year to the shareholders in your company and to Companies House. In addition:-

- They must follow a standard set of rules and conventions, and show what went on during the financial year;
- They are mainly used by people outside your business - e.g., bankers, customers, suppliers and, of course, the taxman.

### **Management accounts**

These type of accounts are essential for well-run companies, but are not strictly required by law. As their name suggests, management accounts are mainly used by management. In fact it is very rare for them to be shown to anybody outside the company - and companies cannot usually be forced to show their management accounts to anyone other than the auditors.

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There are no rules that say what management accounts must look like - it is up to each company to decide what format will best help it to understand what's going on, control the business and make better decisions.

Management accounts often predict the future as well as keep track of the past, i.e. they usually include forecasts of what is going to happen tomorrow, as well as recording what happened yesterday. In contrast, statutory accounts only ever record what has already happened in the past.

### **Your books**

Both sets of accounts (management & statutory) use the same basic information which they get from the same place - the Company's "books".

### **Basic principles**

Most accounting is little more than applied common sense. However, there are two golden accounting rules that are not immediately obvious - and so it is worth spending two minutes learning about them.

#### *The accruals principle*

Your accounts should reflect things when they arise or are earned - which is not necessarily the same as when you actually pay or are paid for them. For example, your accountant will include an April sales invoice in your April accounts, even if your customer doesn't pay you until August.

#### *Revenue v capital payments*

Some of the things you spend money on will not be regarded by your accountant (or the taxman) as reducing your profits. For example, the money you pay to buy a new car or pay off a loan. Accounting conventions say that payments like these shouldn't appear in the profit and loss account - instead their effect is confined to the balance sheet.

The key distinction here is between revenue and capital expenditure payments:-

- Revenue payments are the running costs of the business - the type of expenses that buy goods and services which are used up quickly (eg. wages, advertising, rent, stationery, etc). This type of expenditure is shown in the profit and loss account (and is often referred to as having been "expensed").
- Capital payments, on the other hand, relate to things that continue to benefit the Company for several years (e.g. computers, cars, etc). They also include paying off loans. This type of expenditure is shown in the balance sheet (and is often referred to as having been "capitalised").

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We have now explained the building blocks of every set of accounts. On the next two pages you will see stylised versions of what these building blocks are used to construct - your profit and loss account and balance sheet.

### **Your profit and loss account**

<u>Figures for</u>	<u>Description</u>
Sales	Made by your business - even if not yet paid for.
<u>Less</u>	<u>Less</u>
Costs	Revenue expenditure - costs of goods and services used to generate, supply and support those sales - even if not yet paid for.
=	=
Profit	How much your business has really made.

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### Your balance sheet

Balance sheets are always presented in two halves. The top half shows the Company's net assets, i.e.:-

<u>Figures for</u>	<u>Description</u>
Assets	What your Company OWNS.
<u>Less</u>	<u>Less</u>
Liabilities	What your Company OWES.
=	=
Net assets	Rough measure of how much your Company is "worth".

The bottom half shows where these net assets have come from i.e.:-

Share Capital	How much money you and any other shareholders have invested in the Company.
Plus	Plus
Profits	How much profit you have earned but not spent since the business started.
=	=
Net assets	This will be the same figure as in the top half of your balance sheet - i.e. roughly how much your business is "worth".

### Book-keeping basics

Your accounts can only ever be as accurate as the books you keep.

#### Cash book

This is your single most important "book". It records all of the payments made into and out of your business's bank account. It is crucial to set up the book appropriately at the commencement of business. At the end of each month the totals for each column for that month will automatically be calculated.

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### **Sales invoice file**

It is both very helpful to your business, and reassuring to the tax man, if you issue your sales invoices in strict numerical order. You should also set up a file with file dividers for each month and file your sales invoices in strict numerical order. The only exception to this rule is that unpaid invoices should be kept in a special section at the front of the file until they have been settled, at which point you should mark the invoice "paid" and also write on it the date paid, and then file it in strict numerical order. You should also regularly review the unpaid section of the file and take steps to chase up payment as often as possible .

