ACCOUNTS DIRECT

A GATEWAY TO ACCOUNTING SOLUTIONS

How can you ensure that your new business will succeed?

Call Us Now: **0800 0699507**

Contents

Limited Company Service

Accounts Direct is dedicated to helping contractors, Consultants, IT workers, Doctors and freelancers save time and money by handling their financial affairs. We can take care of all your paperwork and liaise with Companies House and HMRC on your behalf, and give you the expert advice you'll need to make sure you're not paying a penny more tax than you absolutely need to.

We operate on a completely transparent fixed monthly fee basis, so you'll never get hit with a surprise bill. For a monthly fee of just **£95 plus VAT** we can take care of all the following for you.

Company set-up

We can advise you on the most suitable business structure for you, and help you get up and running – within **three hours** if you apply before midday. We can also:

- Register a Limited Company with companies house and Set up your business free of charge
- Complete the necessary VAT and PAYE taxation registrations
- Act as your registered office, including full company secretarial support
- Assist in opening a suitable business bank account

Regular accounting

We'll keep track of your accounts, and file your returns with HMRC and Companies House. We will also:

- File your quarterly VAT returns
- Complete your personal tax return at no extra cost (worth £175)
- Provide a monthly payroll service including all year-end submissions
- Prepare your Annual Statutory Accounts
- File all statutory returns including Corporation Tax Returns
- Deal with any correspondence from HMRC & Companies House
- Provide advice on IR35 & S.660
- Give you as much advice as you need, whenever you need it
- Prepare and file your employer annual returns

Accounting made easy

Accounts Direct exists to take the headache out of managing your accounts and ***to ensure you don't pay the tax man a penny more than you need to.*** You can count on Accounts Direct to:

- Assign a dedicated accountant to you – contactable by phone and email as often as you need them
- Ensure your accounts are always up to date
- Handle correspondence with HMRC, Companies house
- Take care of administrative matters such as changes of address or other company changes
- Issue board-meeting minutes and vouchers for dividends
- Act as referees when you apply for a visa, mortgage or tenancy agreement
- Liaise with HMRC if they choose to investigate your accounts (as long as Accounts Direct has been handling your accounts and provided you have followed our advice in good faith)

What you need to do

We can do all this on your behalf – all you need to do is ensure we've got the information we need to do it. Just send us copies of the relevant information using our secure online portal and we'll do the rest:

- Ensure we have copies of your invoices and business bank statements
- Submit your monthly expense claims
- Keep in touch with us so we can help you

Leaving Accounts Direct

At Accounts Direct we believe that the best way to encourage you to keep using our services is to consistently save you time and money. We don't believe in locking you in through penalty clauses, so if you do decide to leave us you'll be pleasantly surprised how easy it is. There's no charge for transferring to another accountant, and all we ask is for one month's notice of your intention to leave.

Accounting and taxation.

As a company director, it is your responsibility to make sure that all the necessary financial statements, Tax returns and other required documents are filed to the relevant government authorities and taxes paid on time.

There are **two** authorities governing companies in UK.

HMRC. HMRC (Her Majesty Revenue & Customs) collects taxes and national insurance. Tax returns and financial statements are required to be submitted with HMRC.

Companies House. It maintains a register of all the companies in UK. Annual return and financial accounts need to be submitted to them.

Thank you for getting back to me so quickly! As you know, getting my tax return back on time was causing me to have a lot of sleepless nights, now that is has beensubmitted I am sleeping like a baby!

Dr M A Saleem. (Middlesbrough)

Corporation tax.

Corporation tax is the tax on the net profit of the company after deducting expenses from your total profit.

The rate of Corporation tax is 20% on the Net Profit for small companies.

Once the company is incorporated, HMRC will allocate the company a Unique Tax Reference Number and send you a form called **Corporation Tax, New Company Details. CT41G** which needs to be submitted to the tax office notify them of the date to which the company intends to prepare its accounts to called **Accounting Period**. Accounting period is the period for which the company needs to prepare the tax return and pay taxes. The accounting period cannot be more than **12 months** from the date of incorporation.

