

IT CONTRACTING MASTER CLASS

METADATA

Version 1.0

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MC101 INTRODUCTION

Hey there, this is Chris Worfolk. I would like to welcome you to the *IT Contracting Master Class*. I hope you are excited. I love helping people make the transition from permanent to contractor.

I have worked in the IT industry for over ten years and since I made the leap, I have not looked back. I love every part of it. Being my own boss, having more control over my career, working on a variety of challenging projects and earning a great rate feels awesome.

This book accompanies all of the lessons you will find in the course. Watch the lesson, and then reinforce the knowledge with the book. It contains all the references and links so you do not have to try and desperately scribble everything down. It is available in a variety of formats so will run on your computer, tablet or e-reader.

Let's get started on this exciting journey.

Chris






<https://www.itcontractingmasterclass.com>

MC102 WHY BECOME A CONTRACTOR

If you are not sure whether contracting for you, this section is for you. However, even if you are already sold on contracting, it is worth reading too. You may find some advantages you missed, and get that extra kick of motivation.

Earn more money

In the UK, contractors typically earn 200% of what permanent employees do. IT is a pretty well-paid industry already, so that increase a serious amount of money. I have billed clients over £10,000 in one month:

Status	Issued on	Due on	Client	Invoice # - Ref	Total Outstanding	Payments
Paid	29 May 2016	26 Jun 2016		11117/0154 - R1723684	£2,250.00	1 totalling £2,250.00
Paid	22 May 2016	19 Jun 2016		11117/0153 - R1720964	£2,025.00	1 totalling £2,025.00
Paid	15 May 2016	12 Jun 2016		11117/0152 - R1711390	£2,250.00	1 totalling £2,250.00
Paid	8 May 2016	5 Jun 2016		11117/0151 - R1707612	£1,350.00	1 totalling £1,350.00
Paid	1 May 2016	29 May 2016		11117/0150 - R1704859	£2,250.00	1 totalling £2,250.00

If you are looking to clear off debts, buy a house or just live the good life, contracting is a great route to go down.

Work less

For me, working less is the most appealing part of contracting. You can spend less time at your desk, both in terms of having more time off, and spending less time while you are there.

More holidays

Permanent employees get a set amount of holidays. In the UK, this is often the legal minimum: 22 days plus 8 bank holidays. 30 days per year. Not great. In fact, it is less than any other country in Europe¹.

In contrast, as a contractor, you can take as much time off as you want. Of course, you do not get paid for those holidays. But there is the thing: the 200% I earn as a contractor vs a permanent employee is based on me only working 46 weeks per year. I can take the other 6 weeks (30 days) off and those calculations still hold.

So effectively we are paid for the standard holidays. We can take more, though. I got into contracting because I wanted to work half of the year and take the other half off. This never works out exactly because if I get a comfortable contract I tend to extend things until I am bored. But whether it is taking plenty of holidays in a contract, or taking a sabbatical to pursue my own projects or spend time with my young family, we have that flexibly².

Shorter hours

A friend once said to me "I would quite like to be a contractor, but I do not fancy the longer hours." Longer hours? What longer hours? I have never run into them.

That is not to say some contractors find themselves caught up in the day-to-day rush of the client they are working for. However, in my experience, contractors always work shorter hours. Why? Because we are not employees; it is a business to business relationship.

If you are an employee, you are subordinate to your manager and the company as a whole. When your boss tells you to work longer hours, most employees do. They need their job and feel a need to make it look like they are super-motivated to make the company a success at the expense of their personal lives. They need to score well on personal reviews and show "the right attitude" or they will be out on their ear.

Contracting avoids much of this bullying. You are there to do a job, as a business to business relationship. Company X has hired your consultancy firm to supply some services, and you supply them, but you do not give away freebies lightly. Not are you subordinate to them: if they try bullying you, you can just go somewhere else.

I do an excellent job for my client, as you will. But that does not mean I am going "above and beyond the call of duty", staying late and working myself into the ground. That is a trap for permies; not us contractors.

Even when you factor in the little bit of admin work I have to do running my consultancy company, I work shorter hours now than I ever did while I was a permanent employee. As a permie, I stayed late every night. Now I do it once every few months.

No on-call

Another big selling point for me was no on-call. At my last company as a permanent employee, we were expected to be on-call one in every three weeks, including throughout the night and weekends.

This sucks. If you have to be within distance of your laptop, it really puts a blocker on your life. You cannot make plans to go out, attend meetings, go swimming, go to the gym, you cannot do anything because you are a slave to your phone and your internet connection.

While being on-call was not quite a limiting as actually being in the office, it was certainly a constraint. And once place on us for 16 hours a day: 24 hours at weekends, which is supposed to be our time off. So I said hello to contracting and goodbye to on-call.

Contracting allowed me to take my evenings and weekends back.

You are not stuck in a job you hate

Maybe you took the first job you were offered and it now turns out that you hate it. But you do not want to leave because you are living pay cheque to pay cheque, or you cannot find anything better.

Or maybe you enjoyed your job at first, but then it changed, or the work environment or people changed, and now it is no fun. Or maybe you actually enjoy your job, but as time goes on you gradually get bored of it.

Whatever the reason, permanent jobs become less pleasant over time. You want a new challenge. But they do not end. They just go on and on forever. You could quit, or switch jobs of course, but inertial and the human habit of doing the same thing we did yesterday generally holds us in the same spot for longer than we would like.

Contracting comes with none of these disadvantages. When you are bored of one project, you just move on to the next. Sometimes you do not even have to make this decision as a project naturally winds down by itself. But either way, it is much easier to escape a contract you are finding unpleasant than it is to escape a job.

The world is your oyster

With permanent jobs, you pretty much need to find one near where you live. You can re-locate, but this is a huge hassle and not one that most people enjoy going through.

With contracting, you are free to take jobs anywhere you want. The day rates are so good that you do not need to relocate: you can temporarily find a place, put up with a short-term commute or even just live out of a hotel for three months, while still making more than you did as a permie.

Want to spend six months living in Amsterdam? Just take a contract there. Want to explore another city? The choice is yours. Contracting gives you the freedom and the financial resource to take work anywhere you want.

You learn a huge skill set

In a permanent job, you are often assigned to a project or product and stay there for a long time. Sure, it allows you to refine your skills on one very specific situation. But how transferable are those skills?

As a contractor, you are constantly working on new projects and developing new skill sets. Every one is different and gives you yet more valuable fodder for your CV. Also, it is fun!

You control your own training budget

Some companies offer their permanent employees some training. Most of the time, though, they are not too freely giving with this.

At one of my clients, a permie needed to be able to code in Python to work on the project he had been assigned to. He asked to be sent on a course to learn Python. His boss sent back a link to a Google web page explaining how to use Python and told him to use that. I wish I was kidding.

As a contractor, you do not get any free training either. But you do have the financial muscle to send yourself on whatever training courses you like. As they are a business expense, they are paid for out of company revenue, not your own pocket. You have complete control over what you want to learn and what courses you want to do. Engage liberally.

The freedom of being your own boss

Some people may think that being a contractor is a lot like being a permie. It is not. You are your own boss. It is difficult to convey how good that feels. I love it! It feels amazing.

As I discussed in a previous section, as a permanent employee, you are subordinate to your manager. Not so with contracting. You are your own person. You are in charge. To an extent you have to do what the customer wants, as with any business, you would run. But the choice is yours: they do not hold ultimate power over you.

Running your own company is fun

Some people may think of the small amount of paperwork and admin you have to do as a contractor as a bit of a headache. Not me. I love running my own company.

In fact, there is stuff that I could have my accountant do for me, that I choose to do myself because I like having the control over what is going on.

I am a director of a limited company and when you set up your limited company, you will be too. That is cool. I have had people ask me to sign their legal documents because they need a "notable person such as a company director" to do so. It feels nice to be a somebody.