### **Purchase invoice**

This is a file with a file divider for each month and a front section file for unpaid bills. On receiving an invoice, file it in the unpaid section until such time as you pay it. On paying the invoice you should write "paid" and the date on the invoice itself, and then transfer it from the unpaid section of the file to the section for the month in which you made the payment. You should also, of course, ensure that the payment is recorded in your cash book.

### **Expense claims**

Whenever you pay any expenses of the business by using your own money you are entitled to ask the company to pay you back. We recommend that you do this fortnightly or monthly and use a pre-printed expense claim form.

### **Running your business profitably: Budgeting**

All contractors should prepare comprehensive and up-to-date budgets and continuously monitor their actual performance against those budgets. Variations from budgets should be investigated and the reasons for them fully understood, with corrective action being taken promptly where necessary.

A properly designed budgeting process can, in itself, help to reduce your costs if every item to be included in the budget has to initially be justified from first principles. The alternative, and wrong, way to set your budgets is to include everything at last year's level plus inflation, on the basis that "if I spent it last year I must need to spend it this year".

### **First principles**

The "first principles" of budgeting involve answering the following questions about every single element of your costs:-

- Can it be eliminated without significantly damaging the business's profitability?
- Is it over-specified for the needs of the business, and could the specification be trimmed to save costs i.e. are we using a Rolls Royce when a Mini Metro will do?
- Does it cost more than the benefit it delivers?
- Can the same outcome be achieved more cheaply in some other way, perhaps by changing company procedures or by installing a new computer etc.?
- Can it be done more cheaply by an outside sub-contractor?
- Can it be done less frequently without harming the business?
- How do other businesses achieve the same outcome?
- If you were to start in business again would you still decide to incur this type of cost?
- Is there any duplication of effort or can the task be combined into one that is already carried out elsewhere in the business?
- Is somebody responsible for the cost and how do they go about discharging that responsibility?
- When was the last time competitive price quotes were obtained? Has the choice of supplier become a matter of habit and convenience rather than sound economic sense?

Whilst such questions should be asked of all costs, it clearly makes most sense to initially concentrate on the largest elements of costs, since they are likely to have the greatest potential for reductions.

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### **Forecasts**

When combined with sales forecasts, these cost budgets should also enable you to forecast your cashflows to identify whether you are likely to need an overdraft facility. They will also show you when and how much you may need to borrow, and this will help you to negotiate the necessary facility with your bankers well in advance of the event. Not only does this budgeting discipline enable more effective business control, it also creates a very good impression with your bank manager, making him more likely to accept your overdraft request.

### **Professional support**

In principle, budgeting and forecasting are fairly straightforward. However, it is usually advisable to ask for assistance from an experienced accountant. He will be able to use both his expertise and sophisticated computer technology to enable your forecasts to be accurately and speedily produced in response to changes in circumstances at the "push of a button."

### **Purchasing**

To get the very most out of every pound you spend you should:-

- Select your proposed purchases after careful research - it can be very expensive to buy the wrong thing. Make full use of independent brokers and advisers if they are available on a no-fee basis (as in the case of insurance brokers and independent financial advisers).
- Select a supplier for your chosen purchase based on a pre-prepared list of criteria such as price, availability, location, delivery time, credit terms, training, after-sales support and guarantees. If one supplier is ahead of the field in all areas other than price, then point out their price disadvantage and ask them to reconsider their price, since you would very much like to buy from them today if only they were a little less expensive. This disarmingly simple tactic has stood the test of time as a method of worrying the seller into believing that a genuine and immediate sale will be lost unless he accommodates the request.
- It is also a good idea to save one element of your required package to the end of the negotiations and then slip it in almost as an after thought, e.g. "Oh yes, I nearly forgot, we do insist on receiving 60 days credit" or "we do take a 2% early settlement discount, I assume that will not be a problem?" Many salesmen, fearful of the lost sale and the associated waste of their time, will not argue the point, preferring to attempt to justify their generosity to the accounts department on their return to the office.