The corporation tax return and accounts need to be submitted to HMRC within 12 months after the end of accounting period.

The corporation tax is payable within 9 months and 1 day after the end of accounting period.

If you don't meet the HMRC deadlines and requirements, you may face a penalty. These penalties can be avoided by making sure that the corporation tax return is accurate and submitted on time and by keeping sufficient record to support the company tax return.

If you file your Company Tax Return late, your company or organisation will be charged a flat-rate penalty of £100

If your Company Tax Return is late for three or more accounting periods in a row, the initial flat-rate penalty increases to £500 with a further £500 charged if you file your return more than three months late.

Interest may be charged on late payment of corporation tax.

PAYE & NI

PAYE (Pay as you earn) and National Insurance are taxes levied on the salary of employees of your company. You as a director need to decide how much salary you want to pay yourself from your company as a director salary.

As an employer you have a legal obligation to operate PAYE on the payments you make to your employees if their earnings reach the National Insurance Lower Earnings Limit (LEL). For the tax year 2011-12 this is £102 a week, £442 a month or £5,304 a year

PAYE & NI is payable only if you draw a salary from your company above the tax free threshold. Table below shows what rates apply to different bands of income.

PAYE tax threshold	£144per week £623 per month £7,475 per year
Basic tax rate	20% on annual earnings above the PAYE tax threshold and up to £35,000
Higher tax rate	40% on annual earnings from £35,001 to £150,000
Additional tax rate	50% on annual earnings above £150,000
Employees NI Contribution free amount	£139 per week £602 per month £7,225 per year
12% NI Contribution	Earning above NIC free amount above and up to £770 per week £3,337 per month £40,040 per year
2% NI Contribution	Earning above £817 per week £3,540 per month £42,475 per year
Employer's NIC of 13.8%	Earning above £136 per week £589 per month £7,072 per year

All employers who are registered for PAYE needs to file Employer's Annual Return (P35) online before 19th of May each year.

VAT

VAT (Value Added Tax) is a tax charged on most goods and services that VAT registered business provide in the UK.

Every VAT registered business must charge VAT when selling goods or provide services. The VAT paid on the goods and services bought can be reclaimed from HMRC.

Currently the standard VAT rate is 20%. Some goods and services e.g. Medical services are exempt from VAT.

Vat is always calculated on Net sales. In other words, if you charge your agency £1000, as a VAT registered company you have to collect additional 20% which is £200 (1000*.20). Therefore you will invoice your client £1200 instead of £1000.

If your **VAT** taxable turnover is less than £150,000, you can register for Flat Rate VAT Scheme.

You must register for VAT if

- **your turnover for the previous 12 months has gone over a specific limit - called the 'VAT threshold' (currently £77,000)**
- **you think your turnover will soon go over this limit**

You can choose to register for VAT if you want, even if you don't have to.

Under the flat rate scheme, you cannot reclaim VAT paid on the purchases, but the difference between VAT collected from your clients and VAT paid to the tax man is the income of your company.

Flat Rate VAT rate is different for each company depending on the industry they work in. The illustration below explains how the Flat Rate Scheme works based on a Flat Rate of 11%.

	Standard VAT	Flat Rate VAT
	£	£
Invoice Amount per week	1000	1000
VAT charged to clients (20%)	200	200
Total amount received	1200	1200
VAT paid to HMRC	200	132 (11% of 1200)
Benefit to the company		68

VAT return needs to be submitted every three months online. VAT is also paid on quarterly basis.

We are just a start up business. Dealing with your company was not only refreshing but has helped us to save a lot of man hours in how we manage our accounts.

Mr. J Davis. (Croydon)

INSURANCE

Insuring your business could give you protection if things go wrong

If your business involves giving people advice, or offering services to other businesses, it would be wise to consider taking out what is known as 'Professional Indemnity Insurance'. Doctors, IT contractors, consultants, engineers, social workers, accountants, and many other freelancers and contractors all take out Professional Indemnity Insurance. It covers them if mistakes in the advice they give or the service they provide leads to a client's business suffering a financial loss, or if they are found to have been negligent in providing their services.