No performance reviews

Performance reviews for permanent employees typically consist of reviewing how hard they are working for the company, giving them a very small pay rise if they have been good, and then setting them some personal goals. None of that sounds desirable.

First, reviewing your performance to a set scale. This is often done in a structured way to stop employees asking for too much more money. "You have worked really hard this year, so we are going to increase your pay by 3%." "But inflation is 4%" you protest, "that is a real-terms pay cut." But it is too bad, the company does not care.

Second, just to get that, you often have to put in lots of extra hours and wear a constant smile on your face.

Finally, you have to set some personal goals. You probably do not care much about these goals, because you are not allowed to do anything fun like switch projects or complete a training course. It is more likely "reduce the number of bugs we release from 5 per month to 3 per month". That is exactly the kind of *personal* goal you would set for yourself, right?

My wife had to set personal goals at her permie job. The company gave her a long lecture about how these should be SMART goals. So, we sat down and wrote some goals that hit all the criteria. When she went back into work, the company ignored everything she had written and assigned her their set of goals, which were not SMART. So much for that.

Contracting avoids all of these issues. Your performance review is whether you have done a good job or not and you negotiate your own day rate increased based on this. There is no "okay, you got 4/5 so we're giving you 2% extra". It is a blank slate where you can demand a fair rate for the job you are doing.

Second, nobody is setting you any goals. Except maybe yourself. And those goals can be whatever you like. Typically earn more money, work less, and enjoy life more.

No staff management; stay hands on

The problem with really enjoying what you do is that enjoying it typically makes you good at it and as soon as you get good at it, it gets taken away from you. You get promoted, given staff to manage and have the fun stuff taken away from you.

If managing staff is your thing, then maybe permie is a good route to for you. If you are someone who does not want the hassle of managing staff and would prefer to stay hands on instead, contracting is the perfect route to do this.

You do not have to take any shit

For all the reasons I have already mentioned, contracting gives you a sense of being your own person. You are not a pawn to a boss.

At one of my contracts, a manager sent round a scolding email accusing everyone of not turning up to work on time. I called him out on it and said it was not fair to implicate everything. He went ballistic and started shouting across the office.

The problem was that I was in the eight. In the end he had to apologise. When I was a permie, I would never have stood up for people like that. It would have been too risky. You could lose your job, or at least your appraisal and accompanying pay rise.

With contracting, you are fired before you go in. It is like knowing when you are going to die: you can just get on with life and enjoy it!

MC103 WHY NOT BECOME A CONTRACTOR

So far I have raved about how awesome it is to be a contractor. However, it is not for everyone. There are some genuine reasons why it might not be for you. I would argue they are less in number, and less significant, than you might think though.

In this section I will provide a list of reasons why contracting might not be for you. Even if you have set your heart on making the leap, give them a read and consider them carefully. You want to make sure you are fully informed before jumping in.

For each one I have also provided some reasons why I do not believe it is something to be concerned about. You may agree, or you may disagree: it depends on your circumstances.

Job security

The number one fear people have when going contracting is that they will not be able to find work and therefore not be able to earn any money. It is easy to get carried away. Soon you are visualising yourself living under a bridge, eating cold beans (if you are lucky) and holding up a scrap of cardboard with "sill code HTML for money" scrawled on it.

In some ways, contracting does give you less financial security. However, in many more ways, it provides far more financial security than you get as a permie.

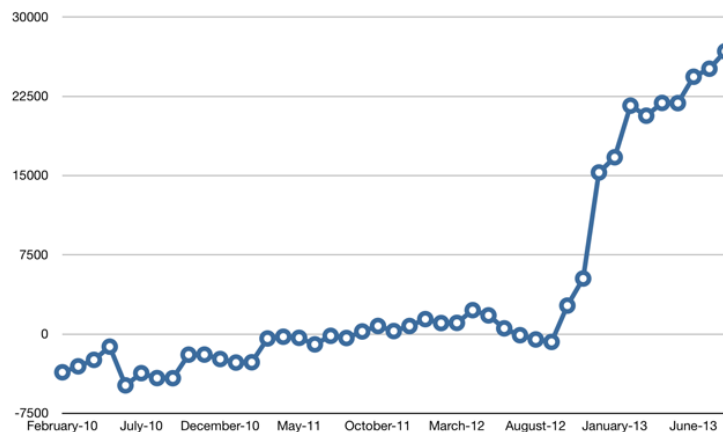
First, there are loads of contracts out there. I have never been out of work for a significant period of time. Demand is just too high in the IT industry for people to find themselves out of work for long.

Second, most people go into it with a modest amount of savings. When I started I asked myself "how much money would I need to live on for three months if I really had to cut back?" I concluded it was £5,000, so I saved up that before making the leap. I told myself that if I could not get a contract within two months I would take another permie job.

I walked straight into a contract after leaving my permie job, but even in the worst case scenario, you are only going to take another permie job in a few months time and find yourself back in the situation you are in now.

Third, contractors earn so much that you soon build up a reserve of money to live on through hard times. I had not run into such times yet, but it is nice to know that the money was there if I need it.

Contracting actually delivered far more financial security for me than my permie job did. I was constantly living in my overdraft as a student and nothing changed when I took a permie job. Life was just too expensive. It was only when I became a contractor that I started really saving money.



Those are my actual savings levels. Notice how long it was *below* zero. I was literally in my overdraft the whole time. Then I made the switch to contracting and things exploded. I finally had enough money to save some away for hard times.

Having to travel

If you are settled in a certain location or have a family, the idea of having to run around the country chasing contracts where you can get them might sound daunting or unpleasant.

For others, it is an advantage. They like the idea of being able to travel around taking contracts. Personally, I prefer to stay local. Again, we work in an industry with such demand that this is an option.

I have never had to take a contract outside of the Leeds area. There has always been something on more doorstep. Literally in some cases: one office was just over the road. Most of them have been in walking distance. The market is too busy to force you to travel.

In my experience, contractors also have more opportunity to work remotely. So you may find that you have to be on site of a week or two, and can then do the rest of the contract from home.

If nothing else, you can commute. Even if you do not like commuting, this is not a bad option as a contractor because you can comfort yourself that you only have to do it for three months and then you can move on.

Paperwork

Some people are intimidated or put off by the idea that they will have to do a lot of paperwork for their contractor company. This is not the case. There is some, let's not deny that. However, you can get your accountant to do almost all of it. Mine deal directly with HMRC and all company mail is sent directly to their address.

No paid holiday

This is a non-issue in my opinion. As I discussed in the section on time off, you typically earn double what permie jobs do, even factoring in six weeks holiday per year. Sure, you do not get any money during those weeks, but the amount you get for the rest of the time makes up for it.

No sick pay

The idea of not getting sick pay can be a scary one. It feels like you are doubly punished when you have to take time off ill, and the idea of a serious and long-term illness is also a frightening prospect.

That said, I actually like not getting sick pay. When I was a permie, I would feel guilty when I was ill. Therefore, I would do one of two things. One was to go into the office anyway and spread my germs around. You have probably seen permies doing this, or done it yourself. You feel an obligation to haul your ass into work even though you feel terrible.

The second thing I would do would be to phone in sick and then spend the whole day feeling guilty that I was being paid to be at home resting. That might sound silly, but that is how I felt.

Since I became a contractor, I feel no such inhibitions. If I am ill, I phone in sick. I stay at home and get better. I do not feel guilty about it because it is my money that I am wasting, and I earn enough to be kind to myself and give my body the rest it needs.

As for long-term illness, permies are perhaps not as safe as they think they are. Companies can fire you for going off on long-term sick³. Here is what the gov.uk website says about it:

"You can be dismissed if you have a persistent or long-term illness that makes it impossible for you to do your job."

So you are not safe as a permie either. Of course, you are less safe if you are a contractor because the impact is immediate. However, we can insure ourselves against these losses.

I have an income protection insurance policy that pays out if I am unable to do my job. It will continue to pay out for up to two years and I can make an unlimited number of claims. How many permies have that kind of security?

