

Limited Company

The Limited Company option is the most common option undertaken by skilled/qualified freelance contractors.

Owning and operating a Limited company allows contractors to be in complete control of their business affairs. It provides the most tax efficient way of managing income and particularly suits individuals deeming themselves to be 'career contractors'. The limited liability structure of the company also affords protection to the contractor against the company's debts if it were ever to become insolvent.

To take advantage of this option, the contractor must incorporate a Limited company and this must have a Director / shareholder / employee structure. A business bank account must also be established to facilitate payments in and out of the company.

Given the large amount of administration that Limited companies need to handle and comply with, a qualified Accountant should also be appointed.

To support the work carried out by the Limited company, it will receive a Contract for Service from the recruitment agency / client organisation relevant to the assignment and services it has undertaken. The Limited company will raise invoices at agreed intervals and will receive gross payments directly into the business bank account. The Limited company will subsequently make payments to Directors / employees that are net of statutory deductions and will adhere to HMRC return dates in respect of income tax, national insurance, corporation tax and VAT (if VAT registered).

Financially, this option enables the contractor to maximise their earnings and take home approximately 82% of their gross contract value. The main efficiencies come via national insurance savings, benefits attached to Flat Rate VAT registration, tax relief on business expenditure and bank interest gained from money held on deposit.

The financial independence of running a Limited company has legal responsibilities and carries risks if the business is not administered properly. Professional guidance and support should be sought prior to any set up and key information about business life must be considered.

Legislation must also be considered, as freelance contractors must be able to prove their employment status if they want to secure the significant financial benefits Limited company working can offer. IR35 advice is crucial and must be obtained from employment law experts.

As stated above, this option is well used by career contractors. It can also be a prudent choice for contractors earning more than £25,000 per year on medium term contracts if they believe their working practices and contract terms & conditions place them outside of IR35. (Please see IR35 section for details).

With the right level of support behind them, contractors find Limited company working to be a hugely enjoyable and rewarding experience.