Accounts Direct is here to assist you in providing insurance to cover your business. There are many types of insurances, amongst them, the most relevant insurances for contractors and freelancers as below.

Professional Indemnity Insurance

Professional Indemnity Insurance is a fairly specialised area – that means you need to make sure you get good quality advice from someone who really understands the market. Whether you're a doctor, a business consultant, an architect, or any other kind of contractor or freelancer, Accounts Direct can make sure you get the insurance policy that is right for your business.

Professional Indemnity Insurance generally only covers you for claims that you make while your policy is active. That means even if you close your business, you might wish to continue paying for cover for some amount of time afterwards to protect you in case a client makes a claim against you.

It will be much easier to make a claim on your insurance if you have good records of all your interactions with your client, the instructions he has given you and the agreements you have reached. This means it is vital to make sure everything is documented and filed.

Employers' Liability Insurance

If your business employs one or more members of staff, you are legally obliged to take out Employers' Liability Insurance. In case of Contractors and Freelancers, if you working through a limited company and have only one employee (Yourself) and you own minimum 50% shareholding, then your company is exempt from Employer's Liability Insurance.

Employers' Liability Insurance is designed to cover you if one of your employees seeks compensation from you following injury or ill health they have suffered as a result of working for your business. For instance, if your business employs a carpenter and he injures himself with a power tool, your Employers' Liability Insurance would pay him compensation.

Employers' Liability Insurance can also cover you against compensation claims that are made by former employees, even a very long time after they have worked for you. For instance, if a carpenter you employed was exposed to asbestos while working for you, and subsequently became ill, the insurance you had when he was working for you would still cover you – however, the policy will only cover you if you still have a record of your cover, so it is vital that you retain all details of Employers' Liability Insurance policies you have held.

Visit our online shop to find the insurance policy that's right for you

PENSION

Pensions

Putting money into a pension is a very good way of reducing the amount of money you need to pay in Income Tax and National Insurance contributions.

You can pay money towards a pension in two principal ways. The first way is to contribute personally; the second is to arrange contributions into a pension fund from your business.

Paying into a personal pension

When you pay money into a pension scheme from your own money, the money you pay in, benefits from **personal** tax relief. **The pension** provider will add 20% to whatever contribution you make, effectively extending your basic rate of tax by the grossed up pension contribution. So, for example, if you put £8 into the fund, your provider would increase that to £10. Your basic rate band will also be extended by £10.

Although you can pay as much money into a pension as you wish, tax relief will only apply on the contributions up to a maximum of 100% of your salary. That means if you pay more money into a pension in a given year than you have earned, you will not receive any tax relief on the amount exceeding your total earned income in that year.

Paying into a company pension

Paying into a company pension is slightly different in that rather than coming from your own funds, the pension contribution would be made on your behalf from your company's funds. These pension contributions still benefit from tax relief, but rather than gaining Income Tax relief, they attract Corporation Tax relief.

To be entitled to Corporation Tax relief, HMRC states that the contributions must be made wholly, and exclusively, for the purpose of trade. In practice this means that the combined salary and pension that the company employee or company director receives in the year is 'reasonable', and does not cause the company to make a loss.

The maximum amount you can pay into a pension in any given year is £50,000. The maximum amount you can pay in over your whole life is currently £1,800,000, and will be reduced to £1,500,000 from the 2012/13 tax year. Paying in more than these amounts into a pension fund will trigger additional tax requirements.

If you do pay money into a pension scheme through your company, you must make sure that the provider knows it is coming from a company rather than an individual, and you should ensure that you make the contributions from a company account rather than your own personal account.