No in-work benefits

Companies often give away frivolous benefits with their jobs. They might offer discount membership at a local gym, or a company Christmas present.

Many companies include contractors on lots of these activities anyway. For example, you are probably just as entitled to the free tea and coffee as a permie and usually invited to the Christmas party as well.

As for the discount gym membership, I actually ran into this situation with a local gym. I explained the situation and they said they would do me the same discount even though I was not an employee of the client.

Everything else is not entirely worthless, but not really that important. Do you honestly want a 10% discount at H&M? Who gives a shit, right? Contracting avoids companies spending money on nonsense you do not want and gets them spending money in a far more useful way: directly into your back pocket.

Summary

There are some serious objections to becoming a contractor. However, on closer examination, things like financial security and illness protection are actually riskier for permies than they are for us if we look after ourselves.

MC104 WRITING YOUR CONTRACTOR PLAN

Once you have decided to become a contractor, the first thing you should do is write a plan. First, a note on psychology.

At certain points in the course, I will tell you things, and you will not believe me. At other times I will tell you to do things, and you will not believe me. Or at least, you *may* not. Hopefully, you will.

But I suspect many of you will not because I was told things, and told to do things when I became a contractor, and I ignored them. And you know what? It cost me money. There are no scare stories here. I have never lost it in terms of having it and then not having it. But there are times when I have not made the money I could have.

I made mistakes, and I want to help you avoid the same mistakes. But ultimately it is down to you. All I can do is try and alert you to the times when you are likely to ignore the advice, just like I did, and hope that this emphasis is enough to get you to break the natural human bias of ignoring good advice.

This, by the way, is one of those times.

When you made the decision to become a contractor, you were probably really excited and wanted to jump in straight away. Perhaps that is how you feel now. In which case, sitting down and writing a plan is probably last on your priority list.

However, it is super important. You need to set aside some time to come up with a plan. A written plan. You must write it down. The evidence that written goals make you more successful is overwhelming⁴. However, it is especially important in this situation.

You probably have a goal in mind, right? A reason you want to become a contractor? And most likely, it is one of these:

- Earn more money, so I can buy cool stuff
- Travel more
- Work half the time for the same amount of money
- Take contracts all over the world
- Spend more time with your family

Regardless of what the goal is, it is easy to forget about it. This leads to making bad decisions that are incompatible with what you actually want to achieve. Having written goals you can refer back to helps overcome this.

In my case, I became a contractor so that I could work less. I wanted to work half of the time and work on altruistic projects the other half of the time. I did not go into contracting so I could fill my house with useless junk.

Guess which one I did? Well, a bit of both. And some of the stuff is very nice. I have my entire house wired up with Sonos wireless speakers for example. I can control the music in every time from my phone or tablet. It's awesome.

But some of the stuff I have bought is just a waste of money. My sunglasses for example.

Finland may be cold in the winter, but it is warm in the summer. It is so far north that the sun barely goes down in the summer, leading to long sunny days. So when we flew out to get married, I needed a pair of sunglasses to wear while driving.

I bought these:



Pretty nice, huh? Look at the brand. They're Prada. Prada! They were over £300. That is almost an entire day's pay, before tax. What the fuck did I buy these for? I could have bought a pair at the market for £10.

They look cool of course. But here is the point: I did not go into contracting so I could buy Prada sunglasses! I went contracting so I could save money and use those savings to work less. Not to waste money on stuff like this. I feel embarrassed for having wasted my money on them.

In contrast, my car is a battered out old Astra.



It was made in 2001, so is now 16 years old. And you know what? I am really proud of it. I could go out and get a Mercedes or flash BMW on a lease. But that is not what I want to be spending my money on. With my car, I have managed to avoid falling into the trap.

Maybe you *do* want to buy Prada sunglasses. If so, write that down as your goal. But often, your goal will be something different. Maybe you want to work less, or save up for a housing deposit, or travel more. You need to write these goals down and refer back to them regularly. Print them out and put them on your wall. Do not fall into the trap.

Here are some examples of when it is easy to make bad decisions:

Goal	Action
Work less	Avoid buying stuff you do not really need, like Prada sunglasses
Save money for a house or a holiday	Same as above
Spend more time with your family	Take a lower-paid contract close to home, rather than one with a long commute or requires you to work away
Take contracts all over the world	Do not automatically accept a renewal: is it time

	to move on?
Work on new and exciting projects	Same as above

MC201 CONTRACTOR LEGAL STRUCTURES

Once you are ready to get started on the journey, we can get into actually setting things up. One of the first things you need to do is decide on your contractor legal structure.

Here you have three options.

Umbrella company

This is the easiest way to get started as a contractor. However, it also stretches the definition of what a contractor is.

In an umbrella company, you become an employee of someone else's company. These are usually run by agencies that specialise in providing umbrella companies to contractors. They do most of the work for you.

This keeps the paperwork as small as possible and still allows you to access the contractor day rate of the end client. However, you lose almost all of the other benefits of being a contractor.

As you are an employee of the umbrella company, you get paid through PAYE as any other employee would, and therefore is the least tax efficient. You also lose out on a range of other benefits and tax efficiencies meaning that your take-home pay is smaller than any other structure.

Some would argue that if you are going to be a permie for an umbrella company, you might as well just stay as a permie at your current company. This is somewhat unfair in that you can still earn more this way than you could as a regular permie but certainly touches a nerve. If you really want to keep things this simple, it is worth considering whether contracting is really better than being a permie.

Sole trader

Sole trader is a good step-up from umbrella company. Here you are working for yourself. As a sole trader, there is no separate legal entity that is your company: you and your company are the same thing.

This can be easier than having a separate company. You do not have to go through the process of setting up a limited company, your accounts are easier to submit and there is *slightly* less paperwork to do.

However, the sole trader also faces a number of issues:

- As there is no separation between you and your company, you are liable for its debts. It is unlikely you would get sued by a client and end up owing them a huge amount of money, but it can happen in rare circumstances, and if it did, your property (house, car, stuff) would be fair game.
- Clients often prefer to deal with a company rather than a sole trader.
- You miss out on some of the benefits and tax efficiencies that you would have access to as a limited company.

Limited company

I saved the best until last: limited company. This is where the real gold is, but also the structure that requires the most paperwork and attention.

As a limited company, you form a separate legal entity to yourself, a company limited by guarantee, and make yourself a director of it. Limited by guarantee means that you can only be held liable for the value of the shares you hold, so if the company were to get sued or go bankrupt, your personal assets would be safe.

Limited company is the most tax efficient structure to set up and allows you to take advantages of benefits such as maternity/paternity leave, and more generous rules regarding expenses.

There is some form filling in terms of setting up the companies, completing an annual return and yearly tax returns. However, your accountant should handle most of this for you. We will talk more about all of this later.

Conclusion

I said I would give you specific advice in the course, and I will. In this chapter, I have given you the options, but there really is a correct answer and that is a limited company. Let's recap the reasons why:

- Provides you legal protection for your personal assets
- Most tax efficient way of paying yourself
- Provides biggest range of benefits
- You get to be a director of a company, which is cool

So the choice is yours, but you really should choose a limited company. In the next chapter, we will look at how to set one up.

MC202 SETTING UP A LIMITED COMPANY

If you have decided on limited company as your contractor structure, this chapter will talk you through how to set one up.

Choose a name

You need a name for your company, obviously. This can be anything, but you will have to use it when invoicing clients, so calling it "Crack Munchers Anonymous" will probably come back to bite you in the ass.

The only rule is that the name must end in either *Ltd* or *Limited*. Which you choose is merely a personal preference.

To keep things simple you may just want to use your surname. My company is called *Worfolk Limited*. Do not get hung up on it. It is not important as long as you do not pick a totally silly name.

Your board of directors

Company law is pretty flexible these days: you can have one or more directors, and that is all you need. The requirement for a company secretary has been removed.

For most people, this simply means putting themselves as the sole director of the company.