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### **Saving money**

Other ways to cut the cost of being in business include:-

- Offering prompt payment/cash in advance in exchange for a discount;
- Ensuring that all quantity discounts due to your business are received;
- Discussing with suppliers methods of reducing unit costs. Many suppliers will offer discounts if you order in a batch size that is economic for them or accept delivery on a day that is convenient for them;
- Wherever possible obtain samples or items on approval to enable you to fully evaluate their suitability. Also try to negotiate "sale or return" arrangements, even if they are not (yet!) standard practice in your industry;
- To avoid subsequent confusion, disagreement and unnecessary expense, confirm all orders in writing, stating clearly the product details, price, credit terms, delivery method and time, and that "time is of the essence" (the latter statement will usually enable you to cancel the contract without penalty should they prove unable to deliver on time).

### **Time**

Time is perhaps the most misused and misunderstood asset of all in many businesses. Since a salary of £25,000 per annum equates to about 24 pence a minute, inadequate time management can be costly to your business.

### **Time management**

- Understand how you currently spend your time, perhaps by keeping a detailed diary over a period of, say, a week.
- Analyse which of those activities add the most value and profit to your business and those that add the least.
- Devise a strategy to ensure that you focus your time and efforts on the former and not the latter.

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### **Credit control**

There are sadly a great number of unfortunate, undesirable or just plain unscrupulous potential customers in the market who can inadvertently or deliberately cost your business a great deal of time and money by not paying their debts.

There is only one thing worse than having no work - and that's having lots of work, but not getting paid for it! To minimise the risk of this happening to you, you should take the following credit control precautions:-

- In most businesses it is normal practice to make detailed credit enquiries into any new customer requiring credit terms. However this is not always "politically correct" for contractors. Therefore we usually suggest a low-key approach to be the most appropriate. In particular, we recommend contractors to contact a specialist credit reference agency such as Dun and Bradstreet in order to obtain a detailed (and private and confidential) credit reference on every new company they would like to do business with. This reference should then be discussed with your accountants before you make a decision or sign a contract.
- Be aware that recovering unpaid debts from customers based in Scotland is considerably more difficult given the peculiarities of the Scottish legal system.
- Once you have decided to extend a customer credit terms, then set them a credit limit and notify them of both the limit and the general terms of trade upon which you are prepared to do business with them. Also ensure that these terms are stated in your contract and on your invoices.
- Credit vetting is not a one-off exercise, it should be continuously monitored and re-evaluated, taking account of both the customer's payment history with your own business and by regularly updating the externally available information such as that provided by Dun and Bradstreet.
- Withhold further credit from any customer who has exceeded his credit limit or whose account is significantly overdue. Alternatively make an arrangement to supply him with, say, £500 of extra work for every £1000 that he pays off his account.
- Always ensure that the details on your invoices are accurate, since inaccuracies will not only damage your credibility, but will frequently be used by the customer as an excuse for delaying payment.

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- Send invoices as soon as possible - not only is this necessary to establish the correct date for VAT purposes, but it also starts the credit-period clock ticking.
- Ensure that your debtors listing enables the age of all outstanding debtors to be accurately identified and monitored, so that all risky debts can be identified and acted upon at the earliest opportunity.
- Chase overdue debts at regular intervals, keeping a log of all "explanations" for non payment. Initially use the telephone to request payment, and after the second phone reminder switch to using both the telephone and letters, progressively sharpening the tone and content of the requests.
- It is often helpful to bring the problem of the unpaid debt to the attention of the actual user of your services, and quietly suggest to him that you cannot guarantee future service until the account is settled.
- Be systematic and ruthless over debt collection - it can often require as much effort as winning the original contract. However without the extra effort the contract is actually worse than worthless, since it has cost you money but has earned you nothing.
- Ultimately if your customer persistently fails to pay it may be appropriate to make a claim through the small claims court, a relatively simple and inexpensive process that frequently yields the desired result.

### **Customers**

Identify those contracts or customers which are most profitable for you and concentrate your sales efforts on trying to repeat or replicate them

### **Business MOT**

To ensure you continue to operate at maximum profitability we recommend you revise business plan regularly (and financial forecasts) to focus your efforts.