DEADLINES & PENALTIES

	Period	documents to file	Deadline	Penalties
Corporation tax	12 months from accounting date	Corporation tax return-CT600	12 months from end of accounting period	£100 per tax return
Accounts to companies house	12 months from accounting date	Abbreviated accounts to Companies House	9 months from end of accounting period	For month 150 1-3 months 375 3-6 months 750 More than 6 months 1500
PAYE & NI	6TH April to 5th April	P35 & P14	19TH May each year	£100 per 50 employees for each month
Expenses & Benefits	6TH April to 5th April	P11d & P11d(b)	6th July	£100 per 50 employees for each month
VAT	Each quarter	VAT return	1 month after quarter end	Penalties and interest may be levied for later payment and return.
Self assessment	6TH April to 5th April	Self assessment tax return	Till 31 January following 5th April.	1 day late 100 3 months late. £10 each following day up to 90 days maximum of 900 6 months late. £300 or 5% of tax due whichever is higher. Total penalty = £1300

DRAWING MONEY FOR BUSINESS

As a company director you can draw money out of your company in three forms.

Director salary

As an employee of your own company you can pay yourself a salary. Accounts direct recommend that you pay yourself a salary at or below the Employer's national insurance threshold which is £7072 for 2011/2012.

Expenses. If you personally incur expenses on behalf of the company, you can claim those expenses back from the company.

Dividends.

As a shareholder of a limited company, you can pay yourself dividends. Dividends can only be paid out of the net profit after all the expenses and corporation tax have been deducted from the total profit.

Any dividends declared in excess of the net profit after tax is illegal

GUIDE TO EXPENSES

Introduction

What are expenses, and why are they important?

"Expenses" is the general term for costs that you incur in the course of your work. The reason that expenses are important is that if you are operating as a Limited Company and you incur an expense in the course of your business, you can claim Tax Relief on that expenditure. That means you can deduct the cost of the expense from your taxable income or your company's taxable profits, and thereby reduce the amount of tax you need to pay.

As you would imagine, there are many rules about what costs can be put down as expenses. The overriding rule is that to be claimed as an expense, the product or service must "wholly and exclusively" for the use of your business and have no "duality of purpose" – ie, it must be solely for the use of your business, and completely for the use of your business. ('Incidental' non-business use is, however, allowed).

How do expenses affect my tax bill?

In a nutshell, deductable expenses reduce the total income or profit on which you or your company need to pay tax. For example, if you earned £50,000 in a given year, and did not declare any expenses, you would be liable for tax on the full £50,000.

However, if you had incurred expenses of £1,000 (on travelling for work, say), you could deduct that amount from your taxable income or profit – so you would only pay tax on the remaining £49,000.

Keeping records

It is the responsibility of the company director to keep hold of all receipts relating to expenses. Although your accountant will not need to see these, you would need them if the Inland Revenue ever decided to investigate your accounts. Since an Inland Revenue investigation typically goes back six years, you must retain receipts for six years.

Expenses you can claim for

- Accountancy (all fees including advice prior to company incorporation and accounting software)
- Advertising
- Air fares (with the exception of 1st class)
- Annual company fee
- Bad debts (Debt 6 months unpaid, VAT needs adding back to output tax if not cash accounting or flat rate scheme)
- Bank charges
- Bicycles and related costs
- Broadband internet
- Business gifts (Corporate: Max of £50 in a 12 month period. Food, alcohol and tobacco do not qualify)
- Business start-up (Incorporation fees, VAT, PAYE and CT registration fees, accountancy
- advice, lawyers advice/contracts drawn up)
- Capital allowances (Depreciation on assets)
- Car hire (Proportionate if there is an element of personal use)
- Childcare vouchers
- Christmas gifts (Need 2 or more employees other than just Director to qualify. Alcohol, food and tobacco do not qualify)
- Charitable donations
- Clothing (Uniform and not used for personal use)
- Computer equipment (Under the net value of £500)
- Company formation fee
- Conference expenses
- Depreciation (On assets above £500 net value, either straight line or reducing balance)
- Director's salary
- Entertainment
- Eye test
- Foreign exchange costs (Costs of converting foreign invoiced revenue back to sterling)
- Health check BUPA and other annual screening check for director or employees
- Hire and rental charges
- Hire purchase (Agreement must be in the company name)
- Home working expenses
- Insurance (Office contents, Employers liability, Executive income protection, Key man life,
- Jury service, Motor, Tax investigation, Permanent & private health, Professional indemnity,
- Public liability)
- Interest on business loans (In company name)
- Key man life insurance
- Leasing rental (In company name)
- Legal costs (Breaches of law and penalty payments are not allowable)