In some circumstances, you may wish to add a second director. For example, if you have a partner. The reason you would do this is if they were working for the company as well. Bare in mind that you cannot pay a director of a personal service company unless they are actually working for the company.

My wife is a director of *Worfolk Limited*. She does not get paid by the company but does some work from time to time, so it makes is easier if she is a director.

Company shares

You need to draw up a plan for how you want to divide up the company shares. In a one-person company, this really does not matter.

Every time I set up a company I use the same formula

- 10 shares (total)
- Nominal value of £1
- All owned by me

It does not really matter how many shares you have. Bare in mind that the total value of the shares is what you would be liable for if the company went bankrupt. Hence I limited this to £10. Though for you, that may be £9 too much.

You want to own all of the shares. Here is why:

- When we pay ourselves, we will do so through dividends
- Dividends have to be divided up amongst the shareholders
- If you are the only person in the company doing any work, all the pay needs to go to you

The easiest way to achieve this is to follow my formula.

Register the company

To set up a company, you need to register it with Companies House. You could do this directly with them. However, this is a pain because you need to get a solicitor to sign a letter and the whole thing is a massive hassle, and more expensive than getting someone else to do it for you.

So let's get someone else to do it for you.

I use a company called *The Formations Company*. Find them online at <https://www.theformationscompany.com/>.

They offer a number of packages starting from £7. The £7 one will do fine, but I recommend going for the £30 one (the essential package rather than the e-formations package, prices may have changed by the time you read this).

The advantage of the slightly more expensive package is:

- You get a printed certificate of incorporation
- You get a printed shareholder certificate

These are mostly just nice-to-haves. However, it really is nice to have a properly printed certificate that you can frame. It also means if you want to look official you can scan it in and email it round as proof of your company's registration.

Here is the step-by-step:

1. Select the package you want
2. On the confirmation screen, remove all of the extra crap such as "anti-fraud" and "business current account" and "credit checks" (or read up on them and decide whether you want them, but my advice is to skip them)
3. Tell them you can handle your PSC register yourself
4. Click continue and pay
5. Answer the questions about directors, shares, company name, etc
6. Wait for your company registration documents to arrive

What is a PSC register?

PSC stands for *person of significant control*. The idea behind this is to stop people using shell companies in tax havens from hiding their wealth.

We are doing no such thing and have nothing to hide: we are the sole owner of our company and can be completely transparent about that.

Documents you will be sent

You should receive the following documents:

Document	Explanation
Certificate of incorporation	This is proof that your company has been registered and will contain the company number.
Memorandum of Association	This lists your directors and confirms they want to found the company. Nothing to do here.
Articles of Association	This details the rules as to how your company will be run. Think of it as a constitution. This is boilerplate and you should not need to change anything.
Share Certificate	This confirms that you own the shares in your company.

Conclusion

That is it: you are done. Your limited company is formed! Break out the champagne and celebrate.

MC203 BANKING

Once you have established your limited company, you can apply for a business bank account. This is quite important as chances are you will want to get paid at some point.

Business bank accounts cost money. Usually a small monthly fee of £5-10. Most should offer a free introductory period of one to two years before they start charging you.

Here is what you should expect to get with your account:

- A current account that supports Standing Orders and Direct Debits

- A debit card
- A cheque book
- Counter access
- Online banking
- Phone banking

It is worth noting that this is not a merchant account: you will not be able to start processing credit and debit card payments. But why would you want to?

What bank should I use?

The same one you bank with personally. That way it keeps it simple. There may be slightly fewer ID checks to go through, and if you need to do some banking on both accounts, you only have one bank to visit.

I use HSBC. They are not as joined up as you might hope. For example, I have one of those sign-in devices to access online banking, and I have a separate one for my personal banking and business banking.

How do I apply for an account?

Either in branch or online. Chances are if you start the process online, you will then have to go down to the branch to finish it. If you are doing it in-person they will probably give you an application form and tell you to make an appointment to come back with the completed form.

Things you will probably need:

- Proof of identity for yourself (passport, driving licence)
- Proof of address for yourself (bills, bank statements)
- Proof of registration for your company

Your bank will be able to advise you as to anything else they require you to bring.

Business savings accounts

Once you have your business current account, which is the account you will use for your day-to-day banking, you may wish to set up a business savings account as well.

The reason for this is that your company will have a lot of cash sitting around. You will spend the year generating revenue, and a certain portion of that revenue will be due in corporation tax. So this will build up throughout the year. Then, after your tax year ends, you will have an additional nine months to actually pay the bill.

Therefore, you will have your tax bill, often tens of thousands of pounds, sitting around in your bank account for up to a year and a half before you actually hand it over to HMRC. This is a long time.

Rather than having it sitting around in your current account gathering dust, you may wish to earn some interest on it. That is where a business savings account comes in.

I use Aldermore. You can find them online at <http://www.aldermore.co.uk/>. They are a relatively new bank, and so far I have had good experiences with them. You can set up the entire account online.

What about business credit cards?

Once you have a business current account, you could also set up a business credit card. This means you can make all of your business purchases using the credit card and take advantage of the benefits that credit cards offer.

However, you can also just use your personal credit card and claim the money back on expenses. This makes things easier because you do not have to set up yet another bank account which you then have to administer and reconcile every month.

MC204 ACCOUNTANCY

Your accountant will do most of your paperwork for you. If you get a good accountant, they will basically do all of the paperwork. I have my registered company address at my accountants, and they deal with all the mail from HMRC directly.

Here is what your accountant should be involved with:

- Sales invoices
- Expenses
- Bank reconciliation
- Payroll
- VAT
- Tax returns

You are probably looking at around £70-140 per month to get one that does all of it. This is quite a chunk of money, but comes with some big advantages:

- They handle most of the paperwork for you
- They do tax returns and deal with HMRC
- Administer your VAT returns and payments

Plus, they should be able to advise you on:

- The most tax efficient strategy for paying yourself
- What expenses you can claim and what you cannot
- Any other tax good practice you may have missed

I use Crunch. They have an online portal that allows you to enter everything and you get a named account manager that you can email or call. Sign up at <https://www.crunch.co.uk>.

Or, if you want a free Amazon voucher for signing up, use my referral link: <http://www.crunch.co.uk/referrals/?c2c=worfocw0qc>.

MC205 BUSINESS INSURANCE

There are several different types of business insurance you may want to consider. There are two good reasons to get it:

- Some clients expect, or even require, you hold insurance
- It makes it clear you are a real company, which is beneficial if HMRC accuse you of not being one

Employers' liability insurance

You only need this if you are employing other people. Assuming your contracting company is just you, you do not need this.

Public liability insurance

You need this if you get sued if, for example, someone or something is injured because of your business. Typically your cover will be for a few million.

Professional indemnity insurance

You need this if you get sued for not doing your job properly. Say you release some bad code and it takes their website down. Almost certainly nothing will happen, but in theory, they could sue you if they could prove negligence. You are typically insured for £50,000-£100,000.

Property insurance

This is essentially the same as home contents insurance that you would have for your home. It insures your equipment in case it gets stolen. As you will predominately be on clients' sites, you want to make sure you are covered away from your own premises, and up to the value of your laptop.

How much will it cost?

Expect to pay £250-£400 for the whole lot. Properly the former if you just need the basic cover. I pay the latter because I often have clients who demand greatly inflated levels of cover.

How should I get it?

Contact The Insurance Octopus: <http://insuranceoctopus.co.uk/>. They are a broker who will find you the best deal. Call them, give them your details, tell them what cover you need and they will do the rest.

They also re-evaluate your policy on a yearly basis and switch you over to a better insurer if things change. They do not charge you for their services.

MC206 PERSONAL INSURANCE

There are three types of personal insurance you will want to consider as a contractor.

Life insurance

This pays out a lump sum if you die. Primarily you will want this if you have a partner, or a family, and want them to have some money in the unlikely event that you are killed.