- Magazines and Books
- Marketing costs
- Medical insurance (Foreign contracts only)
- Medical treatment (Only when on business abroad)
- Mileage
- Mobile telephones
- Motor vehicles (Company owned, no improvement costs)
- National insurance contributions (Not class 1a)
- Office rental
- Parking (£5 daily for un-receipted)
- Patent costs
- Pensions provided to employees (Seek professional advice from an independent advisor)
- Postage (No VAT reclaimable)
- Professional fees
- Printing
- Property rental (Apportion where private)
- Repairs to equipment
- Salaries and wages
- Software (Incl. accounting software)
- Sponsorship (Allowable when given freely, no VAT needs to be charged)
- Stationery
- Subsistence
- Taxi fares ('Adequate' fares are allowable)
- Telephone (Proportional if not in the business name)
- Training courses (Must be relevant to the nature of the business)
- Training manuals or books (Allowable when specific to business)
- Travel
- Use of home as office (£3 weekly HMRC approved)

Finally, if you work from your own home and can demonstrate that you incur some expenses specifically in the course of your work, you can claim a proportion of the cost of council tax, utilities bills.

You should always record and keep receipts for all business expenses whether or not the contract you are working on is caught by IR35.

WHAT IS IR35

In simple terms, the IR35 regulations exist to ensure that only people who are genuinely self-employed get the tax benefits that being self-employed brings. Although that sounds straightforward, the rules around IR35 can in fact be quite complex. This guide is intended to help freelancers and contractors understand what IR35 means for them.

IR35 legislation covers people who register themselves as self-employed (usually setting themselves up as a Limited Company) but then provide services to their client on a basis which to all intents and purposes is identical to being an employee of the client company. There are various tests that can be used to determine whether a given contract is being provided on a self-employed or full-employed basis, and therefore whether the contract is 'caught' by IR35.

Why was IR35 introduced?

IR35 was introduced on 06 April 2000, in response to a growing trend of people leaving their jobs and registering as self-employed, before being hired by the same company they just left on a long-term basis – often doing exactly same job they did prior to registering themselves as self-employed. By registering as a Limited Company, they were able to reduce their Income Tax and National Insurance bills.

However, because these individuals were in effect being directly employed by the companies they were working for, the government's view was that they were not entitled to the tax advantages that they were receiving, and the IR35 regulations were introduced.

If the Inland Revenue decides they will calculate what is known as a 'deemed payment', treating all income as salary and asking for Income Tax and National Insurance contributions on income originally paid out as dividends. IR35 works by taxing the profits of the Limited Company as income, and by requiring the company to pay National Insurance contributions.

MAJOR POINTS TO CONSIDER FOR IR35

Practical working arrangements matter

IR35 regulations cover not only the written contract relating to your assignment but to the day-to-day working arrangements that you adopt as well. Therefore it is vital that you thoroughly review your written contract and ensure that actual working practices are in accordance with the written contract.

If HMRC wishes to determine whether you are within or outside IR35 regulations, a Status Inspector will usually seek information from you and your client about the way you are providing your services. This information is known as the 'hypothetical contract'. This means that both you and your client must be clear about the way that your contract is being conducted.

You should also ensure that your agency, if you are using one, is using the same contract with your client as it is with you because a recent High Court decision means that the contract between the agency and the end client may be used to determine whether the contractor is within or outside the IR35 regulations.

If you are a contractor or freelancer, Accounts Direct can help you determine whether a given contract is caught by IR35, and can also provide you with a contract which is not caught by IR35.

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Personal service and the right of substitution

When the HMRC investigates a contract, the focus is often to determine whether or not a worker is providing 'personal service'. A personal service in this case means that the client has been promised the services of a specific person to deliver a particular contract. A key test here is whether there is a right of substitution – that is, could the contracting company substitute the services of one individual within the company for the services of another individual within the company.

If the contracting company could substitute the specific person providing the services in this way, then the company would not be providing personal service and the contract would not be caught by IR35. Of course, even if you are self-employed, you may be required to provide some level of personal service, because it might be that without your skills the company would not be able to deliver the contract.

To avoid being caught by IR35, contracting companies should ensure that the contract they strike with their client does not require them to provide the services by any one specific employee of the company. This is known as the Right of Substitution.

The first step in demonstrating the Right of Substitution is to ensure that the written client agreement is clear that the contracting company, rather than any particular employee, is to undertake the work. The Right of Substitution must be agreed by both parties and it must be possible to use the Right. HMRC tend to regard the Right of Substitution as being almost irrelevant to the question of employment status unless it is actually put into use – this means that it can be beneficial to use this Right.

Retain as much control as possible

If you wish to remain outside the IR35 regulations, you must ensure that you retain as much control as possible of **How** the work is undertaken, **When** you undertake it, **Where** you undertake the work, and **What** work you undertake.

You will probably find that you retain control of **how** you undertake the work assigned to you, but if the employing company is able to decide **what** tasks it wishes you to undertake, and you are effectively on a 'retainer', then you may well be deemed to be employed by the client company, rather than by your own Limited Company.

As regards **where** you work, you are also more likely to be deemed to be employed by the client company if you work at your client's premises, where you are more likely to become part of your client's routines and organisational approaches. Working at your own premises is beneficial if you wish to be regarded as being outside the scope of the IR35 regulations.

If you retain control over the times **when** you work, you are less likely to be considered employed by the client company – this extends to issues such as holiday planning – if you are able to choose when you take days off, you are more likely to be considered self-employed than if you have to arrange these with the client company.

If you want your contract to be regarded as being outside the scope of the IR35 regulations, it is wise to ensure that a written contract exists between you and your employer that reserves as far as possible the rights of control over the work to you, the contracting company.

Employees do not tend to provide their own equipment

While employees of businesses tend to use the equipment provided by their employers, people who are self-employed tend to own and use their own equipment. Having your own equipment, and using it to undertake the work you have agreed with the contracting company, is therefore a good sign that you are genuinely self-employed. It can also help to demonstrate that you have invested in your company and that you are taking a risk with it, which both helps to show that you are genuinely operating your own business.

Financial risk

Whereas employees of a business are usually insulated from financial risk, the concept is familiar to many contractors. Essentially financial risk means that you are taking on responsibility for delivering your service to your client at no financial risk to them. The flip side of this risk is that you also have the opportunity to profit from your contract by delivering it more cheaply, or more quickly than was originally expected.

A fixed-price contract is an example of a contract which introduces a degree of financial risk, in that if the work took longer than expected, or involved greater cost on the part of the contracting company, then the contracting company would lose out. On the other hand, if the contracting company delivered the work more quickly than expected, or more cheaply, it would gain.

HMRC would consider the following evidence that you are taking on financial risk:

- ***Providing your own equipment***
- ***Taking out insurance to cover yourself and your client against negligence or mistakes in your work***
- ***Having responsibility to correct any errors in your work at your own expense***

Basis of payment

The way that you are paid by your client company can be used as evidence for whether you are employed by them or self-employed. Hourly timesheet recording, references to standard and 'overtime' pay rates, and usage of the same expense-claiming processes as your client's employees would both be considered indications that you are employed by your client. In addition, you should always ensure that you submit invoices to your client if you wish to be considered self-employed.

Exclusive services

Being able to take on work for more than one client at the same time is a hallmark of being self-employed rather than directly employed. If your client asks you to undertake not to work for any other clients at the same time as you are working for them, you should refuse as this would be considered evidence that you are in fact directly employed.