There is very little chance you will actually use it, so think hard whether you really need it. For example, I took it out on myself, but I ruled out taking it out for my wife because if she did die, I could just use my contractor earnings to pay for childcare for my family while I continue to work. Which is an incredibly unlikely scenario anyway.

It is relatively cheap. Expect to pay around £4-£6 per month for £100,000-£200,000 cover. It is also considered a business expense, but not a taxable benefit, so you can run it through your limited company without paying additional tax.

Some policies pay out on a diagnosis of a terminal illness (an illness is defined as terminal if you have less than 12 months to live). This is to allow you to get your affairs in order, though you could also spend it on cocaine and hookers, should that be your thing. For the record, I advise you not to.

Critical illness cover

Critical illness insurance pays out when you become seriously ill. It will be a fixed payout, similar to life insurance. Most policies will cover most serious illness, so you are fine if you get cancer, but they may not cover obscure diseases.

It is more likely that you will become seriously ill than that you will die, so the price is a lot higher. Expect to pay around £20 per month for £50,000 worth of cover.

As it is a middle-ground between life insurance and income protection, and only covers a set list of conditions, it is the least useful in my opinion. I do not carry any critical illness cover.

Income protection

Income protection pays out a monthly amount if you are unable to work. Typically you will be able to set the amount you are covered for when agreeing on the premium.

Expect to pay around £20 per month for a £2,000 per month payout if you are unable to work. Some important features to consider:

- You want an "own occupation" policy. This is one that pays out if you are unable to do your job. If it does not have this, and you are unable to do your job in IT, but could do a cleaning job, for example, the insurance company can make you take the cleaning job.
- How long does the payout continue for? My policy is two years.
- How many claims can you make? Mine is unlimited.
- What is the deferment period? This is the amount of time between becoming ill and starting to claim? Mine is one month, but two or three months are also common. This helps to reduce your premium and is *hopefully* unlikely to happen.
- Do you want cover for having to stop work due to having to care for a family member? Mine has this, but at a reduced payout rate.

Policy trusts

When you set your life insurance policy up, you want to put it in a trust. This has to be done at the start: it cannot be done retrospectively.

Putting it in a trust makes it a separate legal entity to yourself. You can then appoint trustees, typically your partner or another beneficiary of the policy. You can change the trustees at any point.

The advantages of using a trust are:

- You avoid probate, so your family can get the payout more quickly.
- It is not considered part of your estate, and therefore not considered in any inheritance tax calculation.

There are basically no downsides.

How should I get it?

Use LifeSearch. They are an insurance broker recommended by Which Magazine. Find them here: <http://www.lifesearch.co.uk/>

Give them your details, and they will come back with some options for you. You can tell them what kind of insurance you want, or you can get them to give you all of the options.

One thing you will need is an idea of how much cover you may want. The figures I have mentioned above are a good starting point if you are not sure.

LifeSearch will set your policy up in a trust as part of their service. They do not charge you for their services.

MC301 WRITING YOUR CONTRACTOR CV

By the end of this section, you will be able to write a killer CV.

If your CV is not up-to-scratch you will not even get a look in. When I was the hiring manager of a tech start-up I would get piles of them. Most of them look so similar that it is difficult to tell them apart. Therefore, being able to make your shine is the difference between getting an interview and not getting one.

The purpose of a CV

Your CV has one purpose: to get you on to the next stage of the interview. You do not need to win the job with your CV. You simply need to get in front of the client and you can wow them even more at the interview. Getting to the next step is all that counts.

Therefore we do not need to into a huge amount of detail in our CV. We need enough detail to convince the client we have enough knowledge that we are worth talking to. Beyond that, we want to keep it as brief as possible. No waffle.

Be honest

It goes without saying that you should be honest (yet I said it anyway). You *can* get yourself an interview by simply lying on your CV. I had plenty of bullshitters come before me when I was hiring. The problem is the minute you walk into the interview, you get caught out. It is obvious.

So, if there is one caveat to the "anything to get to the next stage", it is this one. We need to give ourselves a fighting chance of getting through the interview too. To do that we need to build trust, and lying on your CV and being unable to back it up in the interview builds distrust rather than trust.

Do not be modest either

The flip side of being honest is people being too modest. Do not do this either. Be proud of your knowledge and expertise. It is a fine line to walk, but veering off in either direction will be fatal. You are an expert in your field after all, and that genuine skill needs to shine through.

Write an individual CV for the client

People often talk about their CV as if they have just one. In fact, many people *do* have just one. This is a terrible idea. Every time you go for a contract you should be submitting an individual CV.

This does not mean you start from scratch. I have a base CV that I base all of my individual CVs from. However, I never submit the base CV. It is a template that I adapt for each client.

Why do we do this? Because a client is only interested in a particular skill set. You might be amazing at PHP, and Ruby, and Python but if your client is looking for a JavaScript developer they do not care about these skills.

You might think it is harmless to include everything anyway, but this is rarely the case. You only have so much space on your CV. Let's say you are going for a JavaScript contract and you can fit four bullet points on your CV. You could list all your skills:

- JavaScript
- PHP
- Ruby
- Python

Or you could do this:

- JavaScript
- Node.js
- Ember
- Jasmine+Karma

Which version is the client going to be most interested in? The second one of course. You are showing them you understand their entire technology stack.

Every time you get the chance to go for a role you should be doing the following:

1. Get the role description
2. Pick out the key skills the client is looking for
3. Adapt your base CV to emphasise these skills in detail
4. Submit that version of the CV

Your name

At the top of your CV, you should have your name. That is patronising advice, right? But there is more detail to that. If we were talking about marketing, the biggest element would be our headline. On a CV, your name is your headline.

There is not much optimisation we can do here, but there is one important thing. If you have a foreign sounding name, Anglicise it. Why? People are bigots.

Studies have shown that if you submit identical CVs, one with a British name on it, and one with a foreign name on it, companies are much more likely to respond to the one with the English name on it. I have a friend of a friend who makes his entire

living by submitting identical CVs to companies, one with his name on it and one with an English name on it, then suing the company for discrimination when they only respond to the latter.

It sucks, its totally horrible. But I am not here to fix the world's prejudice. I am here to help you write a killer CV. So if you can Anglicise your name, you should.

My daughter is named Venla Rosasharn. We wanted her to have a traditional Finnish name, which is why she is called Venla. But we purposely picked a middle name she could shorten to Rosie, so she could use it on her CV. It makes her sound English (which she is) and therefore more likely to get an interview.

More on prejudice

There are more things you can do to avoid being a victim of prejudice. If you are British, you may want to put your nationality on your CV.

One of my contractor friends is called Malcolm. He carried a Saudi woman and added "Husain" into his name. He puts a picture on the front of his CV to show he is a white British person.

Again, it totally sucks that prejudice exists and we have to do this. But we can't fix it in the short term, so give yourself the best chance of being on a level playing field with everyone else.

The exception to the rule

There is one exception to this rule: if you are a woman working in IT, applying to a big company. Most of the big corporations have big equality and diversity policies. For example, Sky UK have a big drive to get more women into technology: they run special events and training courses for women and have a fast track management scheme. They even claim they want a 50/50 ratio of men and women.

This is a goldmine if you are a woman. Men outnumber you ten to one in this field. Therefore, the only way Sky can achieve this is by actively discriminating against men and in favour of women. Use this to your advantage.

Personal information

You do not need any of this. If you are applying directly, put your email address and phone number on there. If you are going through an agent, they will strip this information out anyway.

Introductory block

The first real content you want on your page is an introductory block. This is a few sentences that sum up who you are and what you do. If you are lucky, this is the only bit the client will read in full. If you are unlucky, they will not read any of it in full. So keep it short, to the point:

"Senior developer with ten years experience. I use Java, GlassFish, Oracle. I have extensive experience with Agile (Scrum, Kanban). I have experience leading teams, mentoring junior developers and managing projects."

Below this you want some bullet points with your key skills:

- Java (10 years)
- Oracle (8 years)
- Agile (8 years)
- Kanban (3 years)

Anything below three years, just list the skill with no time on it. And of course, this introductory block and key skills list have been adapted to the needs of your client.

Experience

The next block should be your experience. List everywhere here. You are a contractor so there is an expectation that you will have worked at a lot of different places. Permiees look bad if they keep jumping ship: contractors look good.

List the company and put a brief description of what you did. No need to include a job title: you are a contractor, you do not get a fancy title most of the time.

Foo Bar Limited *Developing a client-facing JavaScript application to replace a legacy system. Built in Angular, Jasmine, Karma, Heroku, AWS S3.*

Education

Keep this short as nobody cares. Mention what university you went to and that is it. What GCSEs and A-Levels you have are not relevant. Things people *might* care about:

- What subject your degree was in (in computing or not in computing)
- What university did you attend (was it a good one)

When I was hiring, I did not even care what subject the degree was in. The only thing I looked for was a decent university. I knew if they were bright enough to get into somewhere good they would be a good bet for training to do anything.

Personal life

Finally, you want to finish up with some personal details about yourself. This is quite important if you are going for a permie job because people want to see you are a good fit for the company. However, it is less important if you are a contractor as you will only be there for so long.

You should not skip the section altogether, though. This is your chance to inject some personality into your CV. In a world of almost-identical CVs, something fun might separate you out of the crowd, especially if it clicks with the client.

List a few of your interests and fun facts (keeping them sensible and work-safe of course):

"I am a trained first aider and peer counsellor. I play guitar and piano. I enjoy photography, cooking and cycling."

I picked these things in particular because they tend to be quite popular in the IT world. It is a well-paid industry, so there are lots of running around with fancy cameras, riding around on fancy bikes and eating at fancy restaurants. Quirky interests can work too though as they are more intriguing.

Picking more common ones can increase your chance of a "hit" with the client (they share the same interest), but unusual ones are more likely to get asked about in interviews, which gives you the chance to add some life to the proceedings.

Proof-reading

Once you have written it, re-read it to make sure everything makes sense. Check the grammar and check the spelling. Then check it again. Then give it to a friend to check. Then post it on Facebook for all of your friends to check.

Get feedback

Do not just get other people to read over your CV for spelling mistakes. Ask them for feedback too. Nobody likes giving honest feedback because it is uncomfortable for both of you. So make sure you tell them you are okay with honest feedback before you give it to them. That way they are more likely to be honest and you are more likely to get useful information back.

Differences between contractor and permie CVs

For 80% of your CV, the things that make a killer contractor CV are the same things that make a killer permie CV. However, there are some differences:

- You need less personality in a contractor CV. With permies, they are looking to see if someone is a good fit for the organisation, so they want to get an understanding of them as a person. As a contractor, you are a resource. Personality comes into a bit, as you are a resource they will have to get along with for a short time, but it is less important.
- Lots of different companies does not matter. It is nice to see a contractor has been renewed a few times by previous clients. However, in the permie jobs, jumping ship every year, or even more frequently, sets off a few alarm bells. With contractors, it is just expected.
- Do not use the term "employment history". You are a self-employed contractor, not an employee. Be very clear on this so HMRC understand the distinction.

Frequently asked questions

Here are some questions that come up a lot, and the answers to them.

How long should it be?

The old rule is two pages. However, the reality is that it is what you do with the space, rather than how much you take. If you have *loads* of experience, use more space. Fill the space with quality: we only need to chop size when we are starting

to use padding.

There is an expectation that a CV will be *at least* two pages. Anything less and it will start to look like you do not have much experience.

What design should I use?

Simple and clean. Any fancy design detracts from the content. We want people to focus on your skills, not your ability to use WordArt.

MC302 FINDING CONTRACTS

There are three main ways to find contracts:

Existing relationships

When I quit my permie job I walked out of the office on the Friday: and back into the office on Monday. On significantly more money, and now working for myself.

Your best source of contracts are often companies you have worked for before. I have gone back to companies time and time again. Somewhere I worked as a permie, and somewhere I worked as a contractor.

Companies are short of IT skills and nothing makes a more attractive proposition than somebody who a) they already know is really good and b) comes with some existing knowledge of their system.

Another advantage of using existing relationships is that you can miss out the recruitment agent and save on the fees. The client pays the fees of course, but they reduce the day rate they are willing to give you to compensate for it.

Recruitment agents

Recruiters are a big source of contracts. If you have existing relationships with recruiters, ask them if their office also has a contractor desks. Most companies have separate staff who work on the permie and contractor markets.

You do not need to chase them. Simply post your CV up online and they will be phoning you by the hundreds.

Here are some things to remember about recruitment agents:

1. They are liars. They will tell you one thing and the client something different. Then, when you call them on it, they will deny it to the end of the earth. Do not be surprised when you get into an interview and a client thinks you have a completely different skill set. But do note down which recruiter it was.
2. They pretend to have contracts. They will tell you they "cannot reveal the client" but what they actually mean is they do not really have the role. Get them to give you the name of the client, as if not they are probably just making it up.
3. They will try and get references out of you. Do not send them anything until you have a contract on the table. They are just using you to fish for hiring managers. They will use your name and say you referred them. Do not be a victim.

Job boards

Online job boards are good for posting your CV, but also for finding roles. You can use the search functionality to look for specific roles, filter by distance, and sometimes day rate.

The best one for contractors is <http://www.jobserve.com/gb/en/Job-Search/>.

Beware that by default Jobserve may search within a 50-mile radius.

Summary

Do not just pick one avenue and pursue that: do them all. Keep as many options open as possible, apply for as many contracts as possible as that will come in useful in the next chapter.

MC303 WINNING INTERVIEWS

The interview stage is often the part that people feel most nervous about. Well, good news, it is actually the easiest in many ways. For contractors, getting invited to an interview typically means they are already interested and want to validate the claims you have made.

Technical tests

If you are hands-on programmer, most clients do not start with an interview: they will use a technical test instead. There are a number of ways this may go. I have listed them in order of how common they are.

1. Remote technical test that you complete and send over to them. It can be completed in your own time.
2. Remote technical test under timed conditions. They will send you over a test and instruct you to send the completed test back within a set time period, typically two hours.
3. On-site technical test with an interview following it. You will go in once, complete the test, then discuss your test in the interview.

Most tests allow you to consult the internet. This makes sense because it is silly to expect people to remember the exact names of functions and the order of their arguments: that is wasted memory that could be used for something far more intelligent. However, some clients may specify limits or restrictions.

Interview basics

I will not spend too long giving you the standard advice for interviews. However, much of the advice for job interviews is relevant to contract interviews too.

Dress smartly. Some people may say they are not bothered about what people wear to interviews. But these are the exceptions. And even if they say that, research shows you project a more knowledgeable impression when you dress smartly⁵.

Friendly, firm handshake. Seriously, practice your handshake on your partner, or a friend. You are a contractor, an expert in your field: winners have firm handshakes.

Get there early: A typical interview success rate is about 20%⁶. For me personally, I succeed in most of the interviews I go to. What do I do differently? One thing is get there early. And I mean early. I used to get there 90 minutes before the scheduled interview time.

That gives me time to scout out exactly where I am going, then I go for a coffee. I use the time to look over my notes and allow myself to calm down and mentally prepare myself.

Do not actually walk in the door until ten minutes before the scheduled time. As a hiring manager, it is irritating when someone does that because you are almost always busy with a different task at the time.

Research is not that important

As a permie, you would probably be expected to have done a bit of research on the company and what they do. After all, you want to spend your life there.

With contractors, it is far less important. The time I have spent researching clients before attending interviews has generally been wasted time. They usually spend the first ten minutes of the interview telling me all about themselves.

Attitude

In life, humility is typically the order of the day. Read Ryan Holiday's *Ego is the Enemy*⁷. There is always more to learn and there are always ways to improve. The minute you stop believing that you are setting yourself on a path to failure.