Becoming a part of the client organization

If you work on site at a client organization, there is a risk that you may unintentionally come to be regarded as being a part of that organization. This is more of an issue for longer term contracts. You need to ensure that you are not fully integrated into the client's organizational processes.

In the main, the risk comes from any activity or behavior that makes it harder to tell whether you are a contractor or an employee of the business. Things to look out for include:

- ***Any management relationships with the client's staff – including managing or being managed by them***
- ***Submitting formal sick leave notifications***
- ***Requesting annual leave through company processes***
- ***Wearing uniforms or other corporate dress***
- ***Using stationery or business cards belonging to the client organization***
- ***Having a job description or job title***
- ***Having appraisals, or performance related pay***
- ***Attending meetings other than those directly related to your work***

Right of dismissal

If the client company has a right to dismiss you from the job, it can be considered as indicative of an employee-type relationship. If the contract must have a clause related to dismissal, you should ensure that you also retain a right to end the relationship so that the balance of control is at least equal.

Mutuality of obligation

All contracts involve a degree of mutual obligation. The client is obliged to pay for the work requested, and the contractor is obliged to complete it for the price agreed. However, if the contract is loosely worded, or goes on for a long time without there being a specific account of exactly what services the contractor is supplying, there is a risk that a Mutuality of Obligation may be deemed to have begun.

A common scenario is when a contractor is taken on and simply completes task after task for the client company, without these new tasks being written into the contract. The situation could reach the point where the contracting company expected the client to continue providing work for the contractor to carry out, while the client assumes that the contractor will take on any work he is given. In this case, it is likely that HMRC would consider that there was a Mutuality of Obligation between the two parties which resembled direct employment rather than a self-employed relationship.

To avoid the impression that a Mutuality of Obligation has arisen between you and your client, you should ensure that the precise content of the work you are undertaking for the client is documented, including expected timescales, and that any changes to the work you are undertaking are also documented so that it does not appear that you are simply taking on all work the client puts your way.

Are you in business “on your own account”?

The question of whether or not you are in business on your own account gets to the heart of what the IR35 regulations are about. It is the difference between a contracting company and a ‘disguised employee’ who is simply describing himself as a Limited Company in order to reduce his tax liabilities.

Factors that would contribute to the impression that you are genuinely in business on your own account would include: working for several clients, and especially for several clients at the same time, working from your own premises and using your own equipment, having your own stationery or business cards, seeking out further contracts, advertising for new business

and having employees or subcontractors. Contrastingly, factors which would suggest you are in fact a disguised employee would include: working for a long time for one client, and making no obvious effort to find other contracts.

What if your contract is caught by IR35 regulations?

If the contract you are working on is caught by IR35 regulations, which are designed to ensure that only people who are genuinely self-employed get the tax benefits that being self-employed brings, the rules for expenses are different.

You can claim administrative expenses at 5% of the income from the contract expenses, plus the following, provided you incurred the expenses wholly, necessarily and exclusively in order to fulfil your contract:

- Travel expenses (provided you do not work at the site for more than 24 months)
- Pension contributions
- Subscriptions to organisations and publications relevant to your work
- Professional Indemnity Insurance
- Meals and accommodation you consumed while travelling on business or working away from home
- Internet usage
- Mobile phone requirements
- Postage and Stationery
- Incidental personal expenses such as newspapers you may have bought while working away from home

What if my contact falls within IR35

If a contract you are working on is caught by IR35, there are specific rules set out by HMRC that tell you how to determine how much tax you need to pay. HMRC also specifies that you must pay the majority of your income as salary, although there are some expenses you may deduct from this total.

Your gross salary for tax purposes is calculated as follows.

All the payments your company has received (Net)	**(A)**
Deduct 5% allowance for expenses (5% of A)	**(B)**
Deduct qualifying expenses and any pension contribution	**(C)**
	(D)
Deduct Employer's NI (D-7072)*13.8/113.8)	**(E)**
Gross Salary (D-E)	**(F)**

Accounts Direct can work out your tax liabilities for you, regardless of whether the contract you have taken on is within our outside the scope of the IR35 regulations. Clearly, for tax purposes, it is preferable to be outside the IR35 regulations and Accounts Direct can assist you in drawing up contracts which make it much less likely that HMRC will consider you to be directly employed by the client company.