However, if there was ever a time to set a *little bit* of humility aside, it would be a contractor interview. The client is looking to pay a lot of money to bring in an expert who will make a real difference to their project. You are that expert.

Of course, walking the line between the confidence of an expert and the arrogance of an arsehole is a tricky one. I once had a phone interview with someone called Julius. This is how it went:

Me: "You have listed a lot of skills on your CV. Which are your key ones?"

Julius: "All of them." Me: "But what are you best at?" Julius: "Everything."

Needless to say, we did not hire him. Apart from obviously being untrue (because how can you be best at *everything*), it showed me that he had no awareness of what we wanted. Maybe he was the bomb at Photoshop, but I was looking for someone who could build an API. Any idiot who has read the project description should be able to work out the correct answer to that question is "my knowledge of REST-based APIs".

On the other side, it is important to instill the client with confidence. If you have years of experience with Ruby, and the Ruby on Rails framework, you and I both know that you could pick up the Sinatra framework in two seconds. So when I client asks if you can do it, don't mumble about probably being able to pick it up: give them a clear and confident "yes".

Interview closers

Permie interviews will usually close with the interviewee asking some of their own questions. This is designed to show how interested they are. With contractors, it is less important.

However, there is one question you should always close with, and it is absolute gold.

"Are there any concerns you have about hiring my services?"

There are two possible responses to this. The first is that they do have concerns, and voice them. This allows you to address the concerns there and then, and put their mind at rest.

The second is that they do not voice any concerns. This makes it clear in their mind that you are a perfect candidate for the job. Even if they do have concerns they do not voice, the act of saying they have no concerns will begin to reassure themselves.

Finally, when they show you to the door, use this as your final sales pitch. Most people just say "goodbye" or "look forward to hearing from you". What a waste of time. By this point they have probably made the decision. Hope for it being a yes and reassure them in that decision: eye contact, another firm handshake and a re-statement of the benefit of hiring you: "I think I can make a real difference in this project."

MC304 NEGOTIATING DAY RATES

This process starts before you even apply for the job. You need to decide on what is the minimum day rate you would be willing to accept.

Remember that recruiters work for, and are paid by, the client. They might tell you they represent your best interests, but they do not work for you. So if you give them a range ("I want £300-400 per day") they will put you in at the bottom of it.

Make sure you are happy with the rate you pick. It is unpleasant to settle for less and find yourself sitting on the client's site, bitter about how little you are getting paid. Start high, and you can always negotiate down.

The best situation is where you can play them off against each other. The best bluff is when you are not bluffing, so if you have another offer to go to, that will give you a lot of power in the negotiations.

I once tried to cancel an interview, because I had another offer that I wanted to accept. They asked what day rate I had been offered, so I made something up to try and get rid of them. To my surprise, they said they would match it and moved my interview forward to the next morning.

Do not accept future promises. The "we will start you on x but we can review your date rate after 3-6 months". Of course you can. But they could also just say no, or drop by you then. You need to work for the rate you want today; future promises have absolutely no value.

Finally, it is worth noting that day rates have ups and downs. Sometimes you go to a new client and have to take a lower rate. That is fine. It is not like the permie world where you slowly move up at 5% per year. You can afford to drop down a bit because the ups are bigger. Do not stress about it.

MC401 TRAVEL EXPENSES

When you have to travel to a client's site to work, you are eligible to claim travel expenses. That means that the money you spend can be put through your company as a business expense, and therefore you will not be taxed on it.

Permanent place of work

You cannot claim travel expenses for your permanent place of work. That means if you have an office, you cannot claim there. However, if you are travelling to a client's site, that is usually a non-permanent place of work.

You cannot claim somewhere as a temporary place of work for more than two years. Also note that if the place becomes permanent, or you *plan* on working there for more than two years, you lose the ability to expense straight away, regardless of how long you have been there. So, hypothetically, if you took a 2-year contract, you could not claim at all.

This resets if the company moves. Even if they just move next door.

What can I claim for?

Travel itself: train tickets, bus tickets, parking, hotels, etc.

Milage: if you use your own vehicle you can claim milage. HMRC revise these guidelines from time to time, but at time of writing the figures are:

Miles per year	Rate
First 10,000	45p per mile
Above 10,000	25p per mile

You can also claim subsistence. That means that if you have buy food and drink (lunch, for example) you can claim for that. Note that subsistence is different from entertaining: wining and dining people does not count and is taxable.

If in doubt, ask your accountant. That is what you pay them for.

Foreign travel

If you have to travel aboard for a meeting, or for work, you can claim for that too. However, there cannot be any personal travel involved and there is no apportionment.

That means that you cannot fly somewhere for a conference, and then have an extra week's holiday. If there is any personal travel involved, the whole claim is out.

MC402 NEGOTIATING RENEWALS

Most contracts will be renewed. When it happens, most contractors just sign the renewals. This is fine: if you are happy there, then there is no problem with doing this.

However, it is important to remember that each renewal is a whole new contract. The primary reason the rate of the new contract is the same as the old one is *anchoring*: there is no reason why it should not be different.

Reasons to negotiate a higher rate

Inflation erodes the value of money. Every day, a pound becomes a little less valuable⁸. Typically, this means that money is worth somewhere between 1-5% less each year.

So, when a company offers to pay you the same for the next three months, as the last three months, they are actually offering you slightly less.

This is odd, because you are actually worth way more. For a start, they know you are good at what you do. Hiring a new contractor is always a tricky business: you might end up with someone rubbish. This is expensive. You have already wasted money on them, and then you have to go through the expense of hiring someone else. Once you find someone who is worth it, you want to keep them.

Second, they have just spent three to six months training you up on their systems. There is a bedding in time at any organisation, and now you can offer them knowledge that nobody else, save other contractors and employees *already* working for them, can offer.

The problem of anchoring

Funnily enough, clients often do not see it this way. They say to themselves "if I have been paying them x for this long, why should I have to pay them more now?"

Agents like to keep things the same too. They are taking a cut of your day rate. With almost no work, they are earning cash. We cannot blame them for not wanting to rock the boat.

You could point these biases out to them, and explain the reasons why you are worth more. However, in my experience, it does not help. If you want more, you just need to ask for it, and hope they are smart enough business people to see it for themselves.

Strategies for increasing rates

You have two main strategies for ensuring your day rate keeps pace with the way you want it to grow.

The first is small, easy increments. Ask for an extra £10-25 per day every renewal. Get the client used to having to pay you more every renewal. The idea is to give them a figure that is small enough as to create very low resistance to signing it off. "It's just a little bit more to avoid the hassle of having to try and find someone else."

There are two downsides to this strategy:

1. You have to have the conversation every time you renew.
2. The client could insist on a longer contract to prevent you from doing this.

The second is to sign a few renewals until you are really embedded in the company, and then ask for a big day rate increase. This creates a lot of resistance from the company, but means you only have to persuade them to increase it every year or so.

Renewal poker

When asking for more money, you really need to decide how badly you want it. Some people go in with the strategy of "I will ask for it, and if I don't get it, I will sign anyway". This is fine, and works well when asking for small increments.

If you want a big rise, you need to be willing to play hard ball. The best bluff is not to bluff. Are you willing to walk away if they do not give you something?

At one of my clients, we had a dispute over day rates twice. Both times we failed to reach an agreement before the current contract ended. They insisted that an increase was impossible, and that it had never happened in the past 20 years.

What did I do? I took my equipment home and stopped going in. I had left as far as I was concerned. Both times they ended up phoning me a few days later and we managed to reach an agreement. I played poker, and I won.

But those phone calls may have never come. I have played the same hand with other clients and they have said no, and stuck to it. I lost the renewal. That was fine, because I was not willing to settle. But if you *are* willing to settle, you need to think carefully about that.

If you really want to increase, play hard ball and walk away. However, if you actually do want the renewal regardless, do not throw it away because you are too proud to turn round and say you will take the current offer. Ego really is the enemy.