Is it still beneficial to work through a Limited company?

Despite the introduction of the IR35 regulations, working as a Limited Company is still an effective way for most contractors to work. For many contractors, operating as a Limited Company will reduce the amount of tax they are required to pay, and also offers the following benefits:

- *You are your own boss and retain control over your business*
- *You can expect to take home up to twice as much pay as you would if you were subject to PAYE*
- *You benefit from a 5% tax-free allowance because running a Limited Company entails overheads*
- *You can offset expenses incurred in the course of your work against your taxable income*

Expenses that you can claim for under Schedule E, provided you incurred the expenses wholly, necessarily and exclusively in order to fulfill your contract include:

- *Internet usage*
- *Mobile phone requirements*
- *Postage and Stationery*
- *Incidental personal expenses such as newspapers you may have bought while working away from home*
- *Finally, if you work from your own home and can demonstrate that you incur some expenses specifically in the course of your work, you can claim a proportion of the cost of council tax, utilities bills*

- *Travel expenses (provided you do not work at the site for more than 24 months)*
- *Pension contributions*
- *Subscriptions to organizations and publications relevant to your work*
- *Professional Indemnity Insurance*
- *Meals and accommodation you consumed while travelling on business or working away from home*

FAQs

What is the benefit of staying outside the IR35 regulations? Staying outside IR35 regulations will save you between 5% and 20% in your take-home pay.

If I work through an offshore company or umbrella company, will that avoid IR35?

No, regardless of whether you work through an intermediary company, the same IR35 tests will apply.

Can I avoid being caught by IR35 by becoming self-employed directly with the client?

No, regardless of how you are employed, the same IR35 tests will apply.

Who gets to decide whether I am inside or outside IR35?

It is up to you to declare your status, with the benefit of professional advice. If HMRC disagrees with your declaration, they may choose to take your case to court to decide.

If I am caught by the IR35 regulations, what is the point being a Limited Company?

There are lots of benefits to working as a Limited Company, and you are still likely to take home much more money than you would if you were subject to PAYE.

Is there still an advantage to being a contractor?

Definitely. As well as being able to pick and choose the work that suits you, you can expect to take home a greater proportion of you earnings than you would if you were subject to PAYE.

Our guiding principles

Five guiding principles govern everything we do at Accounts Direct, and along with our accounting experience, our integrity, and our understanding of contractors‟ needs, we think they‟re a major factor in our success.

We always put our clients first

At Accounts Direct, our clients are at the very centre of our business. We take the time to get to know you and understand your circumstances so that we can deliver the best service possible, and we love receiving constructive feedback.

We give our staff the room to grow

A well-trained, motivated team will always deliver the best results. That‟s why we invest heavily in training and developing our people, making sure they have all the skills, knowledge and support they need to serve you as effectively as you would expect. We also make sure they can see a pathway for their own progression. The net result? They‟re happy, you‟re happy, and we‟re happy too.

We can serve you better by working together

A great team is more than the sum of its parts. We make the most of our staff‟s huge diversity of skills, knowledge experience, using it to benefit all our clients. Working together also means ensuring that you‟re as engaged with the process as you want to be – and that you‟ve every opportunity to get in touch with us when you need to tell us anything, or find something out.

We want to be good, and stay good

We are proud to offer an exceptional level of service to our clients, but if we rested on our laurels we‟d quickly start to fall short. So to stay at the top of our game we keep our foot on the pedal, keep learning, and take every opportunity to push ourselves just that little bit harder. That means you‟ll keep getting top-notch service for as long as we work together.

We're in it for the long haul

Our business model is predicated on developing lasting partnerships with our clients. Since we know that the only way to get your loyalty is to earn it, you can trust us to keep your best interests firmly in mind at all times, and to be there whenever you need to talk to us.

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