MC403 EXIT INTERVIEWS

When a contract comes to an end, you may be given an exit interview. This is far more common for permanent members of staff, but happens to contractors occasionally too.

The plan here is simple: be nice and say nothing negative.

Some people see exit interviews as a chance to get things off their chest. This is a terrible idea. They will not listen to you at an interview. For one of two reasons:

A) You have been telling them for a while, and they have not listened so far. If so, they are not going to suddenly change their mind now.

B) You have not told them your problems before. In which case they are going to be annoyed at you for not voicing the problems before you left, or dismiss them as the bitter ravings of someone who is leaving.

The time to give them any advice has passed. You should have said that before the contract finished. They will not appreciate any honest feedback now, even if they say they want honest feedback.

This is especially important for contractors because it is a small world. We may find ourselves back at the company if times are hard. Say nice and keep your future options open.

MC501 EXPENSIVE MISTAKES TO AVOID

Generally speaking, contracting is a pretty safe bet. Unless you get sued (I have never heard of this happening) you are not going to *lose* money. But there are definitely mistakes you can make that leave you thousands of pounds worse off than you could have been. In this lesson, we will look at some of these.

Not having a contractor plan

In the introductory module, I had you write out your contractor plan. You did do it, right? If not, it is never too late. Go back to that section and do the exercise.

Why? Because if you do not have your plan, you end up wasting money. Remember the £300 Prada sunglasses I purchased? If I could have kept my head screwed on, and remembered when I went contracting, I would not have blown money on half the silly purchases that I have.

Being out of work in January

The only time I did not leave one contract on a Friday and walk into a new contract on a Monday was when I left in January. The start of the year is dead time. Even in the lucrative contracting world there is high and low tide. The first two months of the year are low tide.

So, if you are thinking about leaving your current contract to find something better, make sure you do it at the correct time of year. If it is January, consider taking the extension for a few months to see you through the cold months, and then make the leap. Otherwise, you could find yourself not earning for a period of time.

Being on-site without a contract

Everyone tells you never to be on site without a contract, but it is hard to stick to it.

When I first became a contractor, I started working with my first client. Things went well and at the end of the first three months they said they wanted to extend. I spoke to the agency and told them we were all happy to do another three months.

Two weeks into my extension and I tried to file a timesheet. The agency rejected it. The manager of the agency phoned me up to explain what was going on. He said that the client had never paid them for the entire three months I had already been there. They were legally obliged to pay me anyway, but as we did not have a signed contract for the extension, they would not be paying me for those two weeks.

In the end, the client paid up and the agency paid me. But only after months of fighting, and legal threats, and sending letters by registered mail. And if it had actually gone to court, I would probably have lost.

Learn from my mistake: do not be on-site without a contract. It is not worth the hassle and you have little comeback if they decide not to pay you.

Telling agents you will take less

Agencies work for the client. Never forget that. They are out to get the client the best deal possible and the only reason they are interested in you is that you are a product they can sell to them. They will set it at the lowest possible price to keep the client happy.

That means that if you say "I want £300-400" they will put you in at £300. They may even say they will "try for £400", but they won't. Whatever is the minimum you say you will take, that is the maximum you will get.

If you feel uncomfortable giving an absolute figure, turn it around. If you will not settle for anything less than £350, instead of saying "I will only accept £350", you could say, "£350-400", knowing that you will get £350.

Just accepting renewals

It is common for contractors to stay at one place for years and never negotiate a better day rate. This is a shame because, as I explained in the chapter on negotiating renewals, you are worth a lot more and inflation is reducing the value of your existing day rate.

Let's say that you end up in a contract for two years, renewing every three months. And let's say that only every other renewal, you ask for a modest increase of £25 per day. What is the result?

Period	Additional day rate	Additional income
First 6 months	£0	£0
6-12 months	£25	£2,875
12-18 months	£50	£5,750
18-24 months	£75	£8,625

This is based on 115 working days per six months (a 46 month working year). In total, that means you would earn an additional £17,250 over the life of the contract.

Not claiming expenses

Sometimes contractors will not claim expenses because:

- They are not sure of the rules
- They think it will take too much time
- They do not want the hassle

In terms of the rules, your accountant should help you. In terms of the time and hassle, it is certainly worth it. Let's look at an example with travel expenses.

Your commute is 30 miles per day, each way. That is 60 miles total. You can claim 45p per mile. That works out to £27 per day you can claim in tax relief. You are a contractor, and therefore probably paying higher rate tax, so that works out to over £10 per day extra in your back pocket.

How much time does it take to fill out a mileage spreadsheet each day and file it at the end of the month? Probably less than half an hour, right? £200 a month extra income, for 30 minutes work, is £400 an hour. Is that worth it?

MC502 IR35

IR35, also known as "intermediaries legislation" is a law that was introduced to clamp down on companies pretending that employees are contractors, and therefore avoiding having to pay tax or give them benefits.

This in itself is a really good thing: too many companies use such tactics to pay people below minimum wage and avoiding their contribution to the public coffers. However, it also means that legitimate contractors, like ourselves, can get caught in the middle.

What is an IR35 investigation?

If HMRC believes that you are actually an employee pretending to be a contractor, they will launch an investigation. If they deem you to be an employee in disguise, they will bill you for any tax they can find that you may be liable for if you were an employee.

How do I avoid this?

Legitimate consultancy businesses should have nothing to fear. There are several steps we can take to make sure it is clear that we are real businesses:

- Have business insurance
- Work with multiple clients
- Ideally, have multiple clients at the same time
- Have IR35 friendly contracts

What is an IR35 friendly contract?

An IR35 contract is one that makes it clear that you are a services company. There are companies that check for IR35 compliance, though personally I have never used them. Perhaps that will one day end up in the "expensive mistakes to avoid" section.

In the meantime, here are some guidelines to help your contract stay outside of the realms of IR35:

- Work on a specific project: you are not going in there to "do employee stuff"
- Have no set hours specified
- Have no direct reports specified
- Right of substitution: that means your company can send someone else in your place to fulfil the contract
- No promise of exclusivity
- No "notice period" or at least a right of termination
- Obligation to supply your own equipment, if required

Note that these things should be in the contract, even if they are not acted upon. For example, the company could supply you with a computer. But they should have the right to ask you to supply one if they require.

Similarly, when it comes to the right of substitution, it is typical to have terms in the contract that state that although you have this right:

- They must be as qualified as you are
- They will work for free until they are up-to-speed with where you are at

This then gives you the right to substitution without the company having to worry it would be worse off if you were to act on it.

MC503 CHRISTMAS PARTIES

I wanted to include this topic because it is a really fun one! Limited companies can have Christmas parties. Tax free Christmas parties. Even if there is only one person in the company!

What are the rules?

Everyone gets a +1, and you can spend up to £150 per head. That means if you are the sole director, you and your partner can go. Or, if you and your partner are both work for the company, you can both bring a friend.

£150 is a cap and not an allowance. If you spend more than £150 per year then the entire event comes ineligible and you have to pay tax on it.

Annual parties

While the rule is typically used for Christmas parties, it can be used for any annual party. So, if you have an annual summer party instead, that is just as eligible.

In fact, you can do both. Have a summer and a winter party.

The £150 per head is an annual limit. So if you have two parties, you need to keep it to £75 per head, per event.

ABOUT THE AUTHOR



You do not need to read this section. But if you want to, you can. I include it purely for those of you who are curious to learn a bit more about me. Here are ten bullets, some serious, some not so serious:

- I live in Leeds with my wife and daughter

- I have spent over 10 years in the IT industry
 - I like photography, cooking
 - I sit on the board of trustees for several charities, including the Humanist Action Group and Anxiety Leeds
 - My favourite film is Ratatouille
 - I was the 2015 Monster Raving Loony Party candidate for City & Hunslet
 - I have eaten at 256 restaurants in Leeds
 - I play guitar and piano
 - I once performed with the Northern Ballet Theatre
 - Despite 20 years of training, it still takes me an hour to run 10